HAITIAN INTERNATIONAL

2019 Annual Report

Haitian International Holding Limited

(Incorporated in the Cayman Islands With Limited Liability)
Stock Code: 1882

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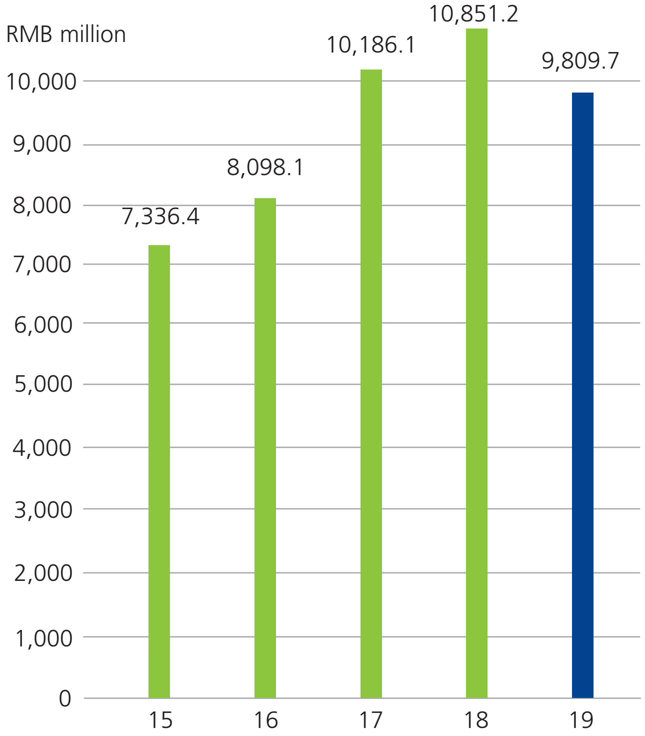
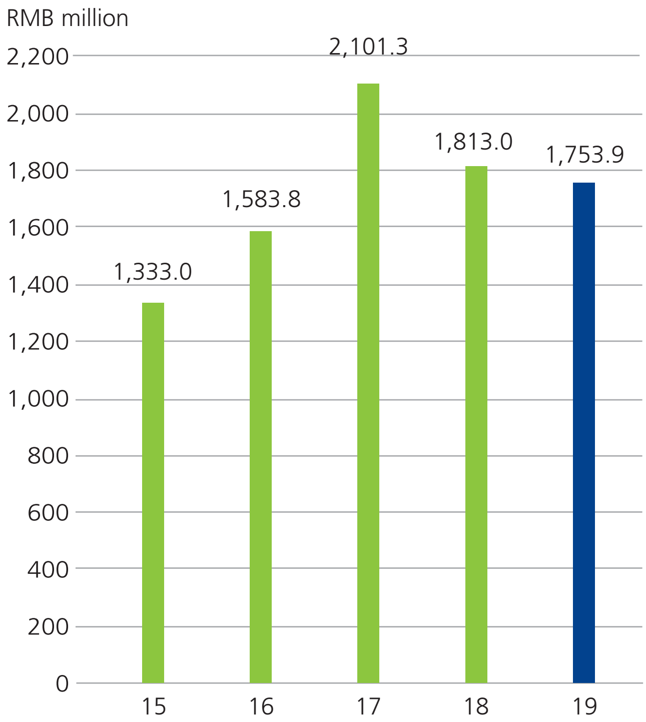
Financial Highlights

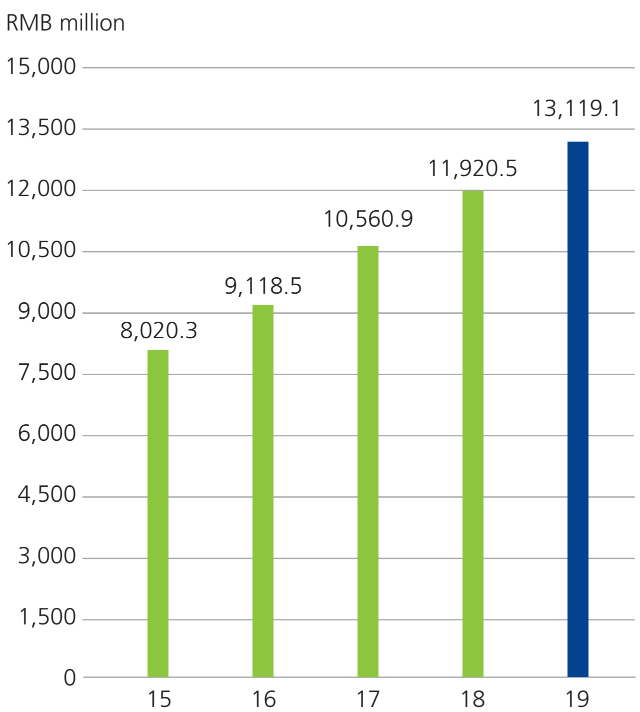
Revenue



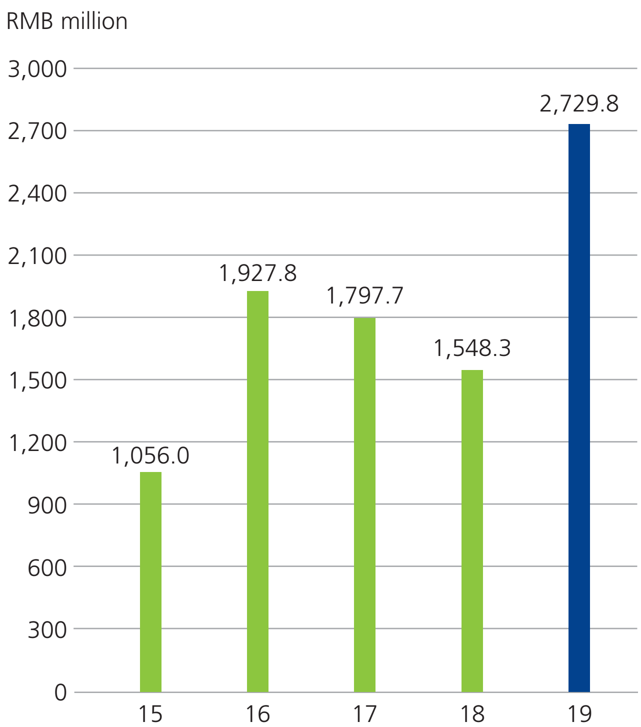
Profit attributable to the shareholders of the Company excluding issuing expense and change in fair value of Convertible Bonds ("CB") resulted from bond values changes



Capital and reserves attributable to shareholders of the Company



Net cash generated from operating activities



Company Profile and Corporate Information

Executive Directors

Mr. ZHANG Jingzhang *(Chairman)*
Mr. ZHANG Jianming *(Chief Executive Officer)*
Mr. ZHANG Jianfeng
Mr. CHEN Weiqun
Mr. ZHANG Bin

Non-Executive Directors

Mr. GUO Mingguang
Mr. LIU Jianbo

Independent Non-Executive Directors

Mr. LOU Baijun
Mr. GUO Yonghui
Dr. YU Junxian
Mr. LO Chi Chiu

Company Secretary

Ms. LEE Ka Man

Registered Office

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

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Place of Business

China
No. 1688 Haitian Road
Beilun District, Ningbo
Zhejiang Province, China
315800

Hong Kong
Unit 1105, Level 11
Metroplaza, Tower 2
223 Hing Fong Road
Kwai Fong, N.T.
Hong Kong

Principal Banks

China
Agricultural Bank of China
Bank of China
China Everbright Bank
China Guangfa Bank
Industrial and Commercial Bank of China
Industrial Bank
Ping An Bank
Shanghai Pudong Development Bank Co., Ltd.
The Export-Import Bank of China

Hong Kong
Hang Seng Bank
Oversea – Chinese Banking Corporation
Standard Chartered Bank (Hong Kong)
The Hongkong and Shanghai Banking Corporation

CHAIRMAN'S STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

2019 witnessed the most difficult year for global economy since the financial crisis in 2008 under the gloom of trade conflicts between the major economies. The uncertainties brought by trade conflicts have caused adverse impacts on business confidence and economic activities around the world. The growth of the major developed economies, including Europe, the United States and Japan has further slowed down. In order to avoid global economic recession caused by the lack of investment confidence in non-financial enterprises, many countries have started a new round of interest rate cut to stimulate the weak demand in the global market, due to the uncertainties brought by trade disputes and insufficient demand from both home and abroad. Particularly, the phase I trade agreement entered into between China and the United States at the end of the fourth quarter of 2019 has showed a sign of economic recovery to the market.

Chairman's Statements

Amidst the lowest growth of global economy over the past decade, the sales revenue of the Company amounted to RMB9,809.7 million for the year ended 31 December 2019, representing a decrease of 9.6% compared to the same period in 2018 due to a sharp drop in the market demand. As the price of raw material was relatively stable and the strategic measures taken for the development of our Company were effective, the gross profit margin for 2019 could be maintained at 31.6% as compared with the same period in 2018. Meanwhile, the net profit margin for the year was 17.9%, representing an increase of 1.2 pps compared to the same period in 2018, excluding the non-cash accounting gain of change in fair value of convertible bonds resulting from the change in bond value.

The net profit attributable to shareholders of the Company for the year ended 31 December 2019 amounted to RMB1,750.5 million (2018: RMB1,916.9 million). Excluding the non-cash accounting gain from change in fair value of convertible bonds resulting from the change in bond value, the adjusted net profit attributable to shareholders of the Company was RMB1,753.9 million (2018: RMB1,813.0 million), representing a decrease of 3.3% compared to the same period last year.

The Board of Directors has declared a second interim dividend of Hong Kong dollars ("HKD") 0.19 per share for the year ended 31 December 2019 (2018: HKD0.19 per share), resulting in dividend with a total of HKD0.40 per share (2018: HKD0.44 per share) in 2019.

Domestic and export sales

The following table summarizes the Group's domestic and export sales by geographic areas:

(RMB million)	**2019**	**%**	2018	%	**2019 Vs 2018**
Domestic Products Sales	**6,173.2**	**62.9%**	7,311.2	67.4%	**–15.6%**
Export Products Sales	**3,304.4**	**33.7%**	3,231.9	29.8%	**2.2%**
Domestic Parts	**188.8**	**1.9%**	188.7	1.7%	**0.1%**
Overseas Parts	**143.3**	**1.5%**	119.4	1.1%	**20.0%**
Total	**9,809.7**	**100%**	10,851.2	100%	**–9.6%**

As the growth of global economy slows down and China is also affected as an important part of globalization, the domestic products sales experienced a decrease of 15.6% to RMB6,173.2 million for the year ended 31 December 2019. While the intensified international trade protectionism has resulted in a slump in sales in some decrease of our overseas markets, our sales to Southeast Asia increased, which have in turn resulted in an overall increase in total products export sales by 2.2% to a record high of RMB3,304.4 million. Our export products sales proportion will keep increasing in our total sales as part of the Company's long term strategies.

Sales mix of PIMMs by product series

The Group's sales by product series are summarized in the following table:

(RMB million)	**2019**	**%**	2018	%	**2019 Vs 2018**
Mars series (energy-saving features PIMMs)	**6,387.5**	**65.1%**	6,872.8	63.3%	**–7.1%**
Zhafir electrical series PIMMs	**1,348.6**	**13.7%**	1,514.1	14.0%	**–10.9%**
Jupiter series (two-platen PIMMs)	**1,263.0**	**12.9%**	1,500.4	13.8%	**–15.8%**
Other series	**478.5**	**4.9%**	655.8	6.1%	**–27.0%**
Parts	**332.1**	**3.4%**	308.1	2.8%	**7.8%**
Total	**9,809.7**	**100%**	10,851.2	100%	**–9.6%**

As the global economic growth continued to slow down, sales of the Mars series, the main products of the Company, decreased from RMB6,872.8 million throughout 2018 to RMB6,387.5 million in 2019, representing a decrease of 7.1%. However, it remains to be the most successful PIMM across the industry and worldwide. Sales of Zhafir electrical series decreased by 10.9% to RMB1,348.6 million throughout 2019 due to the impact of automotive and household appliance industries, which accounts for the processing of the majority of high-tech plastic parts and the use of the most advanced plastic materials, for which such machines are superior. The sales of Jupiter two-platen PIMMs decreased by 15.8% from RMB1,500.4 million in 2018 to RMB1,263.0 million in 2019, but regarding the parentage of sales contribution of the Company's large-tonnage PIMMs, Jupiter series still had an increase.

Our sales of full-electric PIMMs out of small/middle-tonnage PIMMs and of two platen PIMMs out of large-tonnage PIMMs accounted for 16.7% (2018: 18.9%) and 39.9% (2018: 38.2%) of the Company's total sales for the year ended 31 December 2019, respectively.

Chairman's Statements

Outlook

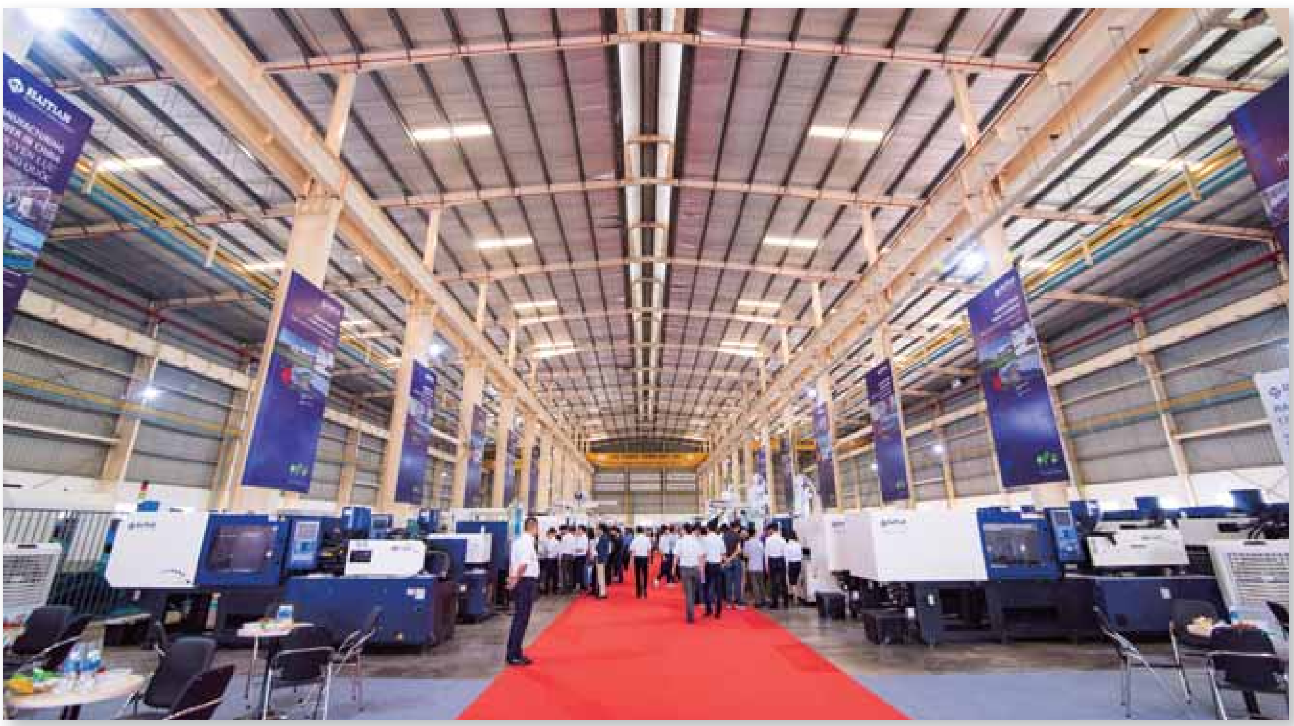
With the close of the phase I trade deal between China and the United States before the 2020 United States presidential election, the global economy sees a moderate upward trend after suffering from a difficult and painful year of 2019. International economic organizations, which are led by the IMF, have projected a positive outlook for the global economic growth in the new year based on the strong financial data of the United States and Japan. However, the outbreak of the novel coronavirus in early 2020 has casted a shadow on the recovering global economies. The Chinese government has adopted various measures to effectively control the further spreading of the coronavirus, including quarantine and close management to cut the source of infection. Such measures have caused temporary suspension of economic activities in China who plays a key role in the globalization network which indirectly affected world economy. The U.S. Federal Reserve's emergency rate cut in early March 2020 and a further rate cut to zero at the previous weekend has also indicated that it worries that the novel coronavirus might bring negative impacts to its economic growth. Central banks of various countries were also cutting their respective interest rates so as to prevent the economies from going into recession due to the spread of novel coronavirus. We are not able to precisely determine the potential impacts on the global economies caused by the novel coronavirus. However, as we have been working on globalization for years, our overseas operating centers have completed business functions, such as local production and sales, which are able to satisfy the needs of local customers under current situation of international travel restrictions. Compared with other peer companies, we have such key localization advantage across the world. We believe that the competitive advantages we have over the peer companies will further take effect when this pandemic is under control worldwide.

Chairman's Statements

Facing complicated and severe external situations, coupled with inadequate demand from the domestic and international markets, the Chinese economy has entered the new normal, i.e. shifting from seeking quick growth to optimizing the structure under a reasonable growth rate, continuously deepening the supply-side structural reform and adopting the "six stabilities" (keep stable for employment, financial sector, foreign trade, investment and public expectation) measures. After successfully signing the phase I trade agreement between China and the United States, we see the intensity of the trade war has been lowered, but it has not been completely over. The lockdown and quarantine measures adopted by different local governments in China in response to the outbreak of novel coronavirus have not only stopped spreading the viruses, but also stagnated economic activities at the same time. Although business has gradually been resuming back to normal activities in China from mid-February, time is still needed for production activities to return to the pre-novel-coronavirus level. The Chinese government has implemented various economic measures to counter the novel coronavirus, including tax and tariffs reduction, in addition to the roll out of new investment measures on the infrastructures in the areas like 5G, artificial intelligence, industrial internet and smart city. We believe that the Chinese government is able to control the epidemic in a reasonably short period and the domestic economy will resume growth after the pandemic.

For us at Haitian International, the year 2020 remains the year of our management innovation. With the main direction of focusing on smart manufacturing, we speed up transforming into a digitalized, networked and smart enterprise. Last year, the Company was added to the list of digitalized workshops and smart factories in Zhejiang Province. The Company will continue to promote small-scale information circulation, and reduce the internal settlement system of the auditing unit, so as to encourage and promote the younger workforce in the management team. At the same time, we have also strengthened the research and development efforts on new products, and further explored the overseas market on the basis of "5 Centers", including manufacturing, sales and other relevant fields.

Over the past few days, the outbreak of novel coronavirus has affected the feelings of all people in China. On top of our prevention and control efforts for the pandemic, the Company encourages our staff to return to work and resume production, and to keep our employment stable in an orderly manner. On the premise of the concept and proven strategy "technology to the point", we satisfy our customers' personal needs and demand from each niche market, while we will implement standardized production of our components. We strive to maintain our leading position in every aspect of the PIMMs. As always, the Group will continue to create value for our customers with better quality and more convenient services, and will grow and develop together with our customers, employees and business partners.



CEO'S REPORT

HIGHLIGHTS

	2019 RMB' million	2018 RMB' million	Change %
Revenue	**9,809.7**	10,851.2	–9.6
Gross profit	**3,098.7**	3,426.3	–9.6
Operating profit	**2,143.4**	2,237.4	–4.2
Profit attributable to shareholders of the Company, excluding change in fair value of convertible bonds resulted from bond value change	**1,753.9**	1,813.0	–3.3
Profit attributable to shareholders of the Company	**1,750.5**	1,916.9	–8.7
Basic Earnings per share (expressed in RMB per share)	**1.10**	1.20	–8.7
Dividend per share (expressed in HKD per share)			
Second interim dividend	**0.19**	0.19	–
Full year dividend (including interim dividend)	**0.40**	0.44	–9.1

- Amidst the lowest growth of global economy over the past decade, the sales revenue of the Company amounted to RMB9,809.7 million for the year ended 31 December 2019, representing a decrease of 9.6% compared to the same period in 2018.
- The export revenue recorded a historical high of RMB3,447.7 million for 2019, representing an increase of 2.9% compared to the export sales in 2018 (2018: RMB3,351.3 million).
- Compared to corresponding period in 2018, Gross profit margin remained flat at 31.6% as the price of raw material was relatively stable during 2019 (2018: 31.6%).
- Profit attributable to shareholders of the Company decreased 8.7% to RMB1,750.5 million compared to that of 2018. Excluding the non-cash accounting gain from change in fair value of convertible bonds, profit attributable to shareholders of the Company would be RMB1,753.9 million, representing a decrease of 3.3% compared to that of 2018.
- Earnings per share amounted to RMB1.10 during the year.
- The Board declared a second interim dividend of HKD0.19 per share and which, together with the interim dividend of HKD0.21 per share, constitute a total dividend of HKD0.40 per share (2018: HKD0.44 per share).

Financial Review

Revenue

Amidst the slowest growth of global economy over the past decade, the Company still managed to achieve a revenue of RMB9,809.7 million for the year ended 31 December 2019, representing a decrease of 9.6% compared to 2018. The domestic products sales decreased by 15.6% to RMB6,173.2 million compared to 2018, while our export products sales recorded increase by 2.2% to RMB3,304.4 million, as compared to 2018. Regarding the sales of the Company, our export products sales have been increasing in recent years.

Gross Profit

In 2019, we had a gross profit of approximately RMB3,098.7 million, representing a decrease of 9.6% comparing to 2018. Overall gross margin remained flat at 31.6% in 2019 (2018: 31.6%) as a result of the stable price of the raw material during 2019.

Selling and administrative expenses

The selling and administrative expenses decreased by 4.3% from RMB1,505.8 million in 2018 to RMB1,441.3 million in 2019. The decrease was mainly due to the decrease in commissions caused by the decrease in revenue. The labor costs related to research and development activities were RMB151.1 million in 2019 (2018: RMB141.2 million).

Other income

Other income mainly consists of government subsidy and increased by 60.7% from RMB145.4 million in 2018 to RMB233.7 million in 2019.

Finance income – net

We had a decrease in net finance income of RMB38.6 million in 2019 compared to a net finance income of RMB122.8 million in 2018. The decrease was mainly attributable to the fact that i) we had non-cash accounting gains of change in fair value of convertible bonds of RMB8.5 million in 2019 compared to non-cash accounting gains of RMB62.8 million in 2018, ii) we had net foreign exchange losses of RMB3.2 million in 2019 compared to net foreign exchange gains of RMB22.7 million in 2018, and iii) we recorded increase in interest income from restricted bank deposits, term deposits and cash and cash equivalents to RMB76.3 million in 2019 compared to RMB66.3 million in 2018.

Income tax expenses

Income tax expenses decreased by 2.8% from RMB446.2 million in 2018 to RMB433.5 million in 2019. Our effective tax rate maintained at a similar level of 19.8% in 2019 (2018: 18.9%).

Net profit attributable to shareholders

As a result of the foregoing, our net profit attributable to shareholders of the Company in 2019 decreased to RMB1,750.5 million, representing a decrease of 8.7% compared to 2018. Excluding the change in fair value of convertible bonds, the adjusted net profit attributable to shareholders of the Company for 2019 decreased to RMB1,753.9 million, representing a decrease of 3.3% compared to 2018.

Liquidity, Financial Resources, Borrowing and Gearing

The Group finances its operations and investment activities mainly with internally generated cash flow. As at 31 December 2019, the Group's total cash and cash equivalents, term deposits and restricted bank deposits amounted to RMB1,538.4 million, RMB1,185.0 million and RMB51.9 million respectively (31 December 2018: RMB3,769.6 million, RMB150.0 million and RMB245.0 million respectively). The Group's short-term bank borrowing amounted to RMB1,021.9 million as at 31 December 2019 (31 December 2018: RMB1,009.4 million).

In February 2014, we issued US dollar denominated 2.00% coupon convertible bonds due 2019 of USD200 million for general corporate purposes. In February 2017, we redeemed convertible bonds of USD75.25 million, and further redeemed the outstanding convertible bonds in whole at a redemption price equal to 100% of the outstanding principal amount of USD124.75 million in February 2019 when the convertible bonds matured. As at 31 December 2019, we are discharged from all of the obligations under and in respect of the convertible bonds (31 December 2018: RMB852.8 million).

The Group also placed certain surplus fund into wealth management products which were recorded as financial assets at fair value through profit or loss ("FVPL"). The wealth management products carry floating interests ranging from 1.5% to 8.5% (2018: 2.4% to 5.0%) per annum. As at 31 December 2019, the Group's financial assets at FVPL amounted to RMB5,664.2 million (31 December 2018: RMB4,349.6 million).

The net gearing ratio is defined by our management as total borrowings net of cash divided by shareholders' equity. As at 31 December 2019, the Group was in a strong financial position with a net cash position amounting to RMB1,753.3 million (31 December 2018: RMB2,302.4 million). Accordingly, no net gearing ratio is presented.

Capital Expenditure

In 2019, our capital expenditure consisted of additions of property, plant and equipment and land use rights, which amounted to RMB431.3 million (2018: RMB628.2 million).

Charges on Group Assets

As at 31 December 2019, no assets were pledged by the Group (31 December 2018: no assets were pledged by the Group).

Foreign Exchange Risk Management

As of 31 December 2019, the Group exported approximately 35.2% of its products to international markets. Such sales were denominated in U.S. dollars or other foreign currencies, while the Group's purchases denominated in U.S. dollars or other foreign currencies accounted for less than 10% of the total purchases.

Financial guarantee

As at 31 December 2019, the Group provided guarantee to banks in connection with facilities granted to the customers with an amount of RMB657.4 million (31 December 2018: RMB840.9 million). As at 31 December 2019, the Group reassessed the provisions based on the credit history of its customers and the current market condition. No significant provision is noticed.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Jingzhang (張靜章), aged 83, is an Executive Director and the Chairman of the Group. He is responsible for the overall business development strategy of the Group and has in-depth knowledge of, and more than 50 years of experience in, the plastic processing machinery industry. Mr. Zhang was the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian Group Co., Ltd (寧波海天股份有限公司) ("Ningbo Haitian") from 1970 to 1994. He was named as an excellent model worker of Ningbo (寧波市特等勞模) in 1988 by the Ningbo Municipal People's Government, and was also awarded the title of an "Outstanding Factory Manager and Manager of Industrial Enterprise of Ningbo" (寧波市工業企業優秀廠長、經理) by the Ningbo Municipal Committee of Communist Party of China for Economic Affair and Ningbo Economic Committee in 1993. In July 1994, Mr. Zhang founded the Group and was appointed as the chairman of the Group. Mr. Zhang was appointed as the president of Ningbo Haitian Precision Machinery Co., Ltd. 寧波海天精工股份有限公司 (listed on Shanghai Stock Exchange, stock code: 601882) since March 2012, Mr. Zhang was named as an economist by the Ningbo Municipal People's Government (寧波市人民政府) in 1994, an outstanding worker in the national plastic processing machinery industry (全國塑料機械行業先進工作者) by the China Plastic Processing Machinery Industry Association in 1996 and an outstanding township entrepreneur in Zhejiang (浙江省優秀鄉鎮企業家) by the Zhejiang Township Enterprise Bureau. In December 2002, Mr. Zhang was awarded the title of New Millennium Star Entrepreneur of the National Machinery Industry (新世紀首屆全國機械工業明星企業家) by the China Machinery Industry Federation (中國機械工業聯合會), an entrepreneur of China (全國鄉鎮企業家) and outstanding factory manager (manager and chairman) of China (全國優秀鄉鎮企業廠長) and was also elected as a deputy to the People's Congress of Ningbo and Beilun District (寧波市和北侖區人大代表) in both 1988 and 1999. He was named an outstanding entrepreneur of Zhejiang (浙江省優秀創業家) in 2006. Mr. Zhang currently serves as the honorary chairman of the China Plastics Machinery Industry Association (中國塑料機械工業協會).

Mr. Zhang is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng, the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo and the grandfather of Mr. Zhang Bin, all of whom are directors of the Company. He is also a director of Sky Treasure Capital Limited ("Sky Treasure") and Premier Capital Management (PTC) Ltd. ("Premier Capital"), which interests in the Company have been detailed under the paragraph headed "Interests and Short Positions of Shareholders" in the Directors' report.

Directors and Senior Management

Mr. Zhang Jianming (張劍鳴), aged 57, is an Executive Director and the Chief Executive Officer of the Group and is responsible for the overall daily operations of the Group. By introduction of Mr. Zhang Jingzhang, Mr. Zhang joined the Group in August 1977 as worker and has gained extensive exposure in various departments of the Group. With over 40 years of experience in the plastic processing machinery industry, Mr. Zhang is experienced in all facet of the overall operation of the Group. He was appointed as the director of Ningbo Haitian Precision Machinery Co., Ltd. 寧波海天精工股份有限公司 (listed on Shanghai Stock Exchange, stock code: 601882) since March 2012. He obtained a master in business administration from the Management College of Fudan University (復旦大學管理學院) in July 2002. Mr. Zhang has been appointed as the chief executive officer of the Group since April 2000. Mr. Zhang served as a member of the National Committee of the Chinese People's Political Consultative Conference in Beilun District (北侖區政協委員會) in 1996 and as a director of the Quality Management Association of Beilun District of Ningbo (寧波市北侖區質量管理協會) from 1990 to 2000. In January 2006, Mr. Zhang was also selected as a representative of Ningbo's private enterprises to attend the National Science and Technology Conference. From 2003 to 2011, he was the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會). Mr. Zhang was also elected a deputy to the People's Congress of Beilun District (北侖區人大代表) in 2012. Mr. Zhang Jianming is the elder son of Mr. Zhang Jingzhang, the elder brother of Mr. Zhang Jianfeng, the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo and the father of Mr. Zhang Bin, all of whom are directors of the Company, and he is also a director of Sky Treasure and Premier Capital.

Mr. Zhang Jianfeng (張劍峰), aged 50, is an Executive Director and the senior vice president of sales and marketing of the Group. Mr. Zhang joined the Group in October 1985 and has more than 30 years of experience in the plastic processing machinery industry. He was promoted to the deputy head of the Group's sales division in the sales and marketing department in 1997. He has been appointed as the senior vice president of sales and marketing of the Group since 2002. Mr. Zhang has been appointed as the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會) since 2012. Mr. Zhang is the younger son of Mr. Zhang Jingzhang, the younger brother of Mr. Zhang Jianming and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are directors of the Company, and he is also a director of Sky Treasure and Premier Capital.

Directors and Senior Management

Mr. Chen Weiqun (陳蔚群), aged 48, is an Executive Director and the general manager of Haitian Huayuan, the export arm of the Group. Mr. Chen graduated from Huadong Yejin College (華東冶金學院) with a bachelor's degree in mechanics in August 1993. In 2005, he obtained a master's degree in business administration from the University of Zhejiang. He joined the research and development department of the Group in 1993. In 1994, he joined the international sales team of the sales department. He was appointed as an assistant to the chief executive officer in 2000 and as the deputy general manager of international sales in 2003. He has been appointed as the deputy general manager responsible for the Group's international sales since 2004. He was also appointed as the general manager of Haitian Huayuan in 2004.

Mr. Zhang Bin (張斌), aged 33, is an Executive Director and the general manager of Ningbo Zhafir, the electric PIMM arm of the Group. Mr. Zhang joined the Group in January 2014. He obtained his Bachelor's degree in mechanical engineering from the University of Nottingham in July 2009, and his master's degree in engineering management from King's College London, the University of London, in January 2011. Upon joining the Group in January 2014, Mr. Zhang was appointed as an officer of the information management department of the Group. In January 2015, he also took up the role of assistant to general manager of Ningbo Zhafir Plastics Machinery Co., Ltd. under the Group. In January 2017, Mr. Zhang was appointed as general manager of Ningbo Zhafir Plastics Machinery Co., Ltd. under the Group. Mr. Zhang Bin is a grandson of Mr. Zhang Jingzhang, our Chairman, and a son of Mr. Zhang Jianming, our CEO.

Non-Executive Directors

Mr. Guo Mingguang (郭明光), aged 53, is a Non-Executive Director. Mr. Guo joined the Group in January 1983 and has more than 30 years of experience in the plastic processing machinery industry. In 1985, he was transferred to the Group's customer services department, and was transferred again in 1989 to the Group's engineering department. From 1994 to 1999, he served as the deputy general manager of Ningbo Zongtian Plastic Processing Machinery Manufacturing Co., Ltd. From 1999 to 2002, he served as the general manager of a factory of the Group. In 2003, he was appointed as the deputy head of production of the Group and was promoted to the vice president of production of the Group in 2004. Mr. Guo was re-designated from an Executive Director to a Non-Executive Director on 1 June 2012. Mr. Guo is a son-in-law of Mr. Zhang Jingzhang, the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Liu Jianbo, all of whom are directors of the Company and he is also a director of Premier Capital.

Mr. Liu Jianbo (劉劍波), aged 52, is a Non-Executive Director. Mr. Liu joined the quality assurance department of the Group in November 1986 and was appointed as a quality control manager in 1997. In 2000, he qualified as an internal auditor under the ISO9001:2000 certification system and since then has been responsible for the Company's internal quality control audit. He has been the Company's vice president of quality control since February 2004 and the Company's vice president of customer service since July 2004. Mr. Liu was re-designated from an Executive Director to a Non-Executive Director on 1 June 2012. Mr. Liu is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Guo Mingguang, all of whom are directors of the Company, and he is also a director of Premier Capital.

Independent Non-Executive Directors

Dr. Yu Junxian (餘俊仙), aged 54, was appointed as an independent non-executive director on 1 February 2019. Dr. Yu Junxian has been appointed as the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee with effect from 27 March 2020. Dr. Yu is currently the president of Zhejiang Tianping Investment Consulting Co., Ltd.* 浙江天平投資諮詢有限公司. Dr. Yu has in-depth knowledge of, over 30 years of experience in, auditing, accounting, and finance and is a professor level senior accountant, certified accountant, certified valuer and registered tax agent in China. Dr. Yu taught in Zhejiang Finance Economics College* 浙江財經學院 between 1988 and 1998. Dr. Yu was a partner with Zhejiang Tianping Accounting Firm* 浙江天平會計師事務所 in Hangzhou since 1999. Dr. Yu was an independent non-executive director of Ningbo Haitian Precision Machinery Co., Ltd.* 寧波海天精工股份有限公司 (stock code: 601882) from July 2013 to April 2018, the shares of which were listed on the Shanghai Stock Exchange. Dr. Yu was an independent non-executive director of Gansu Shangfeng Cement Co., Ltd.* 甘肅上峰水泥股份有限公司 (stock code: 000672) since January 2015, the shares of which were listed on the Shenzhen Stock Exchange. Dr. Yu was an independent non-executive director of Hangzhou XZB Tech Co., Ltd.* 杭州新座標科技有限公司 (stock code: 603040) since January 2017, the share of which were listed on the Shanghai Stock Exchange.

Mr. Lou Baijun (樓百均), aged 56, joined the Group in March 2012 as an Independent Non-Executive Director. He is currently the Head of Modern Logistics School and Professor of Zhejiang Wanli University. Mr. Lou is a member of the Chinese Institute of Certified Public Accountants since 1996. Mr. Lou was appointed deputy director and deputy professor of Faculty of Financial Management of Jiangxi University of Finance and Economics between 1985 and 2001 and commenced teaching at Zhejiang Wanli University since 2001. Mr. Lou obtained a master degree in management and engineering from Wuhan University of Technology in 2006.

Mr. Guo Yonghui (郭永輝), aged 63, joined the Group in November 2016 as an Independent Non-Executive Director. Prior to his retirement in August 2016, he was the Department General Manager of Ningbo Branch of Bank of China Limited. He was appointed to a number of roles at Finance & Local Taxation Bureau of Xiangshan District in Ningbo, China including section chief and director of Finance & Local Taxation Office between 1986 and 1994. He was appointed to the position of President of Sub-branch and Department General Manager of Ningbo Branch of Bank of China Limited since 1995. Mr. Guo graduated from Zhejiang Radio & TV University with a diploma in industrial accounting in 1990. He was a qualified economist in China since 1993. He graduated in law from PLA Dalian Naval Academy in 2003.

Mr. Lo Chi Chiu (盧志超), aged 47, was appointed as an independent non-executive director on 1 February 2019. Mr. Lo has over 20 years of accounting and auditing experience in international accounting firms and various corporations. He served as staff account in Ernest & Young from August 1995 to October 1997. From December 1997 to June 2001, Mr. Lo initially worked as senior associate and later was appointed as manager in PricewaterhouseCoopers Ltd. Mr. Lo was appointed as financial controller for Technicon Engineering Limited from July 2001 to July 2002. He was appointed as financial controller for Zhejiang Xinfu Biochemical Co., Ltd. from July 2002 to November 2002. From December 2002 to June 2003, Mr. Lo was appointed as financial controller for Shenzhen Glory Medical Co., Ltd. He was initially appointed as project accountant and subsequently as finance manager for Integrated Distribution Services Group Management Limited from June 2004 to August 2006. He was appointed as company secretary and chief financial officer of Truly International Holdings Limited (stock code: 732) from November 2010 to January 2011, the shares of which listed on the Stock Exchange. From February 2011 to August 2011, Mr. Lo was appointed as chief financial officer for VPower Holdings Limited. He was appointed as chief financial officer of the Company from August 2006 to November 2010 and from September 2011 to June 2016. Mr. Lo served as an independent non-executive director, chairman of the audit committee and the remuneration committee and a member of the nomination committee of Ernest Borel Holdings Limited (stock code: 1856) from June 2014 to December 2017, the shares of which listed on the Stock Exchange. He has also been appointed as an independent non-executive director, chairman of the audit committee and a member of the nomination committee and the remuneration committee of Edvantage Group Holdings Limited (stock code: 382) since 15 July 2019, the shares of which listed on the Stock Exchange.

* *For identification purpose only*

Senior Management

Mr. Yu Wenxian (虞文賢), aged 50, is the vice president of human resources and administration of the Group. Mr. Yu graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in mechanical engineering in 1991. He joined the Group in May 1993 as an engineer. Since 1997, Mr. Yu has been working in the areas of administration and human resources and served various managerial roles in those areas. He has been appointed as the vice president of human resources and administration of the Group since 2003 and had been serving as the executive assistant to the chief executive officer of the Group between 2004 and 2010.

Mr. Bei Haibo (貝海波), aged 53, is the vice president of domestic sales of the Group. Mr. Bei joined the Group in January 1983 and has more than 30 years of experience in the plastic processing machinery industry. He was appointed as a manager responsible for after-sales services in 1997 and was promoted to deputy general manager of the Group's sales department in 1998.

Mr. Fu Nanhong (傅南紅), aged 44, is the head of technology of our Group. Mr. Fu graduated from Dalian University of Technology with a bachelor's degree in mechanical engineering in 1997 and a master degree in mechanical and electronic engineering in 2000. He joined the research and development department of our Group in 2000. In 2003, he was appointed assistant to the head of research and development department and its deputy head in 2006. In 2008, he was also appointed deputy general manager of Ningbo Zhafir, the electric PIMM arm of our Group, and promoted to its general manager between 2014 and 2016. He was appointed as the head of technology of our Group since 2013.

Mr. Shi Huajun (施華均), aged 48, is the general manager of the internal control and investor relation department of the Group. Mr. Shi graduated from Zhejiang Finance Economics College with a bachelor's degree in economics in 1994. He obtained a master's degree in business administration from the Open University of Hong Kong in 2003. Mr. Shi has in-depth knowledge of, and over 20 years of experience in, auditing, accounting and finance and is a certified accountant, certified valuer and registered tax agent in China. Prior to joining the Group, Mr. Shi was a partner with a local accounting firm in Ningbo. He was named an outstanding certified accountant in Zhejiang (浙江省優秀註冊會計師) by the Zhejiang Certified Accountants Association in 2003.

Mr. Chen Yun (陳雲), aged 45, was appointed as the chief financial officer of the Group in March 2019. Mr. Chen graduated from Hangzhou Dianzhi University (杭州電子科技大學) with a bachelor's degree in accounting in 1994. Mr. Chen is a certified accountant and a certified public valuer in China. He was a partner of a local accounting firm in Ningbo and was the secretary to the Board and chief financial officer of Ningbo Haitian Precision Machinery Co., Ltd. Currently, Mr. Chen is also the financial controller of Ningbo Haitian Co., Ltd.

Investor Information

Listing Information

Listing:	Hong Kong Stock Exchange
Stock code:	1882

Key Dates

16 March 2020	—	Annual Result Announcement of 2019
2–6 April 2020	—	Closure of register of members (entitlement to second interim dividend)
about 17 April 2020	—	Payment date of second interim dividend
14–19 May 2020	—	Closure of register of members (Annual General Meeting)
19 May 2020	—	Annual General Meeting

Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2019:
1,596,000,000 shares

Market Capitalisation as at 31 December 2019:
HKD30,132.48 million

Basic earnings per share for 2019:	RMB1.10
Diluted earnings per share for 2019:	RMB1.10

Dividend per share for 2019	
Interim dividend	HKD21 cents
Second interim dividend	HKD19 cents
Total	HKD40 cents

Hong Kong Share Registrar Transfer Office

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

Enquires Contact

Investor Relations Department

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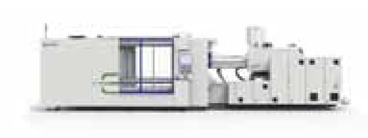
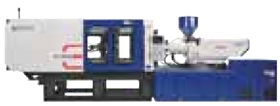
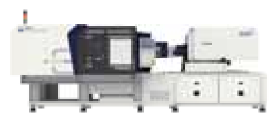
http://www.haitian.com

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT




(1) Introduction

This report covers the activities of Haitian International Holdings Limited and its subsidiaries in the area of anti-corruption and anti-bribery, environmental protection, technology innovation, employees, compliance with regulatory requirements in business operation and social responsibility. The period covered by this report is 2019 and comparative figures in 2018 are also provided to the extent available.

As a leading plastic injection moulding machinery manufacturer in the world, our operation has significant impacts to different stakeholders including employees, customers and suppliers, communities and environment in which we operate our business, and our shareholders. Along the path of our business development, we are well aware of such impacts and we make constant effort in formulating and adjusting our strategies and policies so that we can continue to make positive impacts to our stakeholders. Though we are not in a pollution intensive industry, we pay high attention to the impacts of our manufacturing process and our products to the environment and adopt measures that would reduce generation of pollutants, properly handle residual materials and lower the consumption of resources. We take care of our employees in all aspects, from compensation and a safe work-place to support of outside-work activities and opportunities to contribute to communities. We also acknowledge the non-optimal allocation of resources and fruits of economic development in our society and our roles to play against this background, through Haitian Charity Foundation and the assistance it provides to the people in need in our communities.

(2) Anti-corruption and Anti-bribery

The Company has complied with the anti-corruption laws and regulations such as the Anti Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Anti Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), and the Tentative Provisions on the Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫定規定》), and has set up and refined relevant documents in the Company, so as to achieve the "legal" basis, mainly including the Supplier Integrity Letter (《供方廉政承諾書》), the Measures for Supplier Management (《供應商管理辦法》), the Confidentiality Agreement (《保密協議書》) and the Employee Code of Ethics (《員工道德準則》).

At the same time, such documents are implemented in accordance with our internal rules and policies. These requirements apply to the whole Company, all subsidiaries and suppliers. For the Board of Directors and employees of the whole Company, the Company starts to hold business ethics training on anti-corruption and anti-bribery. For all our suppliers, they are required to sign the Supplier Integrity Letter (《供方廉政承諾書》) systematically, so as to regulate the business behaviors of the Company and its business partners, and to shape enterprises with integrity.

We adopt a zero-tolerance policy on illegal activities such as commercial bribery, extortion, fraud and money laundering in our operation. Any employee or officer involved in such activities will have their employment terminated immediately and relevant acts reported to the authority. We also request our suppliers in China to undertake that no benefit or gift, in whatever form, will be provided to our employees or officers in the course of business activities with us. We will terminate business relationship with any supplier which breaches such undertaking.

Item	Unit	Number
Number of suppliers in 2019	Company	235
Having passed ISO 14001 environmental management system certification	Company	86

In order to refine our anti-corruption and anti-bribery management, we have set up an anonymous whistle blower system which offers a number of reporting means, including telephone report, anonymous email report and letter report (all provided with legal protection). If the report is true, corresponding punishment shall be made according to the Staff Manual of Haitian Group – Assessment and rewards (《海天集團員工手冊－考核與獎懲》) and the Supplier Integrity Letter (《供方廉政承諾書》).

Report hotline: 0574-86182786
Email for external report: htlz@mail.haitian.com
Email for internal report: ghyx@mail.haitian.com

The investigation procedure also has been established as follows:

Establish priorities according to the report → the supervision and audit department and relevant departments jointly investigate whether the report is true → the audit department issues an investigation report and proposes punishment suggestions for the true report → relevant departments and human resources department make the final punishment according to the investigation report → the punishment result and implementation situation shall be reported by the audit department or human resources department.

(3) Environment Protection

I. Overview

In 2017, the Company obtained the ISO 14001: 2015 environmental management system certification, procured our management system reaching international standard and developing a standardized management system. The Company also successfully obtained the system supervision certification in 2018 and 2019.

In 2019, the Company comprehensively implemented grid management of safety and environmental protection, four-color hierarchical management and control on safety, and key area management and control on environmental protection. It establishes a vertical management with "business unit – workshop – team" onsite three-level management as the main line, and a horizontal management supported by the supervision and assessment, and technical guidance of functional departments, and forms a safety and environmental protection management mode with equal emphasis on supervision and management. Through grid management, we realized the transformation from extensive management to fine management, and achieved full coverage and no dead corner in management.

At the same time, in 2019, in order to realize the digital management and process control of environmental protection, we implemented the OA process as the platform, established the safety and environmental protection management and control system, gave a feedback of the problems found in the inspection or reasonable suggestions of the workshop in a timely manner, implemented the PDCA closed-loop management, collected the environmental protection management data through the system, formed the environmental protection big data analysis, and provided scientific decision basis for safety and environmental protection management of the Company.

The Company has also set the following objectives for the next year's environmental management system:

1. Zero environmental pollution accident.

2. Disposal of hazardous waste 100% meets compliance requirements, and the amount of hazardous waste to be reduced by 3% compared with the previous year. Disposal of general industrial solid waste also 100% meets compliance requirements.

3. The energy consumption/output, the water consumption/output, the electricity consumption/output and the natural gas consumption/output per RMB10,000 value to be all lowered by 2% than that of the previous year.

Our main products are hydraulic and electric plastic injection moulding machines and our manufacturing process can be mainly divided into processing of parts and components, assembling different parts into machine and testing of finished products. The main energy consumed during the manufacturing process is electricity and natural gas. The parts and components surface-processing including painting and powdering emit waste water and gas; the processing and painting of machines and waste water processing lead to emulsified mixture, waste mineral oil, waste oil barrel (paint residue) and phosphate waste, and the processing and cutting of machines produce ordinary solid wastes such as scrap iron and scraps, while the packaging of finished products entails usage of packaging materials. The waste water, gas and other industrial wastes which we produce during our manufacturing process are disposed in accordance with the laws and regulations. Among which, waste water is dispensed into public sewage systems after meeting the processing standard, and waste gas is emitted after going through the treatment facility. Hazardous wastes are collected by licensed contractors for toxic-removal processing and ordinary solid wastes are recycled by the contractors.

We have adopted specific policy on prevention of pollution and handling of industrial wastes for our factories in China with reference to the applicable laws and regulations. Our factory managers are responsible for implementing such policy to ensure our factories are able to comply with the environmental related rules applicable to their locations. For our overseas factories, we engage experts in the early design phase and during their operation to ensure that we are able to comply with the environmental and waste disposal regulations in the relevant countries or districts.

We have set up an Environmental Protection Division in our Group and it is responsible for monitoring the environmental related work of our factories. It will conduct random check on the status of environmental protection measures for different factories and their compliance with our policy. It will also provide updates on the latest development and issues for environmental protection relevant to our operation.

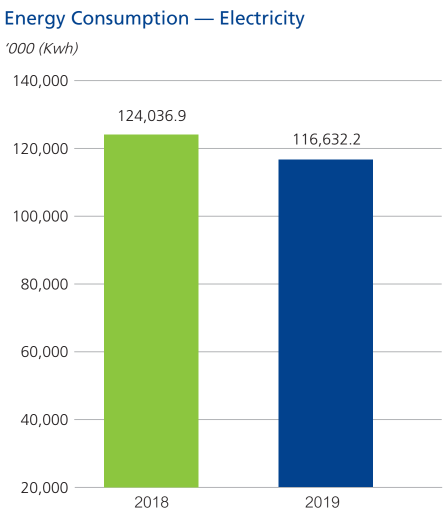
II. Energy Consumption

Comprehensive energy consumption/output per RMB10,000 value (Kg standard coal/RMB10,000 value):

2019	2018	YoY
16.716	18.517	–9.7%

Electricity

The main energy consumption during our manufacturing processes and daily operations is electricity, which is mainly provided by public electric grid of relevant regions. Below is the data of electricity consumption for our main production and office facilities in 2018 and 2019:



The average electricity consumption per unit of product output in 2018 and 2019 are 3,554.47 (Kwh) and 3575.48 (Kwh), respectively.

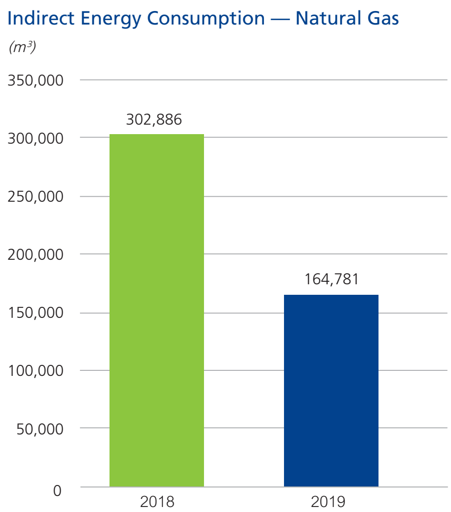
Electricity consumption/output per RMB10,000 value (Kg standard coal/RMB10,000 value):

2019	2018	YoY
12.892	14.429	–10.7%

Heat treatment is the production process of the Company which consumes large amount of electricity, accounting for approximately one-third of the total electricity consumption. Therefore, the Company specifically enhanced its control over electricity consumption of heat treatment in the workshop, including 1. purchase of heat treatment furnace with low energy consumption and better warming function, and phasing out the heat treatment furnace with poor warming function and high energy consumption; 2. set proper work schedule for continuous production, so as to reduce the energy consumption of switching on and off the furnace. In addition, the Company phases out the old lighting installations of the workshop year by year and switches to use the energy efficient lighting installation with low energy consumption.

Natural Gas

The drying process after painting and powdering in our manufacturing flow requires the use of natural gas, which is mainly provided by natural gas supplier of relevant regions. Below is the data of natural gas consumption for our main production facilities in China in 2018 and 2019:



The average natural gas consumption per unit of product output in 2018 and 2019 are 8.7 (m^3) and 5.1 (m^3), respectively.

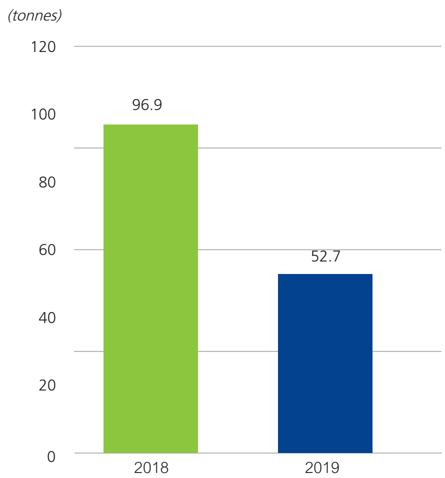
Natural gas consumption/output per RMB10,000 value (Kg standard coal/RMB10,000 value):

2019	2018	YoY
0.192	0.357	–46.2%

Natural gas is used for powder drying, paint drying and cooking utensils during the production process. With regard to the control of natural gas consumption, the Company formulated the Energy Management and Control Procedures (《能源管理控製程序》) for the environmental management system. Under the policy, it strengthens the management and examination of energy consumption including natural gas and supervises the drying temperature and drying time to avoid waste of energy. In the meantime, the Company started to promote using new environmental friendly rapid dry paint since the end of 2017. The consumption of natural gas for the paint drying process was substantially reduced as no extra drying is needed.

Below is the data of carbon dioxide emitted in our use of natural gas for our main production facilities in China in 2018 and 2019, which are 96.923 tonnes and 52.73 tonnes respectively.

Carbon Dioxide Emission — Natural Gas

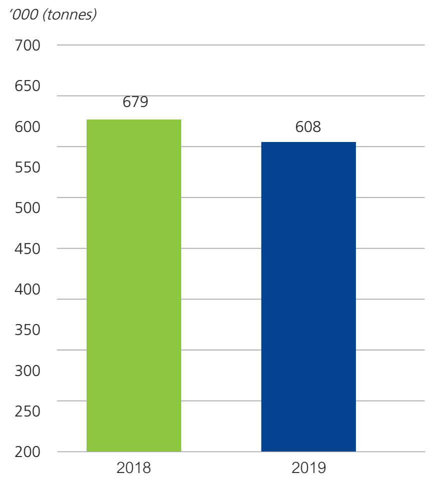


We will continue to review the energy consumption of our Group and propose measures to reduce energy consumption including using equipment with higher efficiency in energy consumption and improving manufacturing process to reduce energy waste.

III. Resource consumption

The parts and components surface-processing during our production process including painting, cleaning and powdering consume water, which is also required for other operation purposes such as cleaning and staff dormitory. The water comes from municipal running water. Below is the data of water consumption for our main facilities in 2018 and 2019:

Water Consumption



We do not disclose the average water consumption per unit of machine output as the major components of water consumption are not manufacturing related and therefore there is no direct correlation between water consumption and machine output.

Water consumption/output per RMB10,000 value (Kg standard coal/RMB10,000 value):

2019	2018	YoY
0.0396	0.0441	–10.2%

Before the delivery of the products and accessories, we need to carry out different packing for different products and accessories. The packing materials are mainly nylon packaging bags and wooden cases. Below is the data of packing material consumption in 2018 and 2019:

The consumption of nylon packaging bags in 2018 and 2019 amounted to 86 tonnes and 84 tonnes, respectively. The consumption of wooden cases in 2018 and 2019 amounted to 4,192 tonnes and 2,706 tonnes, respectively. The increase in consumption of wooden cases in 2018 was primarily due to the increase of overseas orders and accessories orders. We will continue to monitor the packing material consumption of the Group and propose reasonable measures of a gradual reduction in the packing material consumption to reduce the harm to the environment.

IV. Pollution Control

Under applicable Chinese laws and regulations, any facility that will involve emission of gas, waste water and/or toxic waste into environment during its production process will require an environmental impact assessment to be performed before its construction to ensure that the legal requirements on emission would be satisfied. After the construction is completed, a post-completion check will be implemented. Before commencement of operation, the facility operator has to apply for an emission permit. We have completed the environmental impact assessment for all our production facilities in China based on applicable regulations at the time of its construction and obtained the required emission permits.

1. Gas: the painting and powdering processing in production will produce waste emission which requires processing. We adopt filter – adhesion-diffusion-catalyst combustion to process emission from painting. The polluting components in such emission will be filtered with filters and carbon-based catalyst, and disposed by standardized exhaust vent after meeting required emission standard. The saturated carbon-based catalyst with adhesion is required to conduct desorption on a regular basis. Desorption is a process to remove the pollutants from carbon based catalyst by using heated air and the pollutants will be emitted through catalytic combustion eventually. The dusts from powdering processing will be filtered in two phases by using rotating precipitator and bag precipitator in order to meet the standard before emission. We also engaged third-party with valid qualification to conduct regular monitoring of our gas emission since 2017 to ensure our compliance with regulatory requirements.

The painting area and emission processing system in one of our factories in Ningbo

2. Sewage: the processing of parts and components surface including painting and powdering and cleaning of factory premises produce industrial sewage which will be transferred from production line to our sewage plants of our factories through the pipes laid around the factories. Different types of waste water will be disposed by its different quality and dispensed through connection to the public sewage system after meeting the statutory standard.

The sewage treatment plant in one of our factories in Ningbo

For the discharge of industrial sewage, our factories are required to comply with sewage standards of the laws. We have built a monitoring station and engaged independent and licensed third party institution with valid qualification to monitor our consumption of water for industrial use to ensure the effective operation of our sewage plants, and the discharged sewage is able to meet the applicable regulatory requirements.

The treatment of our produced waste water by our sewage plants in 2018 and 2019 were 61,133 tonnes and 59,626 tonnes, respectively.

3. Other solid and liquid wastes: our manufacturing process also produces other solid and liquid wastes including (i) hazardous wastes such as emulsified mixture, phosphate waste, oil barrel and others; and (ii) non-hazardous wastes such as domestic garbage, packaging residuals, metal scraps. Hazardous wastes will be handled before collection by contractors licensed by provincial environment protection bureau for toxic-removal processing.

Collection of phosphate waste by a unit licensed by provincial environment protection bureau at one of our factories in Ningbo

The following figures show the amount of other solid and liquid wastes we produced in 2018 and 2019:

Nature of wastes	2019 (tonnes)	2018 (tonnes)
Oily waste	23.33	7.97
Emulsified mixture	436.76	562.30
Oil barrels	85.81	118.94
Mixed sludge	324.9	332.4
Hazardous waste	1,121.88	1,208.88
Non-Hazardous waste	19,869	25,875

The production of oily wastes in 2019 increased by 15.36 tonnes as compared with that of last year. The main reason is that the Company still process some of the waste that has been removed from the oily waste list by the state for higher environment protection concern. The Company has set up a recycling system for emulsified mixture in factories in Ningbo in order to reduce emulsified mixture wastes generated, through which the increase of emulsified mixture wastes will be controlled effectively.

We have adopted specific regulations for processing of wastes generated from our manufacturing process and its implementation is continuously monitored by our Environmental Protection Division. We have set up detailed recording system for the processing of hazardous wastes that require special treatment under applicable regulations, which ensures that the processing of all hazardous wastes is able to comply with such regulatory requirements and allows cross-checking of the status of different check-point in the system. Our Environmental Protection Division carries out refined digital management and process control. In 2019, it focused on: 1. grid management of safety and environmental protection, by which to achieve full coverage of environmental protection management with no dead ends, and horizontal management of functional departments mainly focused on business guidance and supervision and vertical management of the production-based administrative management system, forming a cross management with "standards setting" on a horizontal basic and "implementation" on a vertical basis; 2. inspection and rectification issues are controlled through the enterprise OA platform process to achieve closed-loop management, which enables the export of the overall data of the issues and big data analysis, providing a basis for reasonable decision-making. Since 2017, the Group has adopted the ISO 14001 environmental management system to enhance control over environmental management. Below is the ISO 14001 Certificate.

In 2019, the Group reformed and innovated based on the original environmental protection management rules and regulations by formulating the "Implementation Plan of Safety and Environmental Protection Inspection of Haitian Group" and the "Implementation Regulations on Environmental Protection Incentives and Fines of Haitian Group", making its management more standardized, comprehensive and detailed. The Group provided a reward for proposing new measures for energy conservation, emission reduction and pollution prevention, and imposed a fine on failing to meet environmental protection requirements. In 2019, we conducted a test for the balance of water and electricity and an examination of clean production. Balance of water and electricity means to keep being updated with and analyze the current status of water and electricity consumption, identify leaks in water pipeline networks and facilities and take repair measures, identify high energy-consuming facilities and take reasonable and feasible measures to save energy. Clean production means starting from product design, raw material selection, process reform, technological progress, production management and other sectors to maximize the conversion of raw materials and energy into products, reduce waste of resources and energy, and minimize pollutants emitted during the production process and its impact on environmental. In 2019, we replaced some conventional heat treatment equipment with a vacuum quenching furnace to achieve energy saving and emission reduction. Vacuum heat treatment is a new type of heat treatment technology combining vacuum technology and heat treatment technology. It has the characteristics of no oxidation, no decarburization, clean and bright surface of the workpiece after quenching, high wear resistance, no pollution, high degree of automation, energy saving and so on. We will continue to adopt latest technology and more efficient equipment to reduce wastes generated in our manufacturing process and their impacts to the environment.

A vacuum quenching furnace in a heat treatment workshop at one of our factories in Ningbo.

(IV) Technical Innovation

Focusing on technologies such as energy saving, environmental protection and intelligent equipment, green energy saving innovation team, intelligent equipment innovation team and electric injection moulding innovation team related to clean technology products are set up.

Green energy saving innovation team:

The implementation of the project can greatly improve the technical level of informatization, intellectualization and precision in plastic injection moulding equipment manufacturing industry, and greatly reduce the energy consumption ratio of plastic injection moulding equipment. With support of the technology center, the "Haitian Green Energy-saving Technology Innovation Project" led by the green energy saving innovation team won the second prize of 2018 Science and Technology Award of Zhejiang Province.

Intelligent equipment innovation team:

The main significance of the "Research on Adaptive Optimization Techniques and Application of Intelligent Injection Moulding Equipment Technology" and "Research on Key Technologies of Adaptive Control of Intelligent Injection Moulding Equipment Technology" carried out together with Beijing University of Chemical Technology is to achieve the autoregulation, self-adaption and self-optimization of injection moulding technology, and to promote the development of China's injection moulding machinery industry.

Electric injection moulding innovation team:

Electric plastic injection moulding machine has the characteristics of energy saving, environmental protection, precision and high efficiency, which is the representative of high-end plastic injection moulding machine technology in the world with the energy saving rate of 20% to 70% compared with traditional hydraulic plastic injection moulding machine.

(V) Employees

I. Overview

Over the past 50 years of development, Haitian transformed from a local factory with just over a hundred employees into a global enterprise with approximately 6,307 employees. Our success builds upon the effort and contribution of each employee and a safe work place, sufficient work-related training and diversified outside-work activities are our concern throughout the years. We regard such elements as crucial for a stable work-force and for a continuing Haitian story.

On top of fulfiling the labor contract law and other labor regulatory requirements of different countries and regions for recruitment, compensation, benefits and other rights of employees, the Group rolled out relevant policies based on the actual cases, including Staff Manual of Haitian Group (《海天集團員工手冊》), Management Measures on Qualifications for Promotion and Demotion (《任職資格等級晉升與降等管理辦法》) and Management Policy of Education (《學歷教育管理政策》). We provide a working environment that values each employee individually from different aspects. We provide a people-oriented working environment based on various factors, such as performance-based bonus, promotion track, arrangements for employees seconded to overseas locations to return to China on a regular basis, annual health-check for our employees in China, offer festive welfare allowance and Company shuttle bus service etc.

We attach great importance to the self-cultivation of talents, and adopt a combination of outsourcing training and internally organized training, as well as carry out various professional skills training according to different majors. We also attend and research into the International Plastic Machinery Fair and jointly develop masters of engineering with institutions, such as:

The "Research on Adaptive Optimization Techniques and Application of Intelligent Injection Moulding Equipment Technology" and "Research on Key Technologies of Adaptive Control of Intelligent Injection Moulding Equipment Technology" carried out with Beijing University of Chemical Technology in 2017;

The "Research and Development of Industrial-grade Intelligent Hardware Based on Edge Computing Architecture" of 2025 major projects of Ningbo City carried out with Ningbo Chinese Academy of Information Technology Application Research Institute, Beijing University of Chemical Technology and other institutions in 2018;

The "Technology and Equipment of Large-tonnage Electrohydraulic Hybrid Injection Molding" of 2025 major projects of Ningbo City carried out with Ningbo University, Beijing University of Chemical Technology and Nottingham Electrification Centre in 2019.

II. Basic Information of Employees

We had a total workforce of approximately 6,307 employees as of 31 December 2019.

The tables below show the details of our employees by job location, age group, gender and educational level:

Location of Employees

Location	Numbers	Percentage
China	5,828	92.4%
Overseas	479	7.6%
Total	6,307	100.0%

Age Group of Employees

Age Group	Numbers	Percentage
30 or below	2,125	33.7%
31–40	2,243	35.6%
41–50	1,205	19.1%
51 or above	734	11.6%
Total	6,307	100.0%

Gender of Employees

Gender	Numbers	Percentage
Female	720	11.4%
Male	5,587	88.6%
Total	6,307	100.0%

Educational Level of Employees

Educational Level	Numbers	Percentage
Postgraduate or above	102	1.6%
Undergraduate and technical college	2,810	44.6%
Secondary technical high school and secondary high school	1,793	28.4%
Secondary technical junior school, secondary junior school or below	1,602	25.4%
Total	6,307	100.0%

The table below shows figures of turnover rate of our employees in 2018 and 2019:

	2019	2018
Turnover rate	5.30%	4.50%

III. Workplace safety

We pay much attention to build and run a safe workplace for our employees. In addition to initial workplace safety training for new employees, we arrange regular demonstration and rehearsal for proper handling of incidents at workplace and invite workplace safety experts to examine our facilities and make recommendation for improvement in safety measures. Since 2017, the Group has adopted the OHSAS18001 occupation health and safety management system to strength occupation safety for employees. Meanwhile, the internal preliminary review work in relation to the ISO45001 new occupational health and safety management system has been started by the Group in 2019. Below is the OHSAS18001 Certificate of the Group.


ZDHY
北京中大华远认证中心
职业健康安全管理体系认证证书
海天塑机集团有限公司
职业健康安全管理体系符合：GB/T 28001-2011/OHSAS 18001:2007
《职业健康安全管理体系 要求》
发证日期：2017 年 10 月 19 日；有效期至 2020 年 10 月 18 日
CNAS
MANAGEMENT SYSTEM
ZDHY

In order to popularize knowledge of safety production and fire drill, the Group takes the skill competition among workers as an important method to consolidate and strengthen safety production. Through frequent organization of various learning, training and competition activities such as the conducting of on-site operation drills, on-site operation and emergency rescue drills, we constantly improve employees' safety awareness and emergency treatment capability, which provides a strong guarantee for the Company's safety production.

The table below shows figures of work injuries and loss in work-day in 2018 and 2019:

Year	Incidents of work injuries	Loss in work days
2018	**52**	1,043
2019	**28**	1,192

We would investigate the reasons for each incident of work injury, enhance the preventive measures for similar incident and raise the awareness for work-place safety of our employees.

IV. Work Training

We understand the importance of different knowledge and skills required for different posts and the need for our employees to keep improving their professional knowledge and skills. Therefore we improve the systems and policies relating to employee training and career development by amending the Staff Manual of Haitian Group and so forth. We also provide continuous internal training opportunity which conducted by experts in different areas. Internal training programs mainly include aspects of management, self-development, general knowledge and professional skills, and our employees can select courses which are relevant to their posts or their personal development. With regard to different talents (including business elites, junior, middle and senior management and people with multi-skills and high-qualified talents), we also arranged training program with quality external lecturers to improve employees' professional skills and work management skills. Meanwhile, we also rolled out relevant policies of Management Policy of Education to encourage our employees to pursue academic qualification study and continue learning. For instance, the Company would offer half of the tuition fee as subsidies for employees who have finished the degree education program.

The table below shows the relevant data of our staff training in 2018 and 2019:

Year	Total number of staff training entries	Average training entry per staff	Total hours of training (hours)	Average hours of training per staff (hours)
2018	19,598	3.07	52,332	8.19
2019	14,414	17.64	50,042	3.47

V. Diversified After-work Activities

While emphasizing on employees' performance at work, we pay equal attention to the healthy lifestyle of our staff after work. The recreational clubs under Haitian Group Union organized different activities including competitions for mountain-bike, badminton, table-tennis, basketball, amateur chess, calligraphy and painting, outdoor photography and yoga activities for our employees to participate for cheerful minds, foster good habits and develop personal interests. The co-workers can also improve communication and mutual understanding outside work-place.

Outdoor activities of Haitian calligraphy club and yoga club

Voluntary blood donation is an act of kindness that benefits others as well as oneself. It is also a bond that transmits love and warmth. Our Company has been adhering to the idea of people-oriented since its establishment and the organization of voluntary blood donation among its employees has long been a tradition of Haitian. On 18 October, under the call of Haitian Group's Party Committee, Haitian Group Union, Haitian Charity Foundation and Haitian Group's League Committee, the staff of various departments of the Group actively participated in and built a Great Wall of "love" with their warm blood and love.

The Group takes skills competition as a key platform for creating and displaying a good image of the Company, where teams of staff who try to be intellectual, skillful and professional will become the pioneer among the extensive staff to improve their capabilities and better perform their duties to the Company and society. The Fifth "Haitian Champion" Skills Competition of Staff held in 2019 was completed successfully on December 15. The competition includes 18 competition items like programming and operation of CNC turning machines, programming and operation of machining centres, troubleshooting for machining centres, loading and clamping of plate parts, ability in painting and polishing sheet metal parts, driving skill, forklift skill, design and operation of hardware, smart motor, and competition of technical knowledge of universal processing. A total of 365 elite employees and representatives of staff took part in this competition. The picture below shows the smart motor item at the skills competition.

VI. Compliance with laws

We comply with laws and regulations in China and overseas countries applicable to our recruitment, employment, and termination of employment. We adopt specific guidance for all such procedures and we have implemented rules for specific area as set out below.

Social security and other benefits

We provide the following benefits to our employees in China and overseas locations according to applicable provisions:

- social security programs including medical, work injury and retirement insurance schemes
- paid annual leave
- overtime-work compensation

Anti-discrimination

We have adopted anti-discrimination policy for our employees in China to ensure they receive fair treatment at work in different aspects and would not be discriminated on the grounds of gender, race, age, religion, sex orientation and social status.

Prohibition on child labour

We have adopted policy that strictly prohibits employment of child labour. Our staff responsible for recruitment will check the identity documents of candidates to verify their ages and the supervisor of the department of the new recruits will check again their identity documents to verify their ages and identities on first day of work. Our human resource department will also conduct random check in this regard in different departments.

(6) Supply Chain Management

The majority of our suppliers are companies in China. Under the emphasis of transformation towards a sustainable economic development by the Chinese government, all industries are paying more attention to the interaction between economic activities and environmental protection and social responsibility.

For processing which we out-source to third party contractors and involves potential pollution to the environment, we request the contractors to obtain relevant license from the environmental protection bureau of the local government to ensure they are qualified to perform the relevant work in compliance with the environmental protection requirements.

We foresee that a sustainable economic development will become the major trend in the world and awareness for environmental protection and social responsibility will increase with support from the government and enterprises. We will share such information with our suppliers and ensure sufficient preparation will be made for the future.

(7) Product Responsibility

Product Quality Assurance

Our products are industrial equipment, for which there are different industrial benchmarks and standards in China and overseas countries. In some regions such as Europe, the standards are backed by regulations. These are often the basic requirements in our industry and we will provide products which, on top of such basic requirements, can meet the specifications set by our customers.

We have set up a comprehensive product quality assurance system which involves specific personnel monitoring quality at different points in our business flow from procurement of components, processing and assembly, delivery of products, testing and commissioning of finished products. We provide a full range of services to customers after our products are put into operation and ensure our customers receive prompt feedback and solutions.

Ever since establishment, we are committed to upholding the concept of comprehensive quality control, which takes providing good quality as our core work and employee participation as our foundation in order allow customers enjoying our products with "highest price-performance ratio". We see quality control as the initial starting point and emphasize the quality culture of "formulate character before formulating the brand". The quality is under stable control after the lifecycle quality control of sales, design, procurement and service of products.

The overall quality control of products has gradually achieved informationalization. Currently, quality control of assembling machine (including safety control of products of assembling machine) has all achieved informationalization (which integrated in the production process of the system of manufacturing enterprise). Precision machining quality control has achieved informationalization in 2019.

In the future, we will promote the strategy planning of "great quality" towards the direction of "outstanding", thereby leading and supporting the development of the Company to enter into a "quality era".

Intellectual Property Rights

We have registered our trademarks in over 90 countries in the world which offer protection to our business in such countries. We also have dedicated teams focusing on application and maintenance of patents.

Our four wholly-owned subsidiaries in China below have obtained the Intellectual Property Rights Management System Certification:

Haitian Plastic Machinery Group Co., Ltd.
Ningbo Haitian Huayuan Machinery Co., Ltd.
Ningbo Zhafir Plastics Machinery Co., Ltd.
Wuxi Haitian Machinery Co., Ltd.

(8) Social Responsibility

The development and success of Haitian Group in the past 50 years were results of contribution by its employees, customers, business partners and governmental support. Therefore, we have consistently emphasized that a successful enterprise should not only make contribution to the development of business, technology and industry, but should also fulfill its commitment of social responsibility. In addition to the environment, caring of employees and abiding by the laws and regulations, we provide direct assistance to the disadvantaged groups in the society which may not have been able to share the success of social development to allow better use of social resources.

Since the founding of Haitian Group, our efforts to contribute to the society have never stopped. We have funded the reconstruction of facility of nearby communities, offered scholarship to students in financial needs and financed the establishment of Haitian Park. Our employees also contributed personally for aids to natural disasters and this was echoed with "One-Day Donation" since 2003. The total contribution from Haitian Group till 2019 for these purposes had reached RMB200 million. In order to conduct such charitable activities in a scientific, systematic and consistent manner, Haitian Group started to prepare for the establishment of a charity foundation in 2012.

Zhejiang Haitian Charity Foundation was established in 2013. The initial capital came from personal donation of Mr. Zhang Jingzhang, chairman of our Group. Later we had received further donation from the management of Haitian Group since 2014. The purpose of the foundation is to provide aid to people in need of help in the society such as children deprived of education opportunity, people in financial needs due to sickness, physical disability, loss of family members, and to provide assistance to our employees through work-place assistance and daily life support. Below is the Evaluation Grade Certificate of Zhejiang Haitian Charity Foundation:


中国社会组织评估等级证书

证书编号:浙民民【2018】152-044号

浙江海天慈善基金会

经评估，你单位被评估为AAAA社会组织，特颁此证。

(有效期:2018年12月至2023年12月)

浙江省民政厅

二〇一八年十二月

Haitian has donated over RMB200 million to social benefits and charity since 1998, and was awarded the "Zhejiang Charity Award" (浙江慈善獎), the provincial government's highest award in the field of charity, by the Zhejiang Provincial Department of Civil Affairs for its' outstanding contribution to philanthropy. In addition, it was awarded the 2018 Charitable Enterprise Award of National Charity Association (2018年度全國慈善會愛心企業獎) by the China Charity Federation. Below is the provincial government's highest award in the field of charity, i.e. "Zhejiang Charity Award".

In 2019, we have conducted various service items under the support of the foundation:

I. Regular Activities

1. Support for medical, educational and household expenses

– medical: provide financial support to people in need who are unable to afford medical expenses resulting from their severe sickness.

– educational: provide financial support to families having difficulties in sending children to school and for senior high-school and university level educational needs. For the renowned universities which are closely worked with Zhejiang Province, we provided subsidies for the students who have good academic performance and conduct, come from needy families and are all-round developed. We started helping students since May 2017 and our support has covered 5 universities in or out of Zhejiang Province such as Zhejiang University of Technology and Ningbo University. The total scholarship we offered amounted to RMB496,000 for 2019.

– household: provide financial support to families in need which are having living problems as a result of natural disasters, accidents or severe sickness.

2. Support to local community

Provide financial support to families in need at Yaqian, Shanxia and Qianjin villages in Xiaogang, Beilun, Ningbo before Chinese Lunar New Year. We spent a total of RMB400,000 in 2019.

3. Support to special groups of people in need

In joint operation with the Women's Association of Xiaogang Street, Beilun, Ningbo, we visited women in financial need and who are suffering from cancer and helped the youths in need to improve their livelihood and learning. We spent condolence payments in aggregate of RMB180,000 in 2019.

4. Free healthcare

We invited specialists from hospitals to advise the prevention and treatment of common diseases for our employees and provide them with services like blood pressure and sugar check, Sanfutie services for treating winter diseases in summer, as well as foot bath treatment using Chinese medicine. We also organized medical staff of the Company to provide free services in nearby parks and communities.

5. Haitian Charity Day

Already its 8th anniversary, the Haitian Charity Day covers free services such as hair-cutting, charity photography, free optometry for the elderly, bicycle and electric bike repairs, small household appliances repairs, key duplication, blood pressure and sugar check, book exchange, social dating, psychology consultation, plant seed distribution, distribution of hand-painted environmental friendly handbags, promotion of garbage sorting and weaving exchange, etc.

6. Staff voluntary work

We also encourage our employees to organize new charity activities so that in addition to participation, they are able to input their idea in the design, planning and implementation of such activities and the Foundation would provide financial support. Haitian voluntary work has continued to develop since its launch in 2015. The following are activities which were organized by our employees in 2019.

I. Caring Family Portraits

The members of Haitian Photography Club are organized to take photos of family portraits for families in surrounding areas for charity's sake.

II. Giving away books for public good

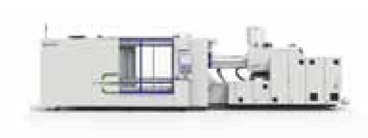
For students from the schools in poor mountain areas such as Siming Mountain, Ninghai and students from disadvantaged families near Xiaogang, we made targeted donation or sent stationeries and suitable books in person in accordance with specific needs in order to spread love and positive energy.

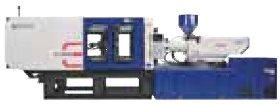
III. Wuxi Haitian Psychological Tree Hole (無錫海天心理樹洞)

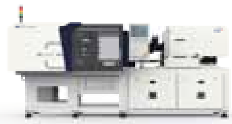
The Psychological Rescue (Tree Hole) Group was set up by doctors in Wuxi Haitian Medical Centre (無錫海天醫務室), external psychological counselors, external supervisors and enthusiastic employees to provide rescue services such as psychological group activities and personal consultations so as to help employees with psychological counseling needs, and provide them with guidance in addressing parent-child issues, marital crisis, family conflicts, interpersonal relations, career stress and personal emotions, etc.

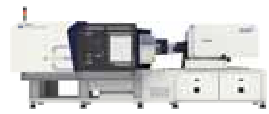
We believe the success in business shall go hand-in-hand with responsibility to community and provision of help to groups in need. At the same time, such activities provide valuable opportunities for our employees and partners to contribute to community and spread social positive energy with their own skills, time and resources.

CORPORATE GOVERNANCE REPORT









Corporate Governance Report

Haitian International Holdings Limited (the "Company") recognises the importance of good corporate governance to its healthy growth and has therefore devoted much efforts into formulating corporate governance practices that agree with its business needs. The Company has applied the principles set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") by adopting the relevant code provisions. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG code. The directors of the Company ("Directors") consider that the Company complied with all the applicable code provisions set out in the CG Code for the year ended 31 December 2019.

Board of Directors

As at the date of this report, the Board of Directors (the "Board") comprises 5 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors.

The Directors who held office during the year and up to the date of this report were:

Executive Directors
Mr. Zhang Jingzhang *(Chairman)*
Mr. Zhang Jianming *(Chief Executive Officer)*
Mr. Zhang Jianfeng
Mr. Chen Weiqun
Mr. Zhang Bin

Non-executive Directors
Mr. Guo Mingguang
Mr. Liu Jianbo
Prof. Helmut Helmar Franz*
Mr. Zhang Jianguo*
Ms. Chen Ningning*

Independent Non-executive Directors
Mr. Lou Baijun
Mr. Guo Yonghui
Dr. Yu Junxian#
Mr. Lo Chi Chiu#
Dr. Steven Chow#
Mr. Jin Hailiang*

* *Prof. Helmut Helmar Franz, Mr. Zhang Jianguo and Ms. Chen Ningning resigned as Non-executive Directors on 27 March 2020 and Mr. Jin Hailiang resigned as an Independent Non-executive Director on the same date.*

\# *Dr. Steven Chow resigned as Independent Non-executive Director on 1 February 2019 and Dr. Yu Junxian and Mr. Lo Chi Chiu were appointed as Independent Non-executive Directors on the same date.*

According to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the re-designation of Mr. Zhang Jianguo and Ms. Chen Ningning from executive directors to non-executive directors and the appointment of Mr. Chen Weiqun and Mr. Zhang Bin as executive directors on 20 April 2018, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board.

Following the resignation of Dr. Steven Chow as an independent non-executive director of the Company and appointment of Dr. Yu Junxian and Mr. Lo Chi Chiu as independent non-executive directors of the Company on 1 February 2019, the Board comprised fifteen directors with five executive directors, five non-executive directors and five independent non-executive directors and accordingly, the Company complied with the requirement under Rule 3.10A of the Listing Rules for having independent non-executive directors representing at least one-third of the Board.

The Board has a balance of skill, experience and diversity of perspectives that are essential to and would promote the business of the Group. It also has a balanced composition of Executive and Non-Executive Directors and is responsible to formulate overall strategy of the Group, monitor its operational and financial performance and oversight of the management of the Company's business and affairs. The Board, especially the Independent Non-Executive Directors, is also responsible to decide on acquisitions or disposals where there is conflict of interests for any Director(s). The Board has delegated the day-to-day responsibility to the Executive Directors and senior management of the Company. The biographies and relevant relationships amongst them are set out in the Directors and Senior Management Section of this annual report.

The Chairman and the Chief Executive Officer of the Company are Mr. Zhang Jingzhang and Mr. Zhang Jianming respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

The Non-executive Directors, with diversified industry expertise but not involved in the day-to-day management of the Group, serve the important function of advising the Board on strategic development of the Group, and ensure that the Board maintains high standards of financial and other mandatory reporting as well as provide adequate checks and balances for safeguarding the interests of the Company and the shareholders of the Company as a whole. The Company has received confirmations of independence from all existing Independent Non-executive Directors and considers them independent, in accordance with the Rule 3.13 of the Listing Rules. All Directors have a term of office of three years and are required to retire and, being eligible, can offer themselves for re-election in accordance with the articles of association of the Company.

The Company has arranged appropriate insurance cover in respect of legal action against its directors and senior management. The Board will also review this arrangement from time to time to ensure the insurance cover is well enough for our directors and senior management.

Board Meetings

It is intended that the Board should meet regularly so that all directors are kept updated with the business development of the Group. Special meetings the Board will be convened if the situation requires so. For the year ended 31 December 2019, the Board convened a total of five Board meetings (include four regular Board meetings) and the individual attendance record of the Directors is tabulated as follows:

Attendance

Executive Directors	
Mr. Zhang Jingzhang *(Chairman)*	5/5
Mr. Zhang Jianming *(Chief Executive Officer)*	5/5
Mr. Zhang Jianfeng	5/5
Mr. Chen Weiqun	5/5
Mr. Zhang Bin	5/5
Non-executive Directors	
Mr. Guo Mingguang	5/5
Mr. Liu Jianbo	5/5
Professor Helmut Helmar Franz*	5/5
Mr. Zhang Jianguo*	4/5
Ms. Chen Ningning*	5/5
Independent Non-executive Directors	
Mr. Lou Baijun	5/5
Mr. Guo Yonghui	5/5
Dr. Yu Junxian#	4/4
Mr. Lo Chi Chiu#	4/4
Dr. Steven Chow#	0/1
Mr. Jin Hailiang*	5/5

* *Prof. Helmut Helmar Franz, Mr. Zhang Jianguo and Ms. Chen Ningning resigned as Non-executive Directors on 27 March 2020 and Mr. Jin Hailiang resigned as an Independent Non-executive Director on the same date.*

\# *Dr. Steven Chow resigned as Independent Non-executive Director on 1 February 2019 and Dr. Yu Junxian and Mr. Lo Chi Chiu were appointed as Independent Non-executive Directors on the same date.*

Model Code for Securities Transactions by Directors of the Company

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all directors who were in office during year 2019 and they all have confirmed that they had complied with the required standard set out in the Model Code for the Reported Period.

Relationship of the Directors

Among the members of the Board, Mr. Zhang Jingzhang, the Chairman, is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng, the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo and the grandfather of Mr. Zhang Bin, all of whom are also directors of the Company. Mr. Zhang Jianming is also the Chief Executive Officer of the Company.

Nomination Committee

The Board had set up its Nomination Committee to, among others, review the structure, size and composition of the Board and make recommendations to the Board on the appointment of Directors. The Nomination Committee has also adopted a policy of diversity for memberships of the Board which aims to achieve diversity in the Board against a range of different perspectives, including but not limited to professional and industry experience, skills and knowledge, cultural and educational background. These criteria will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. In reviewing and assessing the composition of the Board, the Nomination Committee will consider all different perspectives, including the aforesaid criteria, in order to maintain a diverse Board. And in recommending new appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria including the ones set out above, with due regard for the benefits of diversity of the Board.

Nomination Policy

The Nomination Committee shall nominate suitable candidates to the Board on the appointment of directors and succession planning for directors. When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidates:

- Reputation for integrity;
- Accomplishment and experience in the manufacturing industry and other relevant sectors;
- Commitment in respect of available time and relevant interest; and
- Diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Company's Articles of Association and other applicable rules and regulations.

Under the Nomination Policy, the Nomination Committee should upon receipt of the proposal on appointment of new director and the biographical information of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Nomination Committee should make recommendation to shareholders in respect of the proposed election at the general meeting.

The composition of the Nomination Committee and the attendance of the one meeting of the Nomination Committee during year 2019 are set out below:

Attendance	
Mr. Zhang Jingzhang *(Chairman of Committee)*	1/1
Mr. Jin Hailiang*	1/1
Mr. Guo Yonghui	1/1

* *Mr. Jing Hailiang has tendered his resignation as an independent non-executive Director and a member of the Nomination Committee with effect from 27 March 2020 and Dr. Yu Junxian has been appointed as a member of the Nomination Committee in place of Mr. Jing Hailiang with effect from 27 March 2020.*

The Nomination Committee had reviewed the structure, size, composition and diversity of the Board, the background information and suitability of new director and assessed the independence of independent non-executive directors and make recommendations on re-election of directors at general meetings.

Board Diversity Policy

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

Audit Committee

The Company has set up an audit committee in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company and with at least one of whom having appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee has reviewed the Group's condensed consolidated financial information for the year ended 31 December 2019, including the accounting principles adopted by the Group, with the Company's management. The audit committee, together with the management and the external auditors, has regularly reviewed the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and reviewed the financial results of the Group.

The composition of the Audit Committee and the attendance of the two meetings of the Audit Committee during year 2019 are set out below:

Attendance	
Mr. Lou Baijun *(Chairman of Committee)*	2/2
Mr. Jin Hailiang*	2/2
Mr. Guo Yonghui	2/2

* *Mr. Jing Hailiang has tendered his resignation as an independent non-executive Director and a member of the Audit Committee with effect from 27 March 2020 and Dr. Yu Junxian has been appointed as a member of the Audit Committee in place of Mr. Jing Hailiang with effect from 27 March 2020.*

The Audit Committee met two times during year 2019. During the meetings, the Audit Committee considered the annual results of the Group for the year ended 31 December 2019 and the interim results of the Group for the six months ended 30 June 2019 as well as reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit/review.

Remuneration Committee

The Remuneration Committee is responsible to review the policy for remuneration of the Directors and other senior management of the Group and to make recommendations to the Board on the remuneration packages of each Director and senior management. The Group's policy for remuneration (including basic salary and performance bonus) of the Directors and other senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice.

Remuneration Policy

The objective of the Company's Remuneration Policy is to help establish fair and competitive remuneration packages based on our business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, markets rates and factors such as each director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

- Business requirements;
- Individual performance and contribution to results;
- Company performance and profitability;
- Retention considerations and the potential of individuals;
- Corporate goals and objectives;
- Changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- General economic situation.

The composition of the Remuneration Committee and the attendance of the one meeting of the Remuneration Committee during year 2019 are set out below:

Attendance	
Mr. Jin Hailiang* *(Chairman of Committee)*	1/1
Mr. Zhang Jianming	1/1
Mr. Guo Yonghui	1/1

* *Mr. Jing Hailiang has tendered his resignation as an independent non-executive Director and chairman of the Remuneration Committee with effect from 27 March 2020 and Dr. Yu Junxian has been appointed as a chairman of the Remuneration Committee in place of Mr. Jing Hailiang with effect from 27 March 2020.*

The Remuneration Committee had concluded that the packages of the Directors and senior management are in line with market standards for companies in the industry which the Group belongs to.

Training and Support for Directors

The Company recognizes the importance of keeping the Directors updated with latest information of duties and obligations of a director of a company which shares are listed on the Stock Exchange of Hong Kong Limited and the general regulatory requirements and environment for such listed company. To meet this goal, each newly appointed Director would receive an introductory training regarding the statutory and regulatory obligations of a director of a listed company in Hong Kong. The Company would also provide regular updates in relation to the latest developments regarding Listing Rules and other applicable regulations.

During year 2019, the Directors had participated in the following types of continuous professional development:

Executive Directors	**Type of continuous professional development**
Mr. Zhang Jingzhang	B
Mr. Zhang Jianming	B
Mr. Zhang Jianfeng	B
Mr. Chen Weiqun	B
Mr. Zhang Bin	B
Non-executive Directors	
Mr. Guo Mingguang	B
Mr. Liu Jianbo	B
Prof. Helmut Helmar Franz*	B
Mr. Zhang Jianguo*	B
Ms. Chen Ningning*	B
Independent Non-executive Directors	
Mr. Lou Baijun	B
Mr. Guo Yonghui	B
Dr. Yu Junxian#	B
Mr. Lo Chi Chiu#	B
Dr. Steven Chow#	N/A
Mr. Jin Hailiang*	B

Note:

A: attending seminars and/or in-house trainings relating to duties of directors of listed companies

B: reading guidance notes and updates relating to regulatory requirements for listed companies and obligations of their directors

* *Prof. Helmut Helmar Franz, Mr. Zhang Jianguo and Ms. Chen Ningning resigned as Non-executive Directors on 27 March 2020 and Mr. Jin Hailiang resigned as an Independent Non-executive Director on the same date.*

\# *Dr. Steven Chow resigned as Independent Non-executive Director on 1 February 2019 and therefore no continuous professional development record is shown for 2019. Dr. Yu Junxian and Mr. Lo Chi Chiu were appointed as Independent Non-executive Directors on the same date.*

Risk Management, Internal Control and Corporate Governance

The Board has overall responsibility for the establishment, maintenance and annual review of the Group's risk management, system of internal control and corporate governance. In 2019, the Board has conducted a review with the management of the effectiveness of the risk management and internal control systems and corporate governance of the Company and its subsidiaries and considered that the risk management and internal control systems and corporate governance measures are effective and adequate.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of risk management and internal control systems. The Company has developed and adopted different risk management procedures and guidelines with a clear division of power and responsibility. The Company would conduct self-assessment each year to confirm that all departments and the Company have properly complied with the risk management and internal control policy.

During the year, all departments conduct regular internal control evaluation to identify risks with potential impact on the Group's business and other aspects including major operational and financial procedures, regulatory compliance and information security. The management with the leader of the department would valuate the chance of risk occurrence to provide response plan and monitor the progress of risk management.

During the year, the internal control department reviewed important issues such major operational policies and regulatory compliance and provided its findings and recommendations to the Company for improvement.

Handling the dissemination of inside information

The Group is committed to a consistent practice of time, accurate and sufficiently detailed disclosure of material information and has adopted a policy on disclosure of inside information of the Group. The handling and dissemination of inside information of the Group is strictly controlled and remains confidential including but not limited by the following ways:

1. Restrict access to inside information to a limited number of employees on a need-to-know basis;

2. Reminder to employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;

3. Ensure appropriate confidentiality agreements are in place when the Group enters into significant negotiations or dealings with third party;

4. Inside information is handled and communicated by designated persons to outside third party; and

5. The board and the senior management review the safety measures regularly to ensure inside information is properly handled and disseminated.

Internal Audit

The Group has set up an internal control department since 2012 to support the Board in its maintenance and review of the Group's risk management and internal control systems. The internal control department is a department independent from other departments inside the Group and directly reports to the Executive Directors of the Company. Its main roles include the followings:

1. to monitor different business units and subsidiaries of the Group in their compliance with internal guidelines, policies and procedures covering budget, financial reporting, procurement, risk management etc.;

2. to make recommendations on risk control procedures to the management to address risks identified in the business operations of the Group;

3. to support and monitor the Group's compliance with laws and regulations relevant to its operations; and

4. to assist the audit committee of the Board in its work.

Directors' and Auditor's Acknowledgement

The Board acknowledges its responsibility for preparing the accounts of the Company are in accordance with statutory requirements and applicable accounting standards. The management provides all relevant information and records to the Board, which enable it to prepare the accounts and to make above assessments. The statement of the auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 66 and 67.

Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, charged RMB3.56 million for audit services.

Company Secretary

Mr. Suen Waiyu, the company secretary of the Company resigned as the company secretary effected from 1 February 2019.

On 1 February 2019, the Company has engaged Fair Wind Secretarial Service Limited, external service provider, and Ms. Lee Ka Man ("Ms. Lee") has been appointed as the company secretary of the Company in replacement of Mr. Suen Waiyu. Ms. Lee is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. She has over 15 years of experience in the fields of company secretarial and compliance. Ms. Lee's primary contact at the Company is Mr. Dai Feng, General Counsel of the Company. During the year ended 31 December 2019, Ms. Lee has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge. All directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

Dividend Policy

The Board has established a Dividend Policy setting out the principles and guidelines that the Company intends to apply when considering the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. The Company is subject to the Articles of Association of the Company and all applicable laws (including the Cayman Company Laws), rules and regulations, during declaration and payment of dividends to shareholders of the Company.

Investor Relations and Shareholders' Communication

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analysts' briefings, road shows, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts. The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 business days before the meeting and will also be made available on the Stock Exchange's website. The Directors will answer questions on the Company's business at the meeting. External auditors will also attend the annual general meeting. All votings at the annual general meeting will be conducted by poll and poll results will be posted on the website of the Stock Exchange on the business day following the annual general meeting. As a channel to further promote effective communication, the Company maintains a website (www.haitianinter.com) to disseminate the Company's announcements and other relevant financial and non-financial information electronically on a timely basis.

The annual general meeting held in year 2019 was held on 27 May 2019 and the attendance record of the Directors at the meeting is set out below:

Attendance

Executive Directors	
Mr. Zhang Jinzhang *(Chairman)*	1/1
Mr. Zhang Jianming *(Chief Executive Officer)*	1/1
Mr. Zhang Jianfeng	1/1
Mr. Chen Weiqun	1/1
Mr. Zhang Bin	1/1
Non-executive Directors	
Mr. Guo Mingguang	1/1
Mr. Liu Jianbo	1/1
Prof. Helmut Helmar Franz*	1/1
Mr. Zhang Jianguo*	1/1
Ms. Chen Ningning*	1/1
Independent Non-executive Directors	
Mr. Lou Baijun	1/1
Mr. Guo Yonghui	1/1
Dr. Yu Junxian#	1/1
Mr. Lo Chi Chiu#	1/1
Dr. Steven Chow#	0/1
Mr. Jin Hailiang*	1/1

* *Prof. Helmut Helmar Franz, Mr. Zhang Jianguo and Ms. Chen Ningning resigned as Non-executive Directors on 27 March 2020 and Mr. Jin Hailiang resigned as an Independent Non-executive Director on the same date.*

\# *Dr. Steven Chow resigned as Independent non-executive Director on 1 February 2019 and therefore was not required to attend the annual general meeting in 2019.*

Shareholders' Rights

How shareholders can convene an extraordinary general meeting

Any one or more shareholder(s) 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 have the right to make a written requisition to the Board or the Company Secretary to convene an extraordinary general meeting pursuant to article 58 of the Company's articles of association. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the shareholder(s) who make the requisition may convene the extraordinary general meeting.

Procedures by which enquiries regarding business or operation of the Company can be made

Shareholders can contact the Investor Relations Department for enquiries in relation to the business or other operations of the Company. The contact information of the Investor Relations Department is set out in the "Investor Information" on page 20 of this report. Shareholders are also encouraged to attend the annual general meeting of the Company to express their view and make enquiries on the business or operation operations of the Company.

Procedures for putting forward proposals at general meeting

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands governing shareholder's rights to put forward proposals at an annual general meeting. Shareholders who wish to put forward proposals may however follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

REPORT OF THE DIRECTORS

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2019.

Principal Activities and Business Review

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 7 to the financial statements. An analysis of the Group's performance for the year by business segments and geographical segments are set out in note 24 to the financial statements.

Further discussion and analysis on the activities of the Group, including review of its businesses, discussion of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's businesses can be found in the Management Discussion and Analysis section in Chairman's Statements as set out on pages 4 to 8 of the annual report. Review of the Group's financial key performance can be found in the Financial Review section in CEO's Report as set out on pages 9 to 12. These discussions form part of this director's report.

Environmental Policies and Performance

The Group's environmental policies are driven towards two main targets, namely compliance with environmental related laws and regulations and additional measures to protect the environment in the area of energy-saving and waste reduction. For compliance with laws and regulations, the Group's major production facilities are located in China and there is a specific team inside the Group to continuously monitor the regulatory requirements and the Group's compliance with such requirements. The Group also engaged professional experts to conduct analysis of energy efficiency and waste generation in its operation and provide recommendations for area which can be improved. The Board believes that the Group has complied with environmental related laws and regulations in China and adopted additional measures which enhanced the energy efficiency and reduced waste production in its operation. Please refer to the Environmental, Social and Governance Report on pages 21 to 43 for details of the Group's environmental policies and performance.

Compliance with Laws and Regulations

The Board considers compliance with laws and regulations an important element in the business operation of the Group. The Group's major production facilities and over half of its sales are located and generated in China and compliance with domestic laws and regulations in China is particularly important. The Group has specific personnel to handle and update compliance works in China and they also have the assistance from external legal advisors. With the Group's continuous expansion into overseas markets and setting up of local entities in overseas countries, the exposure to foreign laws and regulations is increasing and the management of the Group is well aware of the compliance risk involved. Local external legal and other professional experts are engaged from the stage of establishment and continuous advice is sought before and during business operation in such overseas countries. The Board considers that the Group's compliance with laws and regulations in both China and overseas countries is well monitored.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 78. The directors declared an interim dividend of HKD21.0 cents per share, totalling RMB301,587,000 which was paid on 18 September 2019. The directors declared the payment of a second interim dividend of HKD19.0 cents per share, totalling approximately RMB273,571,000.

Closure of Register of Members

The register of members of the Company will be closed from 2 April 2020 to 6 April 2020 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, all properly completed shares transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 1 April 2020.

The register of members of the Company to attend the AGM will be closed from 14 May 2020 to 19 May 2020 (both days inclusive). In order to be eligible to attend the forthcoming annual general meeting (the "AGM"), all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 13 May 2020, for registration.

Key Relationships with Employees, Customers and Suppliers and Others

Employees are remunerated equitably and competitively. Continuing training and development opportunities are provided to equip them to deliver their best performance and achieve corporate goals. During the reporting period, our staffs continuously pursue training and career development through our training system.

Customers' feedback and advice could be taking into account via customer communication channel.

The Group uses suppliers that reflects its values and commitment. The Group has policies and procedures to select suppliers and contractors who share our social, environmental and labour practice standards.

Key Risks and Uncertainties

Foreign Currency Risk

The Group has transactional currency exposure. These exposures arise from sale the products to international markets. Such sales were denominated in U.S. dollars or other foreign currencies, while the Group's purchases denominated in U.S. dollars or other foreign currencies accounted for less than 10% of the total purchases.

Fair Value and Cash Flow Interest Rate Risk

The Group's interest rate risk arises from bank deposits, loans to employees, entrusted loans and borrowings. Bank deposits, loans to employees and entrusted loan at fixed rates expose the Group to fair value interest rate risk. Borrowings obtained at various fixed rates expose the Group to cash flow interest rate risk. The Group has not used any financial instruments to hedge its exposure to cash flow interest rate risk.

As at 31 December 2019, as for all borrowings have fixed interest rates, interest rate risk is avoided.

Credit Risk

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 48 months.

Liquidity Risk

Prudent liquidity risk management implied maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB15.7 million.

Permitted Indemnity

Under the Articles of Association, the Directors are indemnified secured harmless out of the assets and profits of the Group from and against all actions, costs, charges, losses, damages and expenses, which they or any of them incur as a result of any act or failure to act in carrying out their functions other than such liability (if any), that they may incur by reason of their own fraud or dishonesty. Such permitted indemnity provision has been in force for the year ended 31 December 2019. The Group has arranged appropriate liability insurance coverage for the Directors.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 17 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 5 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 16 to the financial statements.

Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and retained earnings which in aggregate amounted to RMB2,498.9 million as at 31 December 2019. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

Convertible Bonds

In February 2014, the Company issued US dollar denominated 2.00 coupon convertible bonds ("CB") due 2019 of USD200 million for general corporate purposes. The maturity date of the CB is 13 February 2019 and unless previously redeemed, converted or purchased and cancelled, the Company will redeem the CB at 100 per cent of its principal amount upon maturity. The holders of the CB had the right to request the Company to redeem all or some of the CB at 100 per cent of the principal amount of the CB on 13 February 2017. Please refer to the Company's announcement dated 9 January 2014 for details of the CB.

As of 14 January 2017 which was the end of the period during which holders of the CB could request the Company to redeem the CB, the Company received requests of redemption of CB for an aggregate principal amount of USD75,250,000 (the "Redeemed Bonds"). The Redeemed Bonds were redeemed at 100% of their principal amount, together with any accrued but unpaid interest, on 13 February 2017 and were cancelled upon redemption. The remaining outstanding aggregate principal amount of the CB was reduced to USD124,750,000, representing 62.375% of the total principal amount of the CB originally issued. Please refer to the Company's announcement dated 16 January 2017 for details.

On 13 February 2019, the convertible bonds were matured and none of the principal amount of the convertible bonds were converted into ordinary shares. The Company redeemed the outstanding convertible bonds in whole at a redemption price equal to 100% of the outstanding amount of USD124,750,000, together with all accrued and unpaid interests thereon, and completed all the relevant procedures thereafter pursuant to the terms and conditions of the bonds (the "Full Redemption").

The total price payable by the Company for the Full Redemption was funded by the internal resource of the Company, and the Company considered that there would be no material impact on its financial position as a result of the Full Redemption.

Following the Full Redemption, all convertible bonds were cancelled and the Company has been discharged from all its obligations under and in connection to the convertible bonds.

Conversion price and shares to be issued upon full conversion

The initial conversion price of the CB was HKD24.6740 and is subject to adjustment for, among others, subdivision, consolidation and bonus issues of shares, rights issue, distributions (including dividends) and certain other dilutive events. After the first interim dividend of 2018 as declared by the Board, the conversion price of the CB will become HKD21.8638. On 13 February 2019, the CB has been mature and fully repaid by the Company. No shares of the CB were converted, so that there was no impact on the shareholding structure of the Company stated as follows:

	Existing shareholdings of the Company		Shareholdings of the Company with best estimation of nil conversion of CB	
Shareholder	**No. of shares**	**Approximate percentage of issued shares capital of the Company**	**No. of shares**	**Approximate percentage of issued shares capital of the Company**
Sky Treasure Capital Limited [1]	944,737,672	59.19	944,737,672	59.19
Schroders Plc [1]	95,814,266	6.00	95,814,266	6.00
Bondholders	0	0	0	0
Other shareholders	555,448,062	34.81	555,448,062	34.81
Total	1,596,000,000	100.00	1,596,000,000	100.00

Notes:

(1) *These shareholders were holders of 5% or more issued shares of the Company as of 31 December 2019. Please refer to section headed "Interests and Short Positions of Shareholders" for details of their shareholdings.*

For dilutive impact on earnings per share upon full conversion of the CB, please refer to note 31 of the financial statements.

Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2019 and for the previous four financial years are set out on page 160.

Share Option Scheme

The Company adopted a share option scheme (the "Scheme") on 25 October 2007. No option had been issued under Scheme and the Scheme expired on 24 October 2017. The Company does not have any existing share option scheme as of the date of this report.

Directors

The Directors who held office during year 2019 and up to the date of this report were:

Executive Directors
Mr. Zhang Jingzhang *(Chairman)*
Mr. Zhang Jianming *(Chief Executive Officer)*
Mr. Zhang Jianfeng
Mr. Chen Weiqun
Mr. Zhang Bin

Non-executive Directors
Mr. Guo Mingguang
Mr. Liu Jianbo
Prof. Helmut Helmar Franz*
Mr. Zhang Jianguo*
Ms. Chen Ningning*

Independent Non-executive Directors
Mr. Lou Baijun
Mr. Guo Yonghui
Dr. Yu Junxian#
Mr. Lo Chi Chiu#
Dr. Steven Chow#
Mr. Jin Hailiang*

* *Prof. Helmut Helmar Franz, Mr. Zhang Jianguo and Ms. Chen Ningning resigned as Non-executive Directors on 27 March 2020 and Mr. Jin Hailiang resigned as an Independent Non-executive Director on the same date.*

\# *Dr. Steven Chow resigned as Independent Non-executive Director on 1 February 2019 and Dr. Yu Junxian and Mr. Lo Chi Chiu were appointed as Independent Non-executive Directors on the same date.*

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Zhang Jianfeng, Mr. Liu Jianbo, Mr. Lou Baijun and Mr. Guo Yonghui will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. The Company has received from each independent non-executive director a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

Directors' Service Contracts

Each of the executive directors, has entered into a service contract with the Company for a term of commencing from three years, unless terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive directors, has entered into a service contract with the Company for a term of commencing from three years, unless terminated by not less than one month's notice in writing served by either party on the other.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of three years, all of which may also be terminated by either party by giving the other party as least three months' written notice.

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

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year except as disclosed under Continuing Connected Transactions stated below and note 35 to the financial statements.

Director's Right to Acquire Shares or Debentures

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

Biographical Details of and Remunerations to Directors and Senior Management

Brief biographical details of the directors and senior management are set out on pages 13 to 19.

For details of the remunerations paid to the directors, please refer to note 37 of the financial statements.

During the year ended 31 December 2019, total remunerations paid to members of senior management (who are not directors) are as follows:

	Year ended 31 December 2019 RMB'000
Salaries	**1,800**
Pension costs and mandatory provident fund contributions	**106**
	1,906

The remunerations of the senior management are within the following bands:

	Number of individuals
Nil – RMB1,000,000	5

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2019, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

Long position in shares and underlying shares of the Company

Name of Director	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding in the Company
Mr. Zhang Jingzhang	Corporate Interest(1)	944,737,672 (L)	59.19%
	Corporate Interest (2)	535,000 (L)	0.03%
Mr. Zhang Jianming	Corporate Interest(1)	944,737,672 (L)	59.19%
	Corporate Interest (2)	3,123,000 (L)	0.20%
	Personal Interest	4,212,000 (L)	0.26%
Prof. Helmut Helmar Franz(4)	Corporate Interest (2)	2,500,000 (L)	0.16%
Mr. Liu Jianbo	Corporate Interest (2)	520,000 (L)	0.03%
Mr. Guo Mingguang	Corporate Interest (2)	200,000 (L)	0.01%
	Spouse Interest(3)	277,000 (L)	0.02%
Ms. Chen Ningning(4)	Corporate Interest(5)	413,000 (L)	0.03%
Mr. Zhang Jianguo(4)	Corporate Interest(2)	450,000 (L)	0.03%
Mr. Chen Weiqun	Corporate Interest(2)	250,000 (L)	0.02%
	Personal Interest	20,000 (L)	<0.01%

(L) denotes a long position

Notes:

(1) Mr. Zhang Jingzhang and Mr. Zhang Jianming were deemed under the SFO to be interested in 944,737,672 shares of the Company held by Sky Treasure Capital Limited.

(2) These directors were deemed under the SFO to be interested in the respective shares of the Company held by their wholly-owned investment holding companies.

(3) Ms. Zhang Xiaofei, wife of Mr. Guo Mingguang, beneficially owned 277,000 shares of the Company.

(4) Prof. Helmut Helmar Franz, Ms. Chen Ningning and Mr. Zhang Jianguo resigned as Non-executive Director on 27 March 2020.

(5) Ms. Chen Ningning was deemed under the SFO to be interested in the shares of the Company held by a corporation in which Ms. Chen Ningning had 80% controlling interest.

Long Position in Shares and Underlying Shares of Associated Corporations of the Company

Name of Director	Name of association corporation[(1)]	Capacity/Nature of interest	Approximate percentage of shareholding in the associated corporations
Mr. Zhang Jingzhang	Sky Treasure Capital Limited ("Sky Treasure")	Founder of a trust[(2)] Corporate[(3)]	14.49% 54.07%
Mr. Zhang Jianming	Sky Treasure	Founder of a trust[(2)] Corporate[(3)]	9.83% 54.07%
Mr. Zhang Jianguo[(5)]	Sky Treasure	Founder of a trust[(2)]	5.89%
Mr. Zhang Jianfeng	Sky Treasure	Founder of a trust[(2)]	5.53%
Ms. Chen Ningning[(5)]	Sky Treasure	Founder of a trust[(2)]	3.07%
Mr. Guo Mingguang	Sky Treasure	Beneficiary under a trust[(4)]	1.85%
Mr. Liu Jianbo	Sky Treasure	Beneficiary under a trust[(4)]	1.54%

Notes:

(1) *As at 31 December 2019, Sky Treasure was the holder of 59.19% of the issued share capital of the Company and therefore was an associated corporation under the SFO.*

(2) *Such Directors were deemed under the SFO to be interested in shares of Sky Treasure which were held by discretionary trusts set up by them respectively.*

(3) *Mr. Zhang Jingzhang and Mr. Zhang Jianming were separately entitled to exercise or control the exercise of one third or more voting power in the general meetings of Cambridge Management Consultants (PTC) Ltd. and Premier Capital Management (PTC) Ltd. Premier Capital Management (PTC) Ltd. was the trustee of the Haitian Employee Discretionary Equity Trust which was interested in 35.04% equity interests in Sky Treasure while Cambridge Management Consultants (PTC) Ltd. was the trustee of the Haitian Employee Fixed Equity Trust and the Haitian Employee Fixed Equity Trust II which collectively were interested in 19.03% equity interests in Sky Treasure. Accordingly, they were deemed under SFO to be interested in such shares in Sky Treasure.*

(4) *Such Directors are beneficiaries under a trust which was interested in 14.28% shares of Sky Treasure.*

(5) *Ms. Chen Ningning and Mr. Zhang Jianguo resigned as Non-executive Director on 27 March 2020.*

Save as disclosed above, as at 31 December 2019, none of the directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company and the Stock Exchange pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code. At no time during the year was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Interests and Short Positions of Shareholders

As at 31 December 2019, the persons or corporations (not being a Director or chief executive of the Company) who have interests or short positions in the shares, underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of Shareholder	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding
Sky Treasure Capital Limited	Beneficial owner	944,737,672 (L)	59.19%
Premier Capital Management (PTC) Ltd.	Interest in a controlled corporation[(1)]	944,737,672 (L)	59.19%
UBS Trustees (B.V.I) Limited	Trustee	944,737,672 (L)	59.19%
Schroders Plc	Interest in a controlled corporation[(2)]	95,814,266 (L)	6%

(L) denotes a long position

Notes:

(1) Premier Capital Management (PTC) Ltd. is deemed under the SFO to be interested in 944,737,672 shares held by Sky Treasure Capital Limited as at 31 December 2019.

(2) Schroders Plc is deemed under the SFO to be interested in 95,814,266 shares held by its wholly-owned entities.

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

Management in Transactions, Arrangements and Contracts

During the year, the Company did not enter into any transaction, arrangement and contract in respect of the management or administration of the entire business or any significant business of the Group nor any such contract subsisting.

Major Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total sales and total purchases, respectively, for the year. Save as disclosed under "Continuing Connected Transactions" below, none of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in these major suppliers or customers at all times.

The Group places great emphasis on a long-term and stable relationship with its customers and suppliers for the continuous success and growth of its business. As a market leader in the plastic injection moulding machinery industry, the Group has an extensive sales network across China and exports to over 100 countries worldwide and to manage such network requires a close working relationship with our customers directly and through distributors, agents and other business partners. The Group's continuous effort to build trust and emphasize mutual benefits with its customers and suppliers has contributed to the long-term relationships with them.

Equity-Linked Agreements

The Group has not entered into any equity-linked agreement for the year ended 31 December 2019.

Significant Investments

During the year ended 31 December 2019, the Company has no significant investment.

Future Plans for Material Investments or Capital Assets and Expected Sources of Funding

The Company has no specific future plans for material investments or capital assets as at 31 December 2019.

Controlling Shareholders' Interest

No contracts of significance were entered into between the Company or any of its subsidiaries and any Controlling Shareholders or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by any Controlling Shareholders or any of its subsidiaries.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Ningbo Anson CNC Technology Co, Ltd. ("Ningbo Anson") is a strategic supplier for the Group, which manufactures and sells servo motors and servo control systems to the Group. The Group has entered into the Share Transfer Agreement with Haitian Driving System (Hong Kong) Limited ("HDS Hong Kong") to acquire 25% equity interests of Ningbo Anson on 18 July 2019. After the completion of acquisition, the Group owned 25% equity interest of Ningbo Anson. Detailed information is set out in Note 8 to the financial statement.

Save as disclosed above, there was no material acquisitions and disposals of subsidiaries and associated companies by the Group during the Reporting Period.

Competing Business

None of the Directors had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2019.

Each member of the Haitian Management (as defined in the prospectus of the Company dated 11 December 2006), if applicable, has confirmed to the Company that he/she has complied with the non-competition undertaking as disclosed in the prospectus of the Company dated 11 December 2006.

Continuing Connected Transactions

Certain related party transactions as disclosed in note 35 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and are ongoing for which relevant information had been disclosed in the Company's announcement dated 21 November 2014 and circular dated 8 January 2015.

Purchase of Servo Systems and Components

On 21 November 2014, the Group entered into a purchase framework agreement with Ningbo Haitian Drive Systems Co., Ltd. (formerly known as Ningbo Haitian Electric Machinery Co., Ltd.) ("HDS") relating to the purchase of servo systems (the "2014 Framework Agreement"), linear motion guides, ball screws and hydraulic parts for a term of three years commencing from the 1 January 2015 and ended on 31 December 2017, whereby the Group agreed to purchase these systems and components from HDS and its related companies at the price no less favourable than the terms at which HDS offers to independent third parties for the same or similar products. As the 2014 Framework Agreement has expired in 31 December 2017, the Company has in 26 January 2018 entered into a purchase framework agreement with HDS (the "2018 Framework Agreement") with a term of three years commencing from 1 January 2018 to 31 December 2020. HDS was an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore are connected persons by virtue of Rule 14A.07 of the Listing Rules.

For the year ended 31 December 2019, the Group's purchase of these systems and components from HDS and its related companies amounted to RMB666.0 million.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the agreement entered into on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his conclusions in respect of the continuing connected transactions disclosed by the Group on page 66 of the annual report in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

Connected Transactions

Purchase of CNC turning machines and machining centres

For the year ended 31 December 2019, the Group purchased automatic processing line, CNC turning machines, machining centres and related equipment from Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") for approximately RMB15.7 million. Such equipment was purchased for processing parts and components for the manufacture of products of the Group. Haitian Precision is an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore is a connected person of the Company. The transaction was pursuant to a machinery equipment purchase agreement entered into with Haitian Precision on 13 April 2018. Please refer to the Company's announcements dated 13 April 2018 for details of such purchases.

Acquisition of 25% equity interests of Ningbo Anson

On 18 July 2019 (after trading hours), Haitian Plastics Machinery Group Co., Ltd. ("Haitian Plastics Machinery"), an indirect wholly-owned subsidiary of the Company, and HDS Hong Kong entered into a share transfer agreement, pursuant to which Haitian Plastics Machinery agreed to acquire and HDS Hong Kong agreed to sell, 25% of the equity interests of Ningbo Anson, at the consideration of RMB515 million, which shall be settled by cash. After the completion of acquisition, the Group held as to 25% of the equity interests of Ningbo Anson.

HDS Hong Kong, the vendor in the aforesaid transaction, was a connected person of the Company. Accordingly, the acquisition of 25% equity interest in Ningbo Anson constituted a connected transaction (as defined under Chapter 14A of the Listing Rules) of the Group during the Reporting Period. For details of the acquisition, please refer to the announcement of the Company dated 18 July 2019.

Other Related Party Transactions

Details of the Company's transactions with other related parties during the financial year ended 31 December 2019 are set out in note 35 of the financial statements.

The transactions with Ningbo Anson CNC Technology Co., Ltd., Ningbo STF Hydraulic Transmissions Co., Ltd. and Ningbo Hilectro Precision Machinery Co., Ltd. were under the continuing connected transactions for purchase of servo systems, linear motion guides, ball screws and hydraulic parts and components as described on page 66 of this report. The transaction with Ningbo Haitian Precision Machinery Co., Ltd. was under the connected transaction for purchase of automatic processing line, CNC turning machines, machining centres and related equipment as described above.

In addition, for the year ended 31 December 2019, the Group entered into transactions with Ningbo SPP Hydraulics Co., Ltd., and Ningbo Hilectro Power Technology Co., Ltd. The Group also provided loans to some Directors during such period. All such parties are connected persons of the Company but the relevant transactions were exempted from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Pre-Emptive Rights

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

Purchases, Sale or Redemption of Shares

The Company has not redeemed any of its listed shares during the Reported Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the Reported Period.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

Public Float

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, the Company has satisfied the public float as required by the Listing Rules.

Dividends for the financial year

The Board has declared a second interim dividend for the year ended 31 December 2019 of HKD0.19 per share which, together with the interim dividend of HKD0.21 per share paid in September 2019, will constitute a total dividend of HKD0.40 per share for the full year.

On behalf of the Board
Zhang Jianming
Chief Executive Officer

16 March 2020

羅兵咸永道

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Haitian International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 76 to 159, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

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TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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.

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.

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

- Provision for impairment of trade and bills receivable
- Provision for write-down of inventories

羅兵咸永道

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for impairment of trade and bills receivable	
Refer to notes 4 (Critical accounting estimates and judgements) and 11 of the consolidated financial statements. Management applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivable. Management exercised judgement on the recoverability of trade and bills receivable and made estimates of the impairment provision based on the ageing pattern, and credit and settlement history of the relevant customers. Management adjusted the historical loss rates by taking the time value of money into consideration and to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area due to the significance of the balances of trade and bills receivable and the related provision for impairment, and the involvement of management's significant judgement and estimates of the provision for impairment.	We understood, evaluated and tested management's controls in respect of assessing impairment of trade and bills receivable. We obtained the detailed listings of trade and bills receivable together with the ageing analysis and agreed the balances to the general ledgers for those operating entities which have been identified as significant components to the Group. We tested the ageing analysis on sample basis by checking to relevant supporting documents, including sales invoices, sales contracts, and goods delivery notes. We obtained the management's expected credit losses assessment along with the historical payment profile and agreed the transactions to the general ledgers for those operating entities which have been identified as significant components to the Group. We tested the historical payment profile on sample basis by checking bank slips and bank statements. We recalculated the historical loss rate for each time bucket of trade and bills receivable and agreed the results to management's calculations. We inquired with management and assessed the reasonableness of their judgements on the recoverability of trade receivables, the adequacy of the impairment provision, and the considerations of the time value of money and adjustments due to the current and forward-looking information on macroeconomic factors, primarily based on the information and evidence collected by management for the purpose of their assessment. We performed subsequent settlement tests to agree the relevant trade receivable balances to post year end cash receipts. Based on the above, we considered that management had made reasonable judgements and estimates that were supported by the available evidence for their assessment of the provision for impairment.

羅兵咸永道

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for write-down of inventories	
Refer to notes 4 (Critical accounting estimates and judgements) and 10 of the consolidated financial statements. Due to the continual innovation of the Group's products, the net realised value ("NRV") of certain finished goods may fall below their cost and certain slow moving raw materials with specific useful lives may become obsolete. Inventories are carried at the lower of cost and NRV in the consolidated financial statements, provisions were provided for those inventories if their NRVs were lower than the cost. Management assessed the provision for write-down of inventories at each balance sheet date on an item-by-item basis and identified slow moving and obsolete inventories, in particular for those items aged over one year. For finished goods, management estimated the NRV based on the latest market information. For raw materials which were identified as obsolete and to be disposed of as scrap material, the NRV was determined according to the estimated selling price of the respective scrap material in the recycling market. We focused on this area due to the significance of the balances of inventories, and the involvement of management's estimates on the determination of the NRV and inventory provision.	We understood, evaluated and tested management's controls in respect of the identification of slow moving and obsolete inventories. We reviewed management's assessment of the inventory provision which was supported by the inventory ageing analysis and management's NRV estimation. We obtained detailed inventory list with the related ageing report of those operating entities which have been identified as significant components to the Group and agreed the balances to the respective general ledgers. We performed tests on the inventory ageing on sample basis by checking the relevant supporting documents, including suppliers' invoices and goods received notes. For the estimated NRV of finished goods, we checked the amounts to supporting documents, including the latest sales contracts with customers. For the estimated NRV of raw materials which were identified as obsolete items, we checked the estimated NRV to supporting information, including the price quotation from the scrap material recycling market. We checked the calculation of inventory provisions to ensure arithmetical accuracy. Based on the above, we considered that management's estimates of the inventory provision were properly supported by the available evidence.

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TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the management discussion and analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the chairman's statement, chief executive officer's report ("CEO report"), environmental, social and governance (ESG) report, corporate governance report and report of the directors which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the chairman's statement, CEO report, environmental, social and governance (ESG) report, corporate governance report and report of the directors, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

羅兵咸永道

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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 the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

羅兵咸永道

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

- 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 Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2020

Consolidated Balance Sheet

As at 31 December 2019
(Amounts expressed in RMB)

		As at 31 December	
		2019	2018
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*5*	**3,667,506**	3,552,607
Land use rights		**—**	487,485
Right-of-use assets	*6*	**480,791**	—
Investment in an associate	*8*	**517,249**	—
Intangible assets	*9*	**55,136**	56,462
Deferred income tax assets	*22*	**143,001**	120,113
Other financial assets at amortised cost	*12*	**546,042**	8,838
Trade and bills receivable	*11*	**200,384**	117,152
Term deposits	*15*	**995,000**	50,000
		6,605,109	4,392,657
Current assets			
Inventories	*10*	**2,370,729**	2,708,011
Trade and bills receivable	*11*	**2,566,381**	2,950,611
Other financial assets at amortised cost	*12*	**115,116**	88,432
Prepayments and other assets	*13*	**183,743**	181,883
Prepaid income tax		**17,815**	6,708
Financial assets at fair value through profit or loss	*3.3(b), 14*	**5,664,205**	4,349,616
Restricted bank deposits	*15*	**51,886**	244,990
Term deposits	*15*	**190,000**	100,000
Cash and cash equivalents	*15*	**1,538,360**	3,769,637
		12,698,235	14,399,888
Total assets		**19,303,344**	18,792,545
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*16*	**160,510**	160,510
Share premium	*17*	**1,331,913**	1,331,913
Other reserves	*17*	**1,543,510**	1,526,670
Retained earnings	*17*	**10,083,130**	8,901,433
		13,119,063	11,920,526
Non-controlling interests		**6,740**	6,586
Total equity		**13,125,803**	11,927,112

Consolidated Balance Sheet (Continued)

As at 31 December 2019
(Amounts expressed in RMB)

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	*6*	**1,133**	—
Deferred income	*21*	**45,503**	30,286
Deferred income tax liabilities	*22*	**279,072**	192,314
		325,708	222,600
Current liabilities			
Trade and bills payable	*18*	**2,959,618**	2,669,190
Accruals and other payables	*19*	**1,059,247**	1,046,344
Contract liabilities	*19*	**710,047**	756,807
Current income tax liabilities		**99,893**	308,327
Bank borrowings	*20*	**1,021,898**	1,009,397
Lease liabilities	*6*	**1,130**	—
Convertible bonds	*23*	**—**	852,768
		5,851,833	6,642,833
Total liabilities		**6,177,541**	6,865,433
Total equity and liabilities		**19,303,344**	18,792,545

The accompanying notes on pages 82 to 159 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 16 March 2020 and were signed on its behalf by:

Zhang Jianming
Director

Zhang Bin
Director

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019
(Amounts expressed in RMB)

		For the year ended 31 December	
	Note	**2019** **RMB'000**	2018 RMB'000
Revenue	*24*	**9,809,716**	10,851,245
Cost of sales	*25*	**(6,711,046)**	(7,424,960)
Gross profit		**3,098,670**	3,426,285
Selling and marketing expenses	*25*	**(752,191)**	(811,495)
General and administrative expenses	*25*	**(689,080)**	(694,300)
Other income	*26*	**233,655**	145,447
Other gains — net	*27*	**252,337**	171,496
Operating profit		**2,143,391**	2,237,433
Finance income	*29*	**90,645**	165,267
Finance costs	*29*	**(52,094)**	(42,434)
Finance income — net	*29*	**38,551**	122,833
Share of profit of an associate	*8*	**2,249**	2,147
Profit before income tax		**2,184,191**	2,362,413
Income tax expense	*30*	**(433,540)**	(446,181)
Profit for the year		**1,750,651**	1,916,232
Profit attributable to:			
Shareholders of the Company		**1,750,519**	1,916,883
Non-controlling interests		**132**	(651)
		1,750,651	1,916,232
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share)			
— basic	*31*	**1.10**	1.20
— diluted	*31*	**1.10**	1.20

The accompanying notes on pages 82 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Amounts expressed in RMB)

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	**1,750,651**	1,916,232
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**8,806**	145,361
Total comprehensive income for the year	**1,759,457**	2,061,593
Total comprehensive income attributable to:		
Shareholders of the Company	**1,759,303**	2,062,207
Non-controlling interests	**154**	(614)
	1,759,457	2,061,593

The accompanying notes on pages 82 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Amounts expressed in RMB)

	Note	Attributable to shareholders of the Company						
		Share capital RMB'000	**Share premium** RMB'000	**Other reserves** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 January 2018		160,510	1,331,913	1,129,513	7,938,917	10,560,853	500	10,561,353
Change in accounting policy		—	—	(124,308)	124,308	—	—	—
Restated total equity at 1 January 2018		160,510	1,331,913	1,005,205	8,063,225	10,560,853	500	10,561,353
Comprehensive income								
Profit for the year		—	—	—	1,916,883	1,916,883	(651)	1,916,232
Other comprehensive income								
Currency translation differences		—	—	145,324	—	145,324	37	145,361
Total comprehensive income for the year ended 31 December 2018		—	—	145,324	1,916,883	2,062,207	(614)	2,061,593
Transactions with owners								
Dividend paid								
— 2017 second interim		—	—	—	(348,222)	(348,222)	—	(348,222)
— 2018 interim	*32*	—	—	—	(354,312)	(354,312)	—	(354,312)
Appropriations		—	—	376,141	(376,141)	—	—	—
Capital injection from non-controlling interests		—	—	—	—	—	6,700	6,700
Total transactions with owners		—	—	376,141	(1,078,675)	(702,534)	6,700	(695,834)
Balance at 31 December 2018		160,510	1,331,913	1,526,670	8,901,433	11,920,526	6,586	11,927,112
Balance at 1 January 2019		160,510	1,331,913	1,526,670	8,901,433	11,920,526	6,586	11,927,112
Comprehensive income								
Profit for the year		—	—	—	1,750,519	1,750,519	132	1,750,651
Other comprehensive income								
Currency translation differences		—	—	8,784	—	8,784	22	8,806
Total comprehensive income for the year ended 31 December 2019		—	—	8,784	1,750,519	1,759,303	154	1,759,457
Transactions with owners								
Dividend paid								
— 2018 second interim	*32*	—	—	—	(259,179)	(259,179)	—	(259,179)
— 2019 interim	*32*	—	—	—	(301,587)	(301,587)	—	(301,587)
Appropriations		—	—	35,948	(35,948)	—	—	—
Utilisation of statutory reserves		—	—	(27,892)	27,892	—	—	—
Total transactions with owners		—	—	8,056	(568,822)	(560,766)	—	(560,766)
Balance at 31 December 2019		160,510	1,331,913	1,543,510	10,083,130	13,119,063	6,740	13,125,803

The accompanying notes on pages 82 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019
(Amounts expressed in RMB)

		For the year ended 31 December	
	Note	**2019 RMB'000**	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	*33(a)*	**3,365,940**	2,002,423
Interest paid		**(47,554)**	(42,202)
Income tax paid		**(588,611)**	(411,938)
Net cash generated from operating activities		**2,729,775**	1,548,283
Cash flows from investing activities			
Purchase of property, plant and equipment		**(461,124)**	(503,036)
Purchase of land use rights		**(2,116)**	(135,419)
Entrusted loans granted		**(565,982)**	(520,000)
Entrusted loans repayments		**21,834**	504,018
Cash outflow for increase in investments in an associate	*8*	**(515,000)**	—
Interest received from banks		**66,035**	64,901
Interest received from entrusted loans		**1,101**	13,469
Proceeds from disposal of structured deposits		**—**	10,000
Proceeds from disposal of property, plant and equipment	*33(b)*	**42,482**	7,417
Purchase of financial assets at fair value through profit or loss	*3.3(b)*	**(9,777,377)**	(11,451,100)
Proceeds from disposal of financial assets at fair value through profit or loss	*3.3(b)*	**8,656,146**	12,108,317
Payment of bank deposits with maturities over 3 months		**(1,035,000)**	—
Investment in a subsidiary		**—**	(52,829)
Net cash (used in)/generated from investing activities		**(3,569,001)**	45,738
Cash flows from financing activities			
Proceeds from bank borrowings	*33(c)*	**1,411,405**	1,060,000
Repayments of bank borrowings	*33(c)*	**(1,396,937)**	(1,217,802)
Capital injections from non-controlling interests		**—**	6,700
Dividends paid to the Company's shareholders	*32*	**(560,766)**	(702,534)
Repayments of convertible bonds		**(844,247)**	—
Lease payment for right-of-use assets excluding land use rights		**(1,506)**	—
Net cash used in financing activities		**(1,392,051)**	(853,636)
Net (decrease)/increase in cash and cash equivalents		**(2,231,277)**	740,385
Cash and cash equivalents at beginning of year	*15*	**3,769,637**	3,029,252
Cash and cash equivalents at end of year	*15*	**1,538,360**	3,769,637

The accompanying notes on pages 82 to 159 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

1. General Information

Haitian International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and distribution of plastic injection moulding machines.

The Company was incorporated in Cayman Islands on 13 July 2006, as an exempted company with limited liability under the Companies Law of Cayman Islands. The Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The ultimate holding company of the Company is Sky Treasure Capital Limited, a company incorporated in the British Virgin Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited on 22 December 2006.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. They have been approved for issue by the Company's Board of directors on 16 March 2020.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, except for the following:

- Financial assets at fair value through profit or loss ("Financial assets at FVPL") — measured at fair value, and
- Convertible bonds — measured at fair value

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
HK (IFRIC) Interpretation 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint venture	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements 2015-2017 Cycle		1 January 2019

The Group had changed its accounting policies as a result of adopting HKFRS 16. The Group elected not to adopt the new rules retrospectively and recognised the cumulative effect of initially applying the new standard on 1 January 2019. The other newly adopted standards or amendments listed above did not have material impact on these financial statements.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.26.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019 in each territory or region where the lease assets are located. The range of lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.25% to 6.25%.

(i) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	3,168
Discounted using the lessee's incremental borrowing rate of at 1 January 2019	3,013
Less:	
Short-term leases not recognised as a liability	(2,422)
Lease liabilities recognised as at 1 January 2019	591
Of which are:	
Current lease liabilities	430
Non-current lease liabilities	161
Add:	
Reclassification of land use rights	487,485
Right-of-use assets recognised as at 1 January 2019	488,076

(ii) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increase by RMB488,076 thousand
- Land use rights — decrease by RMB487,485 thousand
- Lease liabilities (current portion) — increase by RMB430 thousand
- Lease liabilities (non-current portion) — increase by RMB161 thousand

There was no impact on retained earnings on 1 January 2019.

(iv) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 determining whether an Arrangement contains a Lease.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

(a) Business combinations

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in reserves is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2. Summary of Significant Accounting Policies (Continued)

2.3 Associates (Continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of an associate' in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated statement of profit or loss.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions. The executive committee comprises all executive directors and top management.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance income/costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'other gains/(losses) — net'.

2. Summary of Significant Accounting Policies (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each consolidated statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2. Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment

Construction-in-progress represents buildings, plant and machinery under construction or pending installation is stated at cost less accumulated impairment losses. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss (if any) of the assets, other than freehold land and construction-in-progress, to their residual value over their estimated useful lives:

Buildings	30 years
Plant and machinery	10-15 years
Vehicles *(i)*	5/20 years
Office equipment and related software	5 years

(i) The depreciation period of main vehicles is 5 years and the certain vehicle is 20 years according to the estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) — net', in the consolidated statement of profit or loss.

2. Summary of Significant Accounting Policies (Continued)

2.7 Land use rights

Most of the land use rights is located in the People's Republic of China (the "PRC"), except for the one, which is located in Vietnam. All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods using the straight-line method. The land use rights are stated at historical cost less accumulated amortisation and impairment losses.

As disclosed in note 2.1.1, the Group has adopted HKFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications from land use rights to right-of-use asset arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019.

2.8 Intangible Assets

(a) Goodwill

Goodwill is measured as described in note 2.2. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or Groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 24).

(b) Licences and other intangible assets

Acquired licences and other intangible assets are shown at historical cost. Licenses and other intangible assets acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(c) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

• Licences	10 years
• Other intangible assets	36 years

2. Summary of Significant Accounting Policies (Continued)

2.9 Impairment of investments in subsidiaries, associates and non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.10 Investments and other financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2. Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

2.10.4 Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the Group's asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income (FVOCI) are measured at financial assets at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2.10.5 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1(c) and note 11 for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

2. Summary of Significant Accounting Policies (Continued)

2.12 Financial guarantee contracts

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.13 Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 11 for further information about the Group's accounting for trade receivables and note 3.1(c) for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.16 Share capital

Ordinary shares are classified as equity (note 16).

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2. Summary of Significant Accounting Policies (Continued)

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Convertible bonds

Convertible bonds issued by the Company (including related embedded derivatives) are designated at fair value through profit or loss on initial recognition with transaction cost charge to the profit or loss accounts. At each end of the reporting period subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

2. Summary of Significant Accounting Policies (Continued)

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and an associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. Summary of Significant Accounting Policies (Continued)

2.22 Employee benefits

Group companies operate various defined contribution retirement benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.23 Provisions

Provisions for legal claims, service warranty and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.24 Government grants

Government grants are recognised at their fair value, when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred income and are recognised in the consolidated statement of profit or loss on a straight-line basis over periods and in the proportions in which depreciation on these assets is charged.

2. Summary of Significant Accounting Policies (Continued)

2.25 Revenue recognition

The Group manufactures and sells plastic injection moulding machines and related products in market. Sales are recognised when control of the products has transferred, being when either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The product is often sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts, which doesn't have significant financing component. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in accruals and other liabilities) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. And for contracts which the term between goods delivery and payment exceed one year, the Group has accessed the amount of financing component within the contract price which is immaterial to the financial statements.

For certain contracts, the Group receives some portion of contract price in advance which is recognised as contract liabilities.

The warranties provided by the Group cannot be purchased by the customers separately. Such warranties are intended to safeguard the customers against existing defects and does not provide any incremental services to the customers. As a result, these warranties are accounted for in accordance with HKAS 37 (Note 2.23) of which the estimated costs are recorded as a liability when the Group transfers the product to the customer.

2.26 Leases

As explained in note 2.1 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2.1.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2. Summary of Significant Accounting Policies (Continued)

2.26 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using incremental borrowing rate which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date. Depreciation on right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

Extension options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standards.

2. Summary of Significant Accounting Policies (Continued)

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.28 Interest income

Interest income and fair value changes from financial assets at FVPL are included in 'other gains/(losses) — net' on these assets, see note 2.10 for further details.

Interest income is presented as finance income where it is earned from bank deposits, entrusted loans (2018: bank deposits, entrusted loans).

2.29 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3. Financial Risk Management

3.1 Financial risk factors

(a) Foreign exchange risk

The Group mainly operates in Mainland China. The functional currency of the Company and most of its subsidiaries is RMB. Most of the Group's transactions, assets and liabilities are denominated in RMB, United States dollars ("USD"), Euro ("EUR") and Japanese Yen ("JPY"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities, such as trade receivables, cash and cash equivalents, trade payables, and bank borrowings.

Exposure

The Group's major exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2019		
	USD	**EUR**	**JPY**
	RMB'000	**RMB'000**	**RMB'000**
Cash and cash equivalents	**487,486**	**87,626**	**7,455**
Trade receivables	**721,086**	**169,184**	**161**
Bank borrowings	**—**	**—**	**(191,898)**
Trade payables	**(4,172)**	**(14,201)**	**(8,035)**

	31 December 2018		
	USD	EUR	JPY
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	1,388,611	221,094	25,392
Trade receivables	676,801	235,430	153
Bank borrowings	—	(79,397)	—
Trade payables	(1,298)	(11,008)	(19,024)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss:

	2019 RMB'000	2018 RMB'000
Other gains/(losses) — net	**43,485**	(83,721)
Finance (costs)/income — exchange (losses)/gains	**(3,190)**	22,700
	40,295	(61,021)

As at 31 December 2019, if RMB had weakened/strengthened by 1.9% (2018: 4.9%) against the USD with all other variables held constant, the profit before income tax for each year would have changed mainly as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalents, trade receivables, and trade payables. Details of the changes are as follows:

	2019 RMB'000	2018 RMB'000
For the year ended:		
Profit before income tax increase/(decrease)		
— Strengthened by 1.9% (2018: 4.9%)	**(16,913)**	(54,988)
— Weakened by 1.9% (2018: 4.9%)	**16,913**	54,988

As at 31 December 2019, if RMB had strengthened/weakened by 0.4% (2018: 0.6% weakened/strengthened) against the EUR with all other variables held constant, the profit before income tax for each year would have changed mainly as a result of foreign exchange gains/losses on translation of EUR denominated cash and cash equivalents, trade and other receivables, and trade payables. Details of the changes are as follows:

	2019 RMB'000	2018 RMB'000
For the year ended:		
Profit before income tax increase/(decrease)		
— Strengthened by 0.4% (2018: 0.6%)	**1,288**	1,915
— Weakened by 0.4% (2018: 0.6%)	**(1,288)**	(1,915)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

Amounts recognised in profit or loss and other comprehensive income (Continued)

As at 31 December 2019, if RMB had strengthened/weakened by 3.6% (2018: 6.9% weakened/strengthened) against the JPY with all other variables held constant, the profit before income tax for each year would have changed mainly as a result of foreign exchange gains/losses on translation of JPY denominated cash and cash equivalents, trade and other receivables, bank borrowings and trade and other payables. Details of the changes are as follows

	2019 RMB'000	2018 RMB'000
For the year ended:		
Profit before income tax increase/(decrease)		
— Strengthened by 3.6% (2018: 6.9%)	**6,970**	(560)
— Weakened by 3.6% (2018: 6.9%)	**(6,970)**	560

(b) Fair value and cash flow interest rate risk

The Group's interest rate risk arises from bank deposits, loans to employees, entrusted loans and borrowings. Bank deposits, loans to employees and entrusted loan at fixed rates expose the Group to fair value interest rate risk. Borrowings obtained at various fixed rates expose the Group to cash flow interest rate risk.

The Group has not used any financial instruments to hedge its exposure to cash flow interest rate risk.

As at 31 December 2019 and 31 December 2018, as for all borrowings have fixed interest rates, interest rate risk is avoided.

(c) Credit risk

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 48 months.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 and 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the credit rating by country in which it sells its goods to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes.

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

On that basis, the loss allowances as at 31 December 2019 and 31 December 2018 were determined as follows for trade receivables:

31 December 2019	Current RMB'000	More than 1 year RMB'000	More than 2 years RMB'000	More than 3 years RMB'000	Total
Gross carrying amount					
— trade receivables	2,591,073	194,683	30,177	23,683	2,839,616
Expected loss rate	0.21%	14.95%	48.44%	100%	2.57%
Loss allowance	5,454	29,096	14,618	23,683	72,851

31 December 2018	Current RMB'000	More than 1 year RMB'000	More than 2 years RMB'000	More than 3 years RMB'000	Total
Gross carrying amount					
— trade receivables	2,913,023	173,350	26,324	22,313	3,135,010
Expected loss rate	0.29%	14.36%	43.86%	100%	2.15%
Loss allowance	8,491	24,896	11,547	22,313	67,247

The Group provides guarantees to certain banks in connection with banking facilities granted to certain customers in connection with their purchases of the Group's plastic injection moulding machines. These customers are introduced by the Group's major distributors, who have provided the Group with counter guarantees.

The Group has policies to place its cash and cash equivalents only with major financial institutions, and limits the amount of credit exposure to any financial institution. As at 31 December 2019, all cash and cash equivalents were deposited in state-owned banks and reputable financial institutions and were hence without significant credit risk.

The Group enters into the entrusted loan contracts with various interest rates with third parties. It is shown as other financial asset at amortised cost on the balance sheet. The entrusted loans are considered to have low credit risk where they have a low risk of default and the issuers have a strong capacity to meet their contractual cash flow obligations in the near term.

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed below were the contractual undiscounted cash flows:

	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
At 31 December 2019				
Bank borrowings *(i)*	1,024,372	—	—	—
Trade and other payables	3,045,482	—	—	—
Financial guarantee contracts *(ii)*	657,374	—	—	—
Lease liabilities	1,213	642	554	—
At 31 December 2018				
Convertible bonds	861,330	—	—	—
Bank borrowings	1,035,299	—	—	—
Trade and other payables	3,390,026	—	—	—
Financial guarantee contracts	840,947	—	—	—

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2019 and 2018 without taking account of future events. Floating-rate interest is estimated using interest rate prevailing as at 31 December 2019 and 2018 respectively.

(ii) The balance presents guarantee given to the banks in connection with banking facilities granted to customers.

3. Financial Risk Management (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As at 31 December 2019 and 2018, the Group was in a net cash position (total borrowings were less than the total of restricted bank deposits and cash and cash equivalents).

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity of the Group as shown in the consolidated balance sheet.

The gearing ratio was as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total convertible bonds *(Note 23)*	**—**	852,768
Total borrowings *(Note 20)*	**1,021,898**	1,009,397
Total equity	**13,123,773**	11,927,112
Gearing ratio	**8%**	16%

The decrease in the gearing ratio primarily resulted from the repayment of convertible bonds.

The Group had access to borrowing facilities which may be drawn at anytime. Such undrawn facilities amounted to approximately RMB5,738 million as at 31 December 2019 (31 December 2018: RMB6,502 million).

3. Financial Risk Management (Continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The table below presents the Group's financial assets that are measured at fair value at 31 December 2019.

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Financial assets at FVPL	—	—	5,664,205	5,664,205

The table below presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2018.

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Financial assets at FVPL	—	—	4,349,616	4,349,616
Liabilities				
Convertible bonds	—	852,768	—	852,768

There were no significant transfers among level 1, 2 and 3 fair during the year.

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

As at 31 December 2019, all the resulting fair value estimates are included in level 2 except for certain financial assets at FVPL as explained below.

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2019.

	Financial assets at FVPL RMB'000
Opening balance	4,349,616
Additions	9,777,377
Change in value of financial assets at FVPL	193,358
Proceeds received	(8,656,146)
Closing balance	5,664,205
Total gains or losses for the year realised in profit or loss for assets held at the end of the year, under 'Other gains — net'	193,358

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in level 3 (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2018.

	Financial assets at FVPL RMB'000
Opening balance	4,779,309
Additions	11,451,100
Addition due to business combination	2,000
Change in value of financial assets at FVPL	225,524
Proceeds received	(12,108,317)
Closing balance	4,349,616
Total gains or losses for the year realised in profit or loss for assets held at the end of the year, under 'Other gains — net'	225,524

The Group enters into the wealth management products contracts with relatively higher interest rates with certain financial institutions. These are reflected as financial assets at FVPL on the balance sheet. As at 31 December 2019, most of the wealth management products are bought from the major financial institutions in Mainland China and management has exercised due care when make investment decision with focus only on low risk wealth management products.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Description	**Fair value at 31/12/2019 RMB'000**	**Valuation technique(s)**	**Unobservable input**	**Range (weighted average)**	**Relationship of unobservable inputs to fair value**
Financial assets at fair value through profit and loss	5,664,205	Discounted cash flow	Expected return rate	1.5%-8.5% (4.03%)	Higher expected return rate (+50 basis points (bps)) would increase FV by RMB246 thousand; lower expected return rate (-50bps) would decrease FV by RMB246 thousand

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(c) Valuation processes

The finance department of the Group includes a team that performs the valuations of financial assets at FVPL (2018: financial assets at FVPL) required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results are held between the management and the valuation team at least once every six months, in line with the Group's half-yearly reporting periods.

The main level 3 inputs used by the Group are return rates of the financial assets at FVPL (2018: financial assets at FVPL), which are derived and evaluated based on the yield rate written in contracts by the counterparties.

4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill and intangible assets with indefinite useful life

The Group tests annually whether goodwill and intangible assets with indefinite useful life have suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(b) Provision for impairment of trade and bills receivable

The Group's management applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivable since 1 January 2018. To measure the expected credit losses, trade and bills receivable have been grouped based on shared credit risk characteristics. For each Group, the expected loss rates were based on the payment profiles of sales over a period of 36 month before 31 December 2019 and 31 December 2018 and corresponding historical credit losses experienced within this period. The historical loss rates were adjusted by taking the time value of money into consideration and to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimations at the end of each reporting period. Management reassesses the provisions at each balance sheet date.

(c) Provision for write-down of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on management's intention on future use of the inventory, the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

4. Critical Accounting Estimates and Judgements (Continued)

(d) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase or decrease the depreciation charge where updated estimated useful lives of the property, plant and equipment are less or more than previously estimated useful lives. Actual economic lives and residual values may differ from estimated useful lives and residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

(e) Current income tax and deferred income tax

The Group is subject to income tax in the jurisdictions where the Group has operations other than the Cayman Islands and the British Virgin Islands. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers that it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Deferred income tax liabilities relating to undistributed profits of subsidiaries incorporated in Mainland China are recognised when management expects to recover investments in those subsidiaries through dividends, unless it is estimated that such dividends will not be distributed in the foreseeable future. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax liabilities and income tax charges in the period in which such estimates are changed.

(f) Provision for loss on guarantees

The Group provides guarantees for loans granted by Mainland China banks to some of the Group's end-user customers in connection with their purchases of the Group's products. If an end-user customer default on a loan, the Group is obliged to settle the remaining loan balances. The Group's management determines the provision for loss on the guarantees based on assessment of the possibility of default payments by individual end-user customers. This assessment is based on the credit history of its customers, the current market condition and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date. Different estimates could significantly affect the provision amounts and materially impact the results of operations.

The Group provides guarantees for loans granted by Mainland China banks to some of the Group's end-user customers in connection with their purchases of the Group's products. For such financial guarantee contracts, the Group is required to make payments only in the event that the end-user customer defaults on a loan. The fair value of financial guarantees is determined based on the present value of the cash shortfalls which are the expected payments to reimburse the banks for a credit loss that it incurs, less any amounts that the Group expects to receive from the end-use customers and other parties.

5. Property, Plant and Equipment

	Freehold land* and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018						
Cost	1,986,217	2,030,251	435,932	111,297	208,608	4,772,305
Accumulated depreciation	(425,257)	(868,243)	(112,462)	(79,303)	—	(1,485,265)
Net book amount	1,560,960	1,162,008	323,470	31,994	208,608	3,287,040
Year ended 31 December 2018						
Opening net book amount	1,560,960	1,162,008	323,470	31,994	208,608	3,287,040
Additions	592	203,995	10,255	24,402	253,550	492,794
Acquisition of a subsidiary	29,960	—	414	231	—	30,605
Transfers	50,681	195,973	1,924	1,762	(250,340)	—
Disposals	(1,561)	(6,003)	(394)	(621)	—	(8,579)
Depreciation	(63,078)	(154,325)	(23,632)	(16,527)	—	(257,562)
Exchange differences	(1,941)	74	13,901	(9)	(3,716)	8,309
Closing net book amount	1,575,613	1,401,722	325,938	41,232	208,102	3,552,607
At 31 December 2018						
Cost	2,063,918	2,409,994	456,888	127,182	208,102	5,266,084
Accumulated depreciation	(488,305)	(1,008,272)	(130,950)	(85,950)	—	(1,713,477)
Net book amount	1,575,613	1,401,722	325,938	41,232	208,102	3,552,607
Year ended 31 December 2019						
Opening net book amount	1,575,613	1,401,722	325,938	41,232	208,102	3,552,607
Additions	28,382	163,218	7,197	27,841	202,559	429,197
Transfers	86,318	133,770	363	1,164	(221,615)	—
Disposals	(9,330)	(24,883)	(324)	(1,968)	—	(36,505)
Depreciation	(65,687)	(179,494)	(24,218)	(14,258)	—	(283,657)
Exchange differences	(679)	1,524	4,512	169	338	5,864
Closing net book amount	1,614,617	1,495,857	313,468	54,180	189,384	3,667,506
At 31 December 2019						
Cost	2,164,335	2,662,282	459,935	150,098	189,384	5,626,034
Accumulated depreciation	(549,718)	(1,166,425)	(146,467)	(95,918)	—	(1,958,528)
Net book amount	1,614,617	1,495,857	313,468	54,180	189,384	3,667,506

* *Freehold lands are located in Brazil, Germany, Turkey, Mexico and India as at 31 December 2019 (31 December 2018: Brazil, Germany, Turkey and India). They are stated at cost of RMB50,434 thousand as at 31 December 2019 (31 December 2018: RMB31,208 thousand) and is not subject to depreciation. Those freehold lands are subject to annual impairment test. No sign of impairment of freehold lands is noticed this year.*

5. Property, Plant and Equipment (Continued)

Depreciation is charged to the consolidated statement of profit or loss as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of sales	**224,707**	199,164
General and administrative expenses	**55,207**	54,367
Selling and marketing expenses	**3,743**	4,031
	283,657	257,562

6. Leases

	As at 31 December 2019 RMB'000	As at 1 January 2019 RMB'000
Right-of-use assets		
Land use rights	**478,367**	487,485
Buildings	**2,378**	272
Equipment and others	**46**	319
	480,791	488,076
Lease liabilities		
Current	**1,130**	430
Non-current	**1,133**	161
	2,263	591

The Group has land lease arrangement with mainland China government and leasehold land in Vietnam.

Addition to the right-of-use assets during the 2019 financial year were RMB5,001 thousand.

6. Leases (Continued)

The statement of profit or loss shows the following amounts relating to leases:

	For the year ended 31 December 2019 RMB'000
Depreciation charge	
Land use rights	(11,345)
Buildings	(895)
Equipment and others	(273)
	(12,513)
Interest expense *(Note 29)*	(178)
Expense relating to short-term leases (included in selling expenses) *(Note 25)*	(7,379)

The total cash outflow for leases excluding land use rights in 2019 was RMB8,885 thousand (2018: RMB10,413 thousand).

The Group leases various buildings, equipment and others. Rental contracts are typically made for fixed periods of 1 to 3 years.

7. Subsidiaries

The Group's principal subsidiaries at 31 December 2019 are set out below:

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Dahai (H.K.) Company Limited	Hong Kong, limited liability company	HKD5,000,000	—	100%	Trading of machinery and related accessories, Hong Kong
Develop Kind Ltd.	British Virgin Islands ("BVI"), limited liability company	HKD11,000	—	100%	Investment holding, BVI

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Guo Hua Limited	British Virgin Islands ("BVI"), limited liability company	HKD11,000	100%	—	Investment holding, BVI
Guo Hua Enterprises Group Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, trading of machinery related accessories, Hong Kong
Haitian Huayuan (Hong Kong) Limited	Hong Kong, limited liability company	HKD779,999	—	100%	Trading of machinery and related accessories, Hong Kong
Haitian Huayuan (Japan) Machinery Co., Ltd	Japan, limited liability company	JPY10,000,000	—	100%	Trading of machinery and related accessories, Japan
Haitian Huayuan Machinery (India) Private Limited	India, limited liability company	Indian Rupee 947,516,900	—	100%	Sale of plastic injection moulding machines, India
Haitian Huayuan Mexico Machinery, S. de R.L. de C.V.	Mexico, limited liability company	USD504,200	—	100%	Sale of plastic injection moulding machines, Mexico

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operations
Haitian Huayuan Middle East Makina Dis Ticaret Limited Sirketi	Turkey, limited liability company	Turkish Lira 500,000	—	100%	Sale of plastic injection moulding machines, Turkey
Haitian Huayuan (Singapore) PTE LTD.	Singapore, limited liability company	USD2,680,000	100%	—	Trading of machinery and related accessories, Singapore
Haitian Huayuan South America Com. De MAQS.Ltd	Brazil, limited liability company	Brazilian Real 5,360,000	—	100%	Sale of plastic injection moulding machines, Brazil
Haitian International Germany GmbH	Germany, limited liability company	EUR10,025,000	—	100%	Manufacture and sale of plastic injection moulding machines, Germany
Haitian International Mexico S. de R.L. de C.V.	Mexico, limited liability company	USD12,000,000	—	100%	Sale of plastic injection moulding machines, Mexico
Haitian Plastics Machinery India Private Limited	India, limited liability company	Indian Rupee 300,000,000	—	100%	Sale of plastic injection moulding machines, India
Haitian Machinery (Thailand) Co., Ltd	Thailand, limited liability company	Thai Baht 12,000,000	—	100%	Sale of plastic injection moulding machines, Thailand

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Huayuan (Vietnam) Machinery Co., Ltd.	Vietnam, limited liability company	Vietnam Dong ("VND") 54,848,461,947	—	100%	Manufacture, processing and sale of plastic injection moulding machines, Vietnam
Haitian Plastics Machinery (Guangzhou) Co., Ltd. ("Guangzhou Haitian") (海天塑料機械(廣州)有限公司)	Mainland China, wholly owned foreign enterprise	USD2,400,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Haitian Plastics Machinery Group Co., Ltd. ("Haitian Plastics Machinery") (海天塑機集團有限公司)	Mainland China, wholly owned foreign enterprise	USD276,460,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Hangzhou Keqiang Information Technology Co., Ltd. ("Keqiang Technology") (杭州科強信息技術有限公司)	Mainland China, limited liability company	RMB20,000,000	—	66.5%	Manufacture and sale of intelligence control system, Mainland China
Mega Power Investment Development Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong
New Choice Investment Development Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Niigata Haitian Injection Moulding Machine K.K.	Japan, limited liability company	JPY30,000,000	—	65%	Research and development of plastic injection moulding machines, Japan
Ningbo Daxie Development Zone Haitian Machinery Co., Ltd. ("Daxie Haitian") (寧波大榭開發區海天機械有限公司)	Mainland China, foreign equity joint venture	USD1,550,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Beihua Science and Technology Co., Ltd. ("Haitian Beihua") (寧波海天北化科技有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Research and development, manufacture, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Huayuan Machinery Co., Ltd. ("Haitian Huayuan") (寧波海天華遠機械有限公司)	Mainland China, foreign equity joint venture	USD51,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Beilun Haitao Machinery Co., Ltd. ("Haitao Machinery") (寧波北侖海濤機械有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Manufacture and sale of plastic injection moulding machine parts, Mainland China

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operations
Ningbo Free Trade Zone Haitian trading Co., Ltd. ("Haitian Trading") (寧波保稅區海天貿易有限公司)	Mainland China, limited liability company	RMB50,000,000	—	100%	Logistic, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Guohua Machinery Co., Ltd. ("Ningbo Guohua") (寧波海天國華機械有限公司)	Mainland China, limited liability company	USD31,311,921	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Intelligent Manufacture Technology Co., Ltd. ("Haitian Software") (寧波海天智造科技有限公司)	Mainland China, limited liability company	RMB6,000,000	—	100%	Sale of software of plastic injection moulding machines, Mainland China
Ningbo Zhafir Plastics Machinery Manufacturing Co., Ltd. ("Ningbo Zhafir") (寧波長飛亞塑料機械製造有限公司)	Mainland China, foreign equity joint venture	USD30,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Over the Rainbow Limited	British Virgin Islands ("BVI"), limited liability company	USD1	—	100%	Special purpose vehicle, BVI
PT. Haitian Huayuan Indonesia Machinery	Indonesia, limited liability company	USD1,250,000	—	100%	Sale of plastic injection moulding machines, Indonesia

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Sunnew Investments Limited	British Virgin Islands ("BVI"), limited liability company	HKD1	—	100%	Investment holding, BVI
Wuxi Haitian Machinery Co., Ltd. ("Wuxi Haitian") (無錫海天機械有限公司)	Mainland China, foreign equity joint venture	USD66,344,752	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Zhafir Plastics Machinery GmbH ("Zhafir Plastics")	Germany, limited liability company	Deutsche Mark 100,000	—	100%	Research and development of plastic injection moulding machines, Germany
Zhafir Plastics Machinery India Private Limited	India, limited liability company	Indian Rupee 1,000,000	—	100%	Manufacture, processing and sale of plastic injection moulding machines, India
Zhejiang Keqiang Intelligence Control Co., Ltd. ("Zhejiang Keqiang") (浙江科強智能控制系統有限公司)	Mainland China, limited liability company	RMB18,000,000	—	100%	Manufacture and sale of intelligence control system, Mainland China

The English names of certain subsidiaries are translations made by the Group's management from their Chinese names as they do not have official English names.

8. Investment in an Associate

	2019 RMB'000	2018 RMB'000
Beginning of the year	—	16,744
Increase in investment	515,000	—
Share of profit	2,249	2,147
Step-up acquisition to a subsidiary	—	(18,891)
End of the year	517,249	—

The Associate is a private company and there is no quoted market price available for its shares.

Haitian Plastics Machinery has entered into the Share Transfer Agreement with Haitian Driving System (Hong Kong) Limited ("HDS Hong Kong") to acquire 25% equity interests of Ningbo Anson CNC Technology Co, Ltd. ("Ningbo Anson") (note 35(a)) on 18 July 2019. After the completion of acquisition, the Group owned 25% equity interest of Ningbo Anson. Ningbo Anson is a joint venture limited liability company with a registered capital of USD 5 million. It is a national high-tech enterprise principally engaged in research, development, manufacturing and sales of servo motors and servo control systems in the PRC with a production facility covering an area of 42,500 square meters in Ningbo, Zhejiang Province.

There are no material contingent liabilities relating to the Group's interest in the associate.

Summarised financial information for associate

The associate of the Group as at 31 December 2019 is immaterial to the Group. The information disclosed reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Summarised balance sheet

	As at 31 December 2019 RMB'000	As at 31 July 2019 RMB'000
Current assets		
Cash and cash equivalents	17,720	98,838
Other current assets	619,921	544,569
Total current assets	637,641	643,408
Non-current assets	276,016	278,407
Current liabilities		
Financial liabilities (excluding trade payables)	100,000	130,000
Other current liabilities	285,423	272,578
Total current liabilities	385,423	402,578
Net assets	528,234	519,237

8. Investment in an Associate (Continued)

	As at 31 December 2019 RMB'000
Reconciliation to carrying amounts:	
Opening net assets on 1 August 2019	519,237
Profit for the period from 1 August 2019 to 31 December 2019	8,997
Closing net assets	528,234
Group's share in %	25%
Group's share in RMB	132,058
Goodwill	385,191
Carrying amount on 31 December 2019	517,249
Revenue	75,380
Gross profit	10,341
Profit for the period from 1 August 2019 to 31 December 2019	8,997
Other comprehensive income	—
Total comprehensive income	8,997

9. Intangible Assets

	Opening net book amount	Acquisition of business	Amortisation charge	Closing net book amount
Year ended 31 December 2019 (RMB'000)				
Goodwill	43,086	—	—	43,086
Licences and other intangible assets	13,376	—	(1,326)	12,050
	56,462	—	(1,326)	55,136

	Opening net book amount	Acquisition of business	Amortisation charge	Closing net book amount
Year ended 31 December 2018 (RMB'000)				
Goodwill	—	43,086	—	43,086
Licences and other intangible assets	—	14,036	(660)	13,376
	—	57,122	(660)	56,462

Goodwill was generated from the acquisition of 53.49% equity interest in Zhejiang Keqiang in June 2018. The goodwill is attributable to the workforce and the high profitability of the acquired business.

9. Intangible Assets (Continued)

	Cost	Accumulated amortisation	Net book amount
As at 31 December 2019 (RMB'000)			
Goodwill	**43,086**	**—**	**43,086**
Licences and other intangible assets	**14,036**	**(1,986)**	**12,050**
	57,122	**(1,986)**	**55,136**

10. Inventories

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials	**989,948**	1,137,224
Work-in-progress	**177,969**	160,411
Finished goods	**1,202,812**	1,410,376
	2,370,729	2,708,011

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB6,670,386 thousand (2018: RMB7,407,340 thousand).

As at 31 December 2019, inventories with cost of RMB195,785 thousand (2018: RMB148,955 thousand) was considered obsolete. A provision of RMB174,469 thousand (2018: RMB133,809 thousand) was made as at 31 December 2019.

11. Trade and Bills Receivable

	As at 31 December 2019			As at 31 December 2018		
	Current	Non-Current	Total	Current	Non-Current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivable	**2,638,333**	**201,283**	**2,839,616**	3,016,892	118,118	3,135,010
Less: provision for impairment	**(71,952)**	**(899)**	**(72,851)**	(66,281)	(966)	(67,247)
	2,566,381	**200,384**	**2,766,765**	2,950,611	117,152	3,067,763

As at 31 December 2019, there was no individual customer with outstanding balance exceeding 10% of the Group's total trade and bills receivable (2018: None).

As at 31 December 2019, the carrying amount of the current portion of trade and bills receivable is considered to be the same as their fair value due to the short-term nature.

As at 31 December 2019, the non-current portion of trade and bills receivable was stated for receivables with due date over 1 year. The fair value of the non-current receivables approximates their carrying amounts.

Most of the Group's sales are covered by guarantees from distributors, credit arrangements from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 48 months. The ageing analysis of trade and bills receivable based on invoice date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Up to 1 year	**2,591,073**	2,913,023
1 year to 2 years	**194,683**	173,350
2 year to 3 years	**30,177**	26,324
Over 3 years	**23,683**	22,313
	2,839,616	3,135,010

11. Trade and Bills Receivable (Continued)

Trade and bills receivable are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	**1,633,182**	1,966,902
USD	**721,086**	676,801
EUR	**169,184**	235,430
VND	**109,524**	76,949
Brazilian Real	**65,384**	62,811
Mexico Peso	**53,518**	49,644
Others	**87,738**	66,473
	2,839,616	3,135,010

Movements of the provision for impairment of trade receivables are as follows:

	2019	2018
	RMB'000	RMB'000
At 1 January	**67,247**	41,262
Provision for impairment of trade receivables	**4,783**	27,361
Written off as uncollectible	**(325)**	(3,106)
Exchange difference	**1,146**	1,730
At 31 December	**72,851**	67,247

The provision for impaired receivables has been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

The Group does not hold any collateral as security.

12. Other Financial Assets at Amortised Cost

Other financial assets at amortised cost include the following debt investments:

	As at 31 December 2019			As at 31 December 2018		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Receivables in relation to buyers' credit *(i)*	**—**	**—**	**—**	1,362	—	1,362
Loans to employees						
— Loans to key management *(Note 35(c))*	**578**	**—**	**578**	358	—	358
— Loans to other employees *(ii)*	**9,394**	**5,207**	**14,601**	6,642	8,838	15,480
Entrusted loans *(iii)*	**30,526**	**535,456**	**565,982**	21,834	—	21,834
Interest receivables	**43,752**	**—**	**43,752**	28,764	—	28,764
Others	**30,866**	**5,379**	**36,245**	29,472	—	29,472
	115,116	**546,042**	**661,158**	88,432	8,838	97,270
Less: loss allowance for debt investments at amortised cost *(Note 3.1)*	**—**	**—**	**—**	—	—	—
	115,116	**546,042**	**661,158**	88,432	8,838	97,270

Note:

(i) Receivables in relation to buyers' credit are secured by guarantees provided by the relevant distributors who introduced the customers.

(ii) Loans to other employees are for their housing and car purchasing. The loans are due within six years, with interest bearing at rates ranging from 0% to 3.4% (2018: from 0% to 3.4%) per annum as at 31 December 2019.

The fair values of loans to other employees are based on cash flows discounted using a rate based on the borrowings rate of 2.75% (2018: 3.60%) and are within level 3 of the fair value hierarchy.

(iii) As at 31 December 2018, current portion of the entrusted loan of RMB20,000 thousand and RMB1,834 thousand were lent to two independent third parties with maturity dates on September 2019 and August 2019 respectively.

As at 31 December 2019, current portion of the entrusted loans of USD 750 thousand (equivalent to RMB5,232 thousand), RMB10,000 thousand and RMB15,294 thousand, with interest rates ranging from 2.00% to 4.66%, were lent to three independent third parties with maturity dates on 31 March 2020, 18 September 2020 and 4 November 2020 respectively. Non-current portion of the entrusted loan equivalent to RMB535,456 thousand were lent to one independent third party in respect of a loan facility in the aggregate amount up to JPY 9,000,000 thousand (equivalent to RMB556,983 thousand) available with maturity date on 30 June 2022.

The fair values of other financial assets at amortised cost approximate their carrying amounts.

13. Prepayments and Other Assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Prepayments and deposits		
— for purchases of raw materials	**41,867**	31,179
— for purchases of fixed assets and construction in progress	**1,762**	23,201
Value Added Tax recoverable and refundable	**140,114**	127,503
	183,743	181,883

14. Financial Instruments by Category

	Financial assets at amortised cost RMB'000	Financial assets at FVPL RMB'000	Total RMB'000
31 December 2019			
Assets as per balance sheet			
Financial assets at FVPL	—	5,664,205	5,664,205
Trade and bills receivable and other financial assets at amortised cost	3,427,923	—	3,427,923
Restricted bank deposits	51,886	—	51,886
Term deposits	1,185,000	—	1,185,000
Cash at bank	1,535,303	—	1,535,303
Total	6,200,112	5,664,205	11,864,317

	Financial liabilities at amortised cost RMB'000	Liabilities at FVPL RMB'000	Total RMB'000
Liabilities as per balance sheet			
Bank borrowings	1,021,898	—	1,021,898
Trade and other payables excluding non-financial liabilities	3,045,482	—	3,045,482
Lease liabilities	2,263	—	2,263
Total	4,069,643	—	4,069,643

14. Financial Instruments by Category (Continued)

	Financial assets at amortised cost RMB'000	Financial assets at FVPL RMB'000	Total RMB'000
31 December 2018			
Assets as per balance sheet			
Financial assets at FVPL	—	4,349,616	4,349,616
Trade and bills receivable and other financial assets at amortised cost	3,165,033	—	3,165,033
Restricted bank deposits	244,990	—	244,990
Term deposits	150,000	—	150,000
Cash at bank	3,769,157	—	3,769,157
Total	7,329,180	4,349,616	11,678,796

	Financial liabilities at amortised cost RMB'000	Liabilities at FVPL RMB'000	Total RMB'000
Liabilities as per balance sheet			
Bank borrowings	1,009,397	—	1,009,397
Convertible bonds	—	852,768	852,768
Trade and other payables excluding non-financial liabilities	2,769,778	—	2,769,778
Total	3,779,175	852,768	4,631,943

14. Financial Instruments by Category (Continued)

As at 31 December 2019, the Company held financial assets at FVPL of approximately RMB5,664.2 million (the highest amount of investment cost is RMB300.0 million and the average single investment cost is RMB41.0 million), particulars of which are set out below:

Categories of Financial Assets (RMB'000)	Number of the Financial Assets	Investment Cost as of 31 December 2019	Fair Value as of 31 December 2019	Percentage in terms of Total Financial assets at FVPL	Weights to Total Assets	Expected date of expiration
Structured Deposit	55	3,217,000	3,270,565	57.73%	16.94%	06/01/2020-25/9/2020
Demand Bank Products	52	1,168,250	1,170,567	20.67%	6.06%	Redeemable at any time
Trusts	16	850,000	869,458	15.35%	4.50%	07/01/2020-26/7/2020
Investment Fund	1	300,000	303,430	5.36%	1.57%	29/03/2020
Term Bank Products (principal protected)	1	50,000	50,185	0.89%	0.26%	13/03/2020
Total	125	5,585,250	5,664,205	100.00%	29.33%	

As at 31 December 2018, the Company held financial assets at FVPL of approximately RMB4,349.6 million (the highest amount of investment cost is RMB300.0 million and the average single investment cost is RMB53.2 million), particulars of which are set out below:

Categories of Financial Assets (RMB'000)	Number of the Financial Assets	Investment Cost as of 31 December 2018	Fair Value as of 31 December 2018	Percentage in terms of Total Financial assets at FVPL	Weights to Total Assets	Expected date of expiration
Structured Deposit	49	2,486,500	2,509,963	57.71%	13.36%	02/01/2019-16/08/2019
Demand Bank Products	15	1,300,000	1,302,935	29.96%	6.93%	Redeemable at any time
Term Bank Products (principal protected)	10	495,000	512,154	11.77%	2.73%	01/02/2019-15/11/2019
Term Bank Products (non-principal protected)	7	24,350	24,564	0.56%	0.13%	23/01/2019-13/03/2019
Total	81	4,305,850	4,349,616	100.00%	23.15%	

15. Restricted Bank Deposits, Term Deposits and Cash and Cash Equivalents

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Restricted bank deposits — current	**51,886**	244,990
Term deposits — current	**190,000**	100,000
Term deposits — non-current	**995,000**	50,000
Total term deposits	**1,185,000**	150,000
Cash at bank	**1,294,950**	1,219,945
Cash in hand	**3,057**	480
Short-term bank deposits	**240,353**	2,549,212
Cash and cash equivalents	**1,538,360**	3,769,637
	2,775,246	4,164,627

Restricted bank deposits are bank deposits that could not be drawn until they mature, some of which are related to the finance facilities granted by banks for issuing bills payable.

As at 31 December 2019, the weighted average effective interest rate on restricted bank deposits and cash and cash equivalents of the Group is 0.52% (2018: 0.55%) per annum.

The restricted bank deposits have maturities of 6 to 12 months at inception (2018: ranging from 6 to 12 months). The short-term bank deposits have maturities ranging from 1 week to 3 months at inception.

Restricted bank deposits, term deposits and cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	**1,957,242**	2,416,914
USD	**487,486**	1,388,611
Indian Rupee	**180,797**	70,821
EUR	**87,626**	221,094
Others	**62,095**	67,187
	2,775,246	4,164,627

Majority of the restricted bank deposits and cash and cash equivalents are deposited with banks in Mainland China. The conversion of the RMB denominated balances into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange control promulgated by the Mainland China government.

16. Share Capital

	Authorised share capital		
	Number of shares '000	Amount HKD'000	Amount RMB'000
As at 31 December 2018, and 31 December 2019 (shares with a par of HKD0.1 per share)	5,000,000	500,000	502,350

	Issued and fully paid		
	Number of shares '000	Amount HKD'000	Amount RMB'000
As at 31 December 2018, and 31 December 2019 (shares with a par of HKD0.1 per share)	1,596,000	159,600	160,510

17. Reserves

		Other reserves					
	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000 *(i)*	Financial assets at FVPL RMB'000	Translation differences RMB'000	Retained earnings RMB'000	Total RMB'000
At 31 December 2018	1,331,913	152,573	859,839	124,308	(7,207)	7,938,917	10,400,343
Change of accounting policy	—	—	—	(124,308)	—	124,308	—
Profit for the year	—	—	—	—	—	1,916,883	1,916,883
Appropriations	—	—	376,148	—	(7)	(376,141)	—
Dividend paid							
— 2017 second interim	—	—	—	—	—	(348,222)	(348,222)
— 2018 interim *(Note 32)*	—	—	—	—	—	(354,312)	(354,312)
Currency translation differences	—	—	—	—	145,324	—	145,324
At 31 December 2018	1,331,913	152,573	1,235,987	—	138,110	8,901,433	11,760,016
Change of accounting policy	—	—	—	—	—	—	—
Profit for the year	—	—	—	—	—	1,750,519	1,750,519
Appropriations	—	—	35,978	—	(30)	(35,948)	—
Utilisation of statutory reserves	—	—	(27,892)	—	—	27,892	—
Dividend paid							
— 2018 second interim *(Note 32)*	—	—	—	—	—	(259,179)	(259,179)
— 2019 interim *(Note 32)*	—	—	—	—	—	(301,587)	(301,587)
Currency translation differences	—	—	—	—	8,784	—	8,784
At 31 December 2019	1,331,913	152,573	1,244,073	—	146,864	10,083,130	12,958,553

17. Reserves (Continued)

(i) Statutory reserves

Subsidiaries in Mainland China are required to transfer certain percentages of their after-tax profit after offsetting accumulated losses from prior years to statutory reserves, namely statutory reserve fund, statutory welfare fund, enterprise expansion fund and discretionary reserve fund, before the corresponding subsidiaries can distribute any dividend to their shareholders. The percentage to be appropriated to statutory reserve fund is determined according to the relevant regulations in Mainland China at the rate of 10% of net profit. The subsidiaries may cease appropriation when the statutory reserve funds reach 50% of the subsidiaries' registered capital. The percentages to be appropriated to other funds are at the discretion of the Board of directors of the respective subsidiaries.

Such statutory reserves, depending on their nature, can only be used to offset accumulated losses or to increase capital of the respective subsidiaries, and cannot be distributed to shareholders of the subsidiaries except for liquidation and solvency. The balances of the statutory reserves after increasing capital shall remain at least 25% of the original registered capital of the respective subsidiaries. Movements in the statutory reserves are as follows:

	Statutory reserve fund	**Enterprise expansion fund**	**Discretionary reserve fund**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	32,519	729,164	98,156	859,839
Additions	322	375,826	—	376,148
At 31 December 2018	32,841	1,104,990	98,156	1,235,987
Additions	11,180	24,798	—	35,978
Transfer out	(12,698)	(15,194)	—	(27,892)
At 31 December 2019	31,323	1,114,594	98,156	1,244,073

18. Trade and Bills Payable

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables	**1,450,431**	1,123,732
Bills payable	**1,215,457**	1,157,986
Trade and bills payable	**2,665,888**	2,281,718
Due to related parties *(Note 35(b))*	**293,730**	387,472
	2,959,618	2,669,190

18. Trade and Bills Payable (Continued)

The ageing analysis of the trade and bills payable based on invoice date is as follows:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Up to 1 year	**2,956,943**	2,669,141
1 year to 2 years	**2,646**	13
Over 2 years	**29**	36
	2,959,618	2,669,190

Trade and bills payable are denominated in the following currencies:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
RMB	**2,901,384**	2,608,908
Indian Rupee	**14,929**	9,587
EUR	**14,201**	11,008
Others	**29,104**	39,687
	2,959,618	2,669,190

The fair values of trade and bills payable approximate their carrying amounts.

19. Accruals, Other Liabilities and Contract Liabilities

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Welfare payables	**33,964**	40,763
Salaries, wages and bonus payables	**99,269**	85,598
Accrued sales commission	**663,946**	620,248
Customers deposits	**34,519**	40,725
Payable for purchase of property, plant and equipment	**35,954**	67,881
Accrued operating expenses	**109,174**	89,017
Value Added Tax payables	**28,159**	66,271
Deferred income — current portion *(Note 21)*	**6,382**	3,134
Interest payables	**2,474**	1,302
Other payables	**47,436**	31,405
Accruals and other payables	**1,061,277**	1,046,344
Contract liabilities *(i)*	**710,047**	756,807
	1,771,324	1,803,151

The carrying amounts of trade and other payables are considered to be the same as their fair value.

Note:

(i) The Group's contract liabilities are advance from customers in relation to production selling contracts.

The revenue recognised in the current reporting period related to carried-forward contract liabilities were mainly in one year or less.

The Group did not have unsatisfied long-term contracts. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

20. Bank borrowings

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Unsecured	**1,021,898**	1,009,397

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At fixed rate		
— in EUR	**—**	79,397
— in RMB	**830,000**	930,000
— in JPY	**191,898**	—
	1,021,898	1,009,397

The weighted average effective interest rates (per annum) at year end are as follows:

	2019	2018
RMB	**3.9%**	3.8%
JPY	**0.3%**	—

The fair values of short-term bank borrowings approximate their carrying amounts.

21. Deferred Income

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred government grants	**51,885**	33,420
Less: Current portion included in current liabilities *(Note 19)*	**(6,382)**	(3,134)
	45,503	30,286

21. Deferred Income (Continued)

Movements are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	**33,420**	10,373
Addition	**24,440**	26,120
Amortised as income *(Note 26)*	**(5,900)**	(3,134)
Exchange differences	**(75)**	61
At 31 December	**51,885**	33,420

22. Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Deferred income tax assets to be recovered within 12 months	**143,001**	120,113
Deferred income tax liabilities to be settled after more than 12 months	**251,592**	161,847
Deferred income tax liabilities to be settled within 12 months	**27,480**	30,467
	279,072	192,314

(i) Deferred tax assets

	As at 31 December	
	2019 RMB'000	2018 RMB'000
The balance comprises temporary differences attributable to:		
Provisions and accruals	**92,228**	80,632
Unrealised profit on inventories	**41,252**	33,338
Deferred income-government grants	**9,521**	6,143
Total deferred tax assets	**143,001**	120,113

22. Deferred Income Tax (Continued)

(i) Deferred tax assets (Continued)

The movements in deferred income tax assets are as follows:

	Provisions and accruals RMB'000	Unrealised profit on inventories RMB'000	Government grants RMB'000	Total RMB'000
At 1 January 2018	58,316	29,754	—	88,070
Recognised in the consolidated statement of profit or loss	22,316	3,584	6,143	32,043
At 31 December 2018	80,632	33,338	6,143	120,113
Recognised in the consolidated statement of profit or loss	11,596	7,914	3,378	22,888
At 31 December 2019	92,228	41,252	9,521	143,001

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB22,829 thousand (2018: RMB26,105 thousand) in respect of losses amounting to RMB91,124 thousand (2018: RMB117,641 thousand) that can be carried forward against future taxable income. In 2019, there is no invalid tax loss. (2018: RMB2,366 thousand).

(ii) Deferred tax liabilities

	As at 31 December	
	2019 RMB'000	2018 RMB'000
The balance comprises temporary differences attributable to:		
Financial assets at FVPL	**11,852**	6,602
Withholding tax	**213,043**	144,343
Accelerated tax depreciation	**52,381**	39,376
Revaluation	**1,796**	1,993
Total deferred tax liabilities	**279,072**	192,314

22. Deferred Income Tax (Continued)

(ii) Deferred tax liabilities (Continued)

The movements in deferred income tax liabilities are as follows:

	Withholding tax RMB'000	Accelerated tax depreciation RMB'000	Financial assets at FVPL RMB'000	Revaluation RMB'000	Total RMB'000
At 1 January 2018	243,339	24,356	—	—	267,695
Recognised in the consolidated statement of profit or loss	76,166	15,020	6,602	(99)	97,689
Acquisition of a subsidiary	—	—	—	2,092	2,092
Transferred to tax payable	(175,162)	—	—	—	(175,162)
At 31 December 2018	144,343	39,376	6,602	1,993	192,314
Recognised in the consolidated statement of profit or loss	68,700	13,005	5,250	(197)	86,758
At 31 December 2019	213,043	52,381	11,852	1,796	279,072

Withholding tax is levied on dividends to be declared to foreign investors from the foreign investment enterprises established in Mainland China in respect of earnings earned after 31 December 2007. The Group's subsidiaries in Mainland China are held by Guo Hua Enterprises Group Limited, which is a company incorporated in Hong Kong and the beneficial owner of these subsidiaries, and the applicable withholding tax rate is 10% (2018: 10%).

The Group provide for the deferred income tax liabilities on the unremitted earnings except for those amount expected to be reinvested. Unremitted earnings that deferred income tax liabilities have not been recognised totally RMB5,516,645 thousand at 31 December 2019 (2018: RMB4,486,145 thousand). As at 31 December 2019, deferred income tax liabilities of RMB551,665 thousand (2018: RMB448,615 thousand) have not been recognised for the withholding tax that would be payable on such unremitted earnings of certain subsidiaries.

23. Convertible Bonds

On 13 February 2014, the Company issued convertible bonds due 2019 in an aggregate principal amount of USD200,000,000 (equivalent to approximately RMB1,221,400,000). Interest of 2.00% per annum will be paid semi-annually. The convertible bonds may be converted into ordinary shares of the company, at the option of the bond holders thereof, at any time after 26 March, 2014 up to the close of business on the day falling seven days prior to 13 February 2019 (the "Maturity Date") (both day inclusive) or if such convertible bonds shall have been called for redemption before Maturity Date, then up to and including the close of business on a date no later than seven days prior the date fixed for redemption thereof. The initial conversion price was HKD24.6740 and is subject to adjustment for among other things, consolidation and subdivision of shares, capitalization of profits or reserves, right issues, distributions (including dividends) and certain other dilutive events.

On 13 February 2017, the Company redeemed convertible bonds with an aggregate principal amount of USD75,250,000. On 13 February 2019, the Company redeemed remaining convertible bonds. None of convertible bonds were converted into ordinary shares of the Company.

The Convertible bonds are designated as financial liabilities at FVPL.

24. Revenue and Segment Information

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Sales of plastic injection moulding machines and related products	**9,809,716**	10,851,245

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and senior management. The executive committee reviews the Group's internal reporting in order to assess performance and allocate resources. Based on these internal reports, the executive committee has determined that no segment information is presented as substantially all of the Group's sales and operating profits are derived from the sales of plastic injection moulding machines, and no geographical segment information is presented as management reviews the business performance based on type of business, not geographically.

The Group is domiciled in Mainland China. Analysis of its sales to external customers in different countries, based on the customers' locations is as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Mainland China	**6,328,151**	7,499,857
Hong Kong and overseas countries	**3,481,565**	3,351,388
	9,809,716	10,851,245

The total of non-current assets other than term deposits, trade and bills receivable, other financial assets at amortised cost and deferred income tax assets located in different countries is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total non-current assets other than term deposits, trade and bills receivable, other financial assets at amortised cost and deferred income tax assets		
— Mainland China	**4,104,664**	3,564,847
— Hong Kong and overseas countries	**616,018**	531,707
	4,720,682	4,096,554

25. Expenses by Nature

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Depreciation and amortisation *(Notes 5, 6 and 9)*	**297,496**	268,095
Raw materials and consumables used	**5,594,204**	6,465,866
Changes in inventories of finished goods and work in progress	**183,776**	(7,380)
Sales commission and after-sales service expenses	**446,687**	507,042
Provision for impairment of trade receivables *(Note 11)*	**4,783**	27,361
Provision for write-down of inventories *(Note 10)*	**40,660**	17,620
Employment costs *(Note 28) (i)*	**980,489**	954,964
Freight charges	**68,461**	85,091
Utilities	**97,294**	108,338
Travelling expenses	**32,035**	31,657
Auditor's remuneration		
— Audit services	**3,346**	3,560
Others	**403,086**	468,541
Total cost of sales, selling and marketing expenses and general and administrative expenses	**8,152,317**	8,930,755

(i) For the year ended 31 December 2019, the employment costs related to the research and development activities were RMB151,068 thousand (2018: RMB141,190 thousand).

26. Other Income

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants *(i)*	**227,755**	142,313
Amortisation of deferred income *(Note 21)*	**5,900**	3,134
	233,655	145,447

(i) Government grants mainly represent subsidies and assistance received from local municipal governments in connection with the Group's achievements in developing innovative and high technology plastic injection moulding machines.

27. Other Gains — Net

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest income on financial assets at FVPL	**193,358**	225,524
Investment income from business combination *(a)*	**—**	21,997
Net foreign exchange gains/(losses)	**43,485**	(83,721)
Gains/(losses) on disposals of property, plant and equipment and land use rights, net	**5,977**	(1,162)
Others	**9,517**	8,858
	252,337	171,496

(a) In June 2018, the Group entered into an Equity Transfer Agreement (the "Agreement") to purchase 53.49% equity shares of Zhejiang Keqiang of which the Group hold originally 46.51% equity shares. When the Group took the control of Zhejiang Keqiang, the business combination resulted an income amounting to RMB21,997 thousand booked in the Other Gains/(Losses) — Net in 2018.

28. Employment Costs

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, wages and bonus	**801,388**	795,453
Pension cost — defined contribution plans (a)	**47,210**	54,197
Other benefits (b)	**131,891**	105,314
	980,489	954,964

(a) Pension cost — defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

The Group has arranged for its Hong Kong and overseas employees to join local pension schemes in respective countries' jurisdictions. The Group has no further obligations for post-retirement benefits beyond the monthly contributions.

28. Employment Costs (Continued)

(b) Other benefits

In addition, the Group's employees in Mainland China participate in state-sponsored employee social security plans, including medical, housing and other welfare benefits. The Group has no further obligation beyond the contributions.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three (2018: three) directors whose emoluments are reflected in the analysis presented in Note 37. The emoluments payable to the remaining two (2018: two) individuals during the year are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, wages and bonus	**1,898**	1,931
Other benefits	**530**	536
	2,428	2,467

The emoluments fall within the following bands:

	Number of individuals	
	2019	2018
Nil — HKD1,000,000 (equivalent to approximately RMB879,000)	**3**	2
HKD1,000,001 (equivalent to approximately RMB879,000) — HKD1,500,000 (equivalent to approximately RMB1,319,000)	**1**	2
HKD1,500,001 (equivalent to approximately RMB1,319,000) — HKD2,000,000 (equivalent to approximately RMB1,758,000)	**1**	1

(d) During the year ended 31 December 2019, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

29. Finance Income/Costs

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance costs:		
Interest expense	**(48,726)**	(42,434)
Net foreign exchange losses	**(3,190)**	—
Lease liabilities	**(178)**	—
	(52,094)	(42,434)
Finance income:		
Change in fair value of convertible bonds		
— resulted from change in exchange rate	**11,937**	(41,043)
— resulted from change in bond value	**(3,416)**	103,866
Net foreign exchange gains	**—**	22,700
Interest income on restricted bank deposits, term deposits and cash and cash equivalents	**76,269**	66,275
Interest income on entrusted loans	**5,855**	13,469
	90,645	165,267
Finance income, net	**38,551**	122,833

30. Income Tax Expense

This note provides an analysis of the Group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
(a) Income tax expense		
Current tax		
Current tax on profits for the year	**379,403**	392,077
Adjustments for current tax of prior periods	**(9,733)**	(11,542)
Total current tax expense	**369,670**	380,535
Deferred income tax		
Increase in deferred tax assets *(note 22)*	**(22,888)**	(32,043)
Deferred tax liabilities recognised in the consolidated statement of profit or loss *(note 22)*	**86,758**	97,689
Total deferred tax expense	**63,870**	65,646
Income tax expense	**433,540**	446,181
Income tax expense is attributable to:		
Profit from continuing operations	**433,540**	446,181
	433,540	446,181

Haitian Plastics Machinery Group Limited ("Haitian Plastics Machinery") renewed its status as a High and New Technology Enterprises ("HNTE") in 2017. Wuxi Haitian Machinery Co., Ltd. ("Wuxi Haitian") renewed its HNTE in 2018. Ningbo Zhafir Plastics Machinery Manufacturing Co., Ltd. ("Ningbo Zhafir") renewed its HNTE status in 2019. Zhejiang Keqiang Intelligence Control System Co., Ltd. ("Zhejiang Keqiang") renewed its HNTE status in 2019. These entities were entitled to a reduced income tax rate of 15% for three years commencing from the first year when these entities were granted the HNTE status. They are required to re-apply for preferential tax treatment after the current preferential tax periods expire.

The other major operating subsidiaries of the Group in Mainland China are subject to enterprise income tax rate of 25% for the year 2019 (2018: 25%).

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the taxable income for the year 2019 (2018: 16.5%).

Taxation on overseas (other than Mainland China and Hong Kong) profits has been calculated on the estimated assessable profits for the year 2019 at the applicable rates of taxation prevailing in the countries in which the Group operates.

30. Income Tax Expense (Continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before income tax expense, after excluding share of profit of an associate	**2,179,912**	2,360,266
Tax at the Hong Kong tax rate of 16.5% (2018—16.5%)	**359,685**	389,444
Effect of different tax rates	**14,568**	19,694
Research and development expenditure supper deduction	**(15,485)**	(15,166)
Expensed not deductible for tax expense	**17,653**	14,984
Adjustments for current tax of prior year	**(9,733)**	(11,542)
Deferred tax not accounted for taxable losses	**3,228**	803
Effect of withholding tax on certain unremitted profits of subsidiaries in Mainland China	**68,700**	76,166
Utilize of previously unrecognised taxable losses	**(5,076)**	(28,202)
Income tax expense	**433,540**	446,181

31. Earnings Per Share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year (Note 16).

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Profit attributable to shareholders of the Company	**1,750,519**	1,916,883
Weighted average number of ordinary shares in issue (thousands)	**1,596,000**	1,596,000
Basic EPS (RMB per share)	**1.10**	1.20

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2019, the diluted earnings per share amounted to RMB1.10 (31 December 2018: RMB1.20).

32. Dividends

	2019 RMB'000	2018 RMB'000
Interim dividend paid of HKD21.0 cents (2018: HKD25.0 cents) per ordinary share	**301,587**	354,312
Second interim dividend of HKD19.0 cents (2018: HKD19.0 cents) per ordinary share	**273,571**	259,179
	575,158	613,491

On 16 March 2020, the Company's Board of Directors has declared payment of a second interim dividend of HKD19.0 cents per share for the year ended 31 December 2019 (2018: HKD19.0 cents per share). Such dividend is to be approved by the Board Meeting which is compliance with the related regulations in Cayman Island. The second interim dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2020.

33. Notes to the Consolidated Statement of Cash Flows

(a) Cash generated from operations

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	**2,182,161**	2,362,413
Adjustments for:		
— share of profit of an associate *(Note 8)*	**(2,249)**	(2,147)
— depreciation of property, plant and equipment *(Note 5)*	**283,657**	257,562
— amortisation of intangible assets *(Note 9)*	**1,326**	660
— amortisation of deferred income *(Note 21)*	**(5,900)**	(3,134)
— depreciation of right-of-use assets *(Note 6)*	**12,513**	9,873
— (gains)/losses on disposal of property, plant and equipment and land use right *(Note 27)*	**(5,977)**	1,162
— gains from the deemed disposal of an associate *(Note 27)*	**—**	(21,997)
— provision for impairment of trade receivables *(Note 25)*	**4,783**	27,361
— provision for write-down of inventories *(Note 25)*	**40,660**	17,620
— interest income from financial assets at FVPL *(Note 27)*	**(193,358)**	(225,524)
— finance income — net *(Note 29)*	**(38,551)**	(122,833)
Changes in working capital:		
— decrease/(increase) in restricted bank deposits	**193,104**	(54,377)
— increase in term deposits	**—**	(50,000)
— decrease in trade and other receivables	**289,603**	300,096
— decrease in inventories	**296,622**	58,283
— increase/(decrease) in trade and bills payable	**290,428**	(700,660)
— increase in accruals and other payables	**17,118**	148,065
Cash generated from operations	**3,365,940**	2,002,423

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment and land use right comprise:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net book amount *(Note 5)*	**36,505**	8,579
Gains/(losses) on disposal of property, plant and equipment and land use rights *(Note 27)*	**5,977**	(1,162)
Proceeds from disposal of property, plant and equipment and land use rights	**42,482**	7,417

33. Notes to the Consolidated Statement of Cash Flows (Continued)

(c) Net debt reconciliation

The reconciliation of liabilities arising from financing activities is as follows:

	2019 RMB'000	2018 RMB'000
Borrowings — repayable within one year (including overdraft)	**(1,021,898)**	(1,009,397)
Convertible bonds	**—**	(852,768)
Lease liabilities	**(2,263)**	—
Net debt	**(1,024,161)**	(1,862,165)
Gross debt — fixed interest rates	**(1,024,161)**	(1,009,397)
Convertible bonds	**—**	(852,768)
Net debt	**(1,024,161)**	(1,862,165)

	Bank borrowings RMB'000	**Convertible bonds** RMB'000	**Lease liabilities** RMB'000	**Total** RMB'000
As at 31 December 2018	1,009,397	852,768	—	1,862,165
Recognised on adoption of HKFRS 16 *(note 2.2)*	—	—	591	591
As at 1 January 2019	1,009,397	852,768	591	1,862,756
Cash flows				
— Inflow from financing activities	1,411,405	—	—	1,411,405
— Outflow from financing activities	(1,396,937)	(844,247)	(1,506)	(2,242,690)
Non-cash changes				
— Acquisition — leases	—	—	2,885	2,885
— Fair value losses	—	3,416	—	3,416
— Currency translations	(1,967)	(11,937)	293	(13,611)
As at 31 December 2019	1,021,898	—	2,263	1,024,161

34. Capital Commitments

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Acquisition of property, plant and equipment		
— Contracted but not provided for	**340,623**	233,002

35. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Sky Treasure Capital Limited (the immediate holding company), a company incorporated in the British Virgins Islands, which owns 59.19% of the Company's shares. The Company's directors regard Sky Treasure Capital Limited as being the ultimate holding company.

The following companies are considered to be related parties of the Group:

Company name	Relationships
Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") (寧波海天精工機械有限公司)	Controlled by directors of the Group
Ningbo Anson CNC Technique Co., Ltd. ("Ningbo Anson") (寧波安信數控技術有限公司)	Controlled by directors of the Group
Ningbo STF Hydraulic Transmissions Co., Ltd. ("Ningbo STF") (寧波斯達弗液壓傳動有限公司)	Controlled by directors of the Group
Ningbo Haitian Drive Systems Co., Ltd. ("HDS") (海天驅動有限公司)	Controlled by directors of the Group
Ningbo SPP Hydraulics Co.,Ltd. ("Ningbo SPP") (寧波住精液壓工業有限公司)	Controlled by directors of the Group
Ningbo Hilectro Precision Machinery Co.,Ltd. ("Hilectro Precision") (寧波海邁克精密機械製造有限公司)	Controlled by directors of the Group
Ningbo Hilectro Power Technology Co.,Ltd. ("Hilectro Power") (寧波海邁克動力科技有限公司)	Controlled by directors of the Group
Haitian Driving System (Hong Kong) Limited. ("HDS Hong Kong") (海天驅動系統(香港)有限公司)	Controlled by directors of the Group

35. Related Party Transactions (Continued)

(a) Transactions with related parties:

The following material transactions were carried out with related parties:

		For the year ended 31 December	
		2019	2018
		RMB'000	RMB'000
(i)	Purchases of goods from:		
	Ningbo Anson	**508,085**	624,106
	Ningbo STF	**109,748**	139,515
	Hilectro Precision	**48,190**	47,313
	Zhejiang Keqiang	**—**	18,403
	Ningbo SPP	**515**	1,071
	Hilectro Power	**133**	—
		666,671	830,408
(ii)	Purchase of equipment from:		
	Haitian Precision	**15,714**	140,505
	Hilectro Power	**2,185**	2,070
		17,899	142,575
(iii)	Rental fees paid to:		
	HDS	**2,636**	2,618
(iv)	Purchase shares of an associate from an entity controlled by directors of the Group		
	HDS Hong Kong	**515,000**	—

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

35. Related Party Transactions (Continued)

(b) Balances with related parties:

The Group had the following significant balances with its related parties as at 31 December 2019 and 2018:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Payables arising from purchase of goods:		
— Ningbo Anson	**226,795**	335,014
— Ningbo STF	**46,768**	38,147
— Hilectro Precision	**19,634**	13,997
— Hilectro Power	**324**	174
— Ningbo SPP	**209**	140
	293,730	387,472
Payables arising from purchase of equipment:		
— Haitian Precision	**1,812**	16,030
— Hilectro Power	**1,244**	903
	3,056	16,933

Balances with related parties were unsecured, non-interest bearing, and had no pre-determined repayment terms.

35. Related Party Transactions (Continued)

(c) Loans to key management:

	2019 RMB'000	2018 RMB'000
At 1 January	**358**	1,233
Loans advanced during the year	**804**	143
Loan repayments received	**(584)**	(1,018)
At 31 December	**578**	358

The information about loans advanced to key management have the following terms and conditions:

Name of key management	Outstanding amount at beginning of year RMB'000	Outstanding amount at end of year RMB'000	Maximum outstanding during this year RMB'000	Fallen due but not been paid RMB'000	Provisions for doubtful/bad debts made	Term	Interest rate	Security
2019								
Mr Zhang Jianming	143	300	304	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianfeng	215	278	715	—	—	Repayable on demand	Nil	Nil
2018								
Mr Zhang Jingzhang	152	—	—	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianming	733	143	1,476	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianfeng	348	215	218	—	—	Repayable on demand	Nil	Nil

35. Related Party Transactions (Continued)

(d) Key management compensation:

Key management includes directors, general managers of certain subsidiaries, Chief Financial Officer, Investment Relations Manager, Company Secretary and the Head of Human Resources and Administration. The compensation paid or payable to key management for employee services is:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries and bonus	**7,109**	6,820
Pension costs	**67**	63
Other benefits	**179**	172
	7,355	7,055

(e) Related party commitments:

Related party commitments which are contracted but not recognised in the consolidated balance sheet as at balance sheet date are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Capital commitment for acquisition of property, plant and equipment		
— Haitian Precision	**22,765**	48,219

36. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**796,501**	778,077
Due from subsidiaries		**72,774**	71,184
		869,275	849,261
Current assets			
Due from subsidiaries		**2,031,210**	2,649,748
Cash and cash equivalents		**185**	154
		2,031,395	2,649,902
Total assets		**2,900,670**	3,499,163
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**160,510**	160,510
Share premium	*i*	**1,331,913**	1,331,913
Other reserves	*i*	**314,789**	314,789
Retained earnings	*i*	**852,169**	839,088
Total equity		**2,659,381**	2,646,300

36. Balance Sheet and Reserve Movement of the Company (Continued)

Balance sheet of the Company (Continued)

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
LIABILITIES			
Current liabilities			
Due to subsidiaries		**241,271**	—
Other payables		**18**	95
Convertible bonds		**—**	852,768
		241,289	852,863
Total liabilities		**241,289**	852,863
Total equity and liabilities		**2,900,670**	3,499,163

(i) Reserve movement of the Company

	Share premium RMB'000	**Contributed surplus** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2018	1,331,913	314,789	534,365	2,181,067
Profit for the year	—	—	1,007,257	1,007,257
Dividend paid				
— 2017 second interim	—	—	(384,222)	(384,222)
— 2018 interim *(Note 32)*	—	—	(354,312)	(354,312)
At 31 December 2018	1,331,913	314,789	839,088	2,485,790
Profit for the year	—	—	573,847	573,847
Dividend paid				
— 2018 second interim *(Note 32)*	—	—	(259,179)	(259,179)
— 2019 interim *(Note 32)*	—	—	(301,587)	(301,587)
At 31 December 2019	1,331,913	314,789	852,169	2,498,871

37. Benefits and Interests of Directors

(a) Directors' emoluments

The remuneration of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
Name of Director	**Fees** RMB'000	**Salaries** RMB'000	**Pension cost** RMB'000	**Estimated value of other benefits** RMB'000	**Total** RMB'000
2019					
Executive directors					
— Mr. Zhang Jingzhang	—	800	—	—	800
— Mr. Zhang Jianming (CEO)	—	830	10	26	866
— Mr. Zhang Jianfeng	—	800	10	26	836
— Mr. Zhang Bin	—	690	10	26	726
— Mr. Chen Weiqun	—	760	10	26	796
	—	3,880	40	104	4,024
Non-executive director					
— Professor Helmut Helmar Franz	—	242	—	—	242
— Mr. Guo Mingguang	—	—	—	—	—
— Mr. Liu Jianbo	—	—	—	—	—
— Mr. Zhang Jianguo	—	400	—	—	400
— Ms. Chen Ningning	—	400	—	—	400
	—	1,042	—	—	1,042
Independent non-executive directors					
— Mr. Jin Hailiang	78	—	—	—	78
— Mr. Guo Yonghui	78	—	—	—	78
— Mr. Lou Baijun	78	—	—	—	78
— Mr. Lo Chi Chiu*	81	—	—	—	81
— Dr. Yu Junxian*	65	—	—	—	65
— Dr. Steven Chow*	7	—	—	—	7
	387	—	—	—	387
	387	4,922	40	104	5,453

* *Mr. Lo Chi Chiu and Dr. Yu Junxian were appointed as new independent non-executive directors to replace the former independent non-executive director Dr. Steven Chow since February 2019.*

37. Benefits and Interests of Directors (Continued)

(a) Directors' emoluments (Continued)

Name of Director	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
	Fees RMB'000	**Salaries** RMB'000	**Pension cost** RMB'000	**Estimated value of other benefits** RMB'000	**Total** RMB'000
2018					
Executive directors					
— Mr. Zhang Jingzhang	—	800	—	18	818
— Mr. Zhang Jianming (CEO)	—	830	9	25	864
— Mr. Zhang Jianfeng	—	780	9	25	814
— Mr. Zhang Bin*	—	600	9	25	634
— Mr. Chen Weiqun*	—	760	9	25	794
	—	3,770	36	118	3,924
Non-executive director					
— Professor Helmut Helmar Franz	—	226	—	—	226
— Mr. Guo Mingguang	—	—	—	—	—
— Mr. Liu Jianbo	—	—	—	—	—
— Mr. Zhang Jianguo*	—	450	—	—	450
— Ms. Chen Ningning*	—	450	—	—	450
	—	1,126	—	—	1,126
Independent non-executive directors					
— Mr. Jin Hailiang	78	—	—	—	78
— Mr. Guo Yonghui	78	—	—	—	78
— Mr. Lou Baijun	78	—	—	—	78
— Dr. Steven Chow	84	—	—	—	84
	318	—	—	—	318
	318	4,896	36	118	5,368

* *Mr. Zhang Bin and Mr. Chen Weiqun were appointed as executive directors replacing former executive directors Mr. Zhang Jianguo and Ms. Chen Ningning who were appointed as non-executive directors since 2018.*

37 Benefits and Interests of Directors (Continued)

(a) Directors' emoluments (Continued)

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiary undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking		Total	Total
2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
387	318	**5,066**	5,050	**5,453**	5,368

Mr. Guo Mingguang and Mr. Liu Jianbo have waived the emoluments during the years ended 31 December 2018 and 2019. None of other directors waived any emoluments during the year ended 31 December 2019 (2018: None).

During the year ended 31 December 2019, no emoluments paid or receivable in respect of a person's services as a director (whether of the Company or its subsidiary undertaking) other than those disclosed in above tables, such as discretionary bonuses, housing allowance, or remunerations paid or receivable in respect of accepting office as director incurred (2018: None), and no emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking incurred (2018: None).

(b) Directors' retirement benefits

During the year ended 31 December 2019, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2018: None).

(c) Directors' termination benefits

During the year ended 31 December 2019, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2018: None).

37. Benefits and Interests of Directors (Continued)

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2019, no consideration was provided to or receivable by third parties for making available director's services (2018: None).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities other than those disclosed in Note 35(c) (2018: None).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: None).

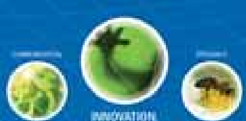
38. Event Occurring After the Reporting Period

Following the outbreak of Coronavirus Disease 2019 ("the COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing, etc. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issuance, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

Financial Summary

The following table summarizes the consolidated results, assets and liabilities of the Group for the five years ended 31 December:

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Results					
Revenue	**9,809,716**	10,851,245	10,186,066	8,098,053	7,336,445
Profit before income tax	**2,184,191**	2,362,413	2,467,541	1,913,662	1,676,302
Income tax expenses	**(433,540)**	(446,181)	(462,241)	(362,787)	(312,967)
Profit attributable to shareholders	**1,750,651**	1,916,232	2,005,300	1,550,890	1,363,335
Assets					
Non-current assets	**6,605,109**	4,392,657	4,027,292	3,264,794	3,421,849
Current assets	**12,698,235**	14,399,888	14,266,615	11,835,495	9,475,251
Total assets	**19,303,344**	18,792,545	18,293,907	15,100,289	12,897,100
Liabilities					
Non-current liabilities	**325,708**	222,600	1,193,273	1,638,859	1,475,551
Current liabilities	**5,851,833**	6,642,833	6,539,281	4,342,352	3,401,241
Total liabilities	**6,177,541**	6,865,433	7,732,554	5,981,211	4,876,792
Total equity	**13,125,803**	11,927,112	10,561,353	9,119,078	8,020,308
Capital and reserves attributable to shareholders of the Company	**13,119,063**	11,920,526	10,560,853	9,118,468	8,020,308



HAITIAN INTERNATIONAL HOLDING LIMITED
(Incorporated in the Cayman Islands With Limited Liability) Stock Code: 1882

TIANJIAN PLASTICS MACHINERY

HAITIAN PLASTICS MACHINERY

ZHAFIR PLASTICS MACHINERY