京西重工國際有限公司
BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

Stock Code : 2339

2019
ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Jiang Yunan *(Chairman)*

Chen Zhouping *(Managing Director)*

Thomas P Gold *(Executive Director)*

Li Zhi *(Non-executive Director)*

Tam King Ching, Kenny
(Independent Non-executive Director)

Yip Kin Man, Raymond
(Independent Non-executive Director)

Chan Pat Lam *(Independent Non-executive Director)*

EXECUTIVE COMMITTEE

Jiang Yunan *(Chairman)*

Chen Zhouping

Thomas P Gold

AUDIT COMMITTEE

Tam King Ching, Kenny *(Chairman)*

Yip Kin Man, Raymond

Chan Pat Lam

NOMINATION COMMITTEE

Jiang Yunan *(Chairman)*

Li Zhi

Tam King Ching, Kenny

Yip Kin Man, Raymond

Chan Pat Lam

REMUNERATION COMMITTEE

Yip Kin Man, Raymond *(Chairman)*

Jiang Yunan

Tam King Ching, Kenny

Chan Pat Lam

COMPANY SECRETARY

Cheng Chun Shing

AUDITOR

Ernst & Young

SHARE REGISTRAR

Tricor Investor Services Limited
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Hong Kong

REGISTERED OFFICE

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KY 1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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STOCK CODE

2339

WEBSITE

www.bwi-intl.com.hk

DIRECTORS' BIOGRAPHIES

Mr. Jiang Yunan, aged 58, engineer and senior economist. He holds a master's degree in business administration from Tsinghua University and a master's degree in applied accounting and finance from Hong Kong Baptist University. Mr. Jiang was appointed an Executive Director and the Managing Director of the Company in July 2014 and was appointed as the Chairman of the board of directors of the Company (the "Board") in June 2016. He ceased to act as the Managing Director of the Company from September 2016. Mr. Jiang is also the chairman of the Executive Committee and the Nomination Committee as well as a member of the Remuneration Committee of the Company. He joined Shougang Group Co., Ltd. (formerly known as Shougang Corporation) ("Shougang Group") in 1992 and thereafter held various senior positions in the group companies of Shougang Group. Mr. Jiang was appointed a director of BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI"), a subsidiary of Shougang Group, in June 2014 and currently is the president of BWI. He is also a director of BWI Company Limited ("BWI HK"), a wholly-owned subsidiary of BWI. Each of Shougang Group, BWI and BWI HK is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Jiang has extensive experiences in management.

A service agreement was entered into between Mr. Jiang and the Company for a term of three years commencing on 1 January 2020. Under the service agreement, Mr. Jiang is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. Mr. Jiang declined any salary from the Group voluntarily since the date of his appointment as a Director of the Company.

Mr. Chen Zhouping, aged 54, graduated from the School of Economics and Management, Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed as an Executive Director and the Managing Director of the Company in September 2016 and is a member of the Executive Committee of the Company. He joined Shougang Group in 1988 and held various senior positions in the group companies of Shougang Group. Mr. Chen was appointed as a director of BWI, a subsidiary of Shougang Group, in June 2017. He is also a director of BWI HK (a wholly-owned subsidiary of BWI) and certain other wholly-owned subsidiaries of BWI. Each of Shougang Group, BWI and BWI HK is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen was a director of Shougang Concord International Enterprises Company Limited ("Shougang International") from November 2002 to September 2014 and a director of Shougang Fushan Resources Group Limited ("Shougang Resources") from January 2009 to September 2014. Both Shougang International and Shougang Resources are Hong Kong listed companies. Mr. Chen was also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange, from January 2009 to April 2014. He has extensive experience in steel industry, engineering design, human resources and management.

A service agreement was entered into between Mr. Chen and the Company for a term of three years commencing on 1 January 2020. Under the service agreement, Mr. Chen is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2019 and 2020, Mr. Chen's salary is HK$2,136,000 per annum. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Mr. Thomas P Gold, aged 61, graduated with Bachelor's degree in Mechanical Engineering from General Motors Institute (currently known as Kettering University), United States in 1981. Mr. Gold was appointed as an Executive Director of the Company in September 2016 and is a member of the Executive Committee of the Company. Since 1981, Mr. Gold has worked in the automotive components business with General Motors, Delphi Corporation and BWI respectively. BWI is a substantial shareholder of the Company within the meaning of Part XV of the SFO. During the period from 1981 to 1990, Mr. Gold was product development engineer and supervisor in anti-vibration devices department of General Motors. From 1990 to 1992, Mr. Gold was manufacturing general supervisor in brake components department of General Motors. From 1992 to 1998, Mr. Gold served as manufacturing engineering manager and later became manufacturing operations manager in anti-vibration devices department of General Motors. From 1998 to 2008, Mr. Gold served as global product line executive in Delphi Energy and Chassis Systems, and he was responsible for multiple product lines within the chassis business unit including electronic suspensions, anti-vibration devices, chassis components, and Liteflex springs. From 2009 to 2012, Mr. Gold served as global purchasing director in BWI, and he was responsible for the direct and indirect material procurement of global business in six manufacturing facilities and three major technology centers. From 2012 to 2015, Mr. Gold served as assistant president and doubled as global purchasing director in BWI. Mr. Gold currently is vice president of operations in BWI, and he holds directorships in certain wholly-owned subsidiaries of BWI.

A service agreement was entered into between Mr. Gold and the Company for a term of three years commencing on 1 January 2020. Under the service agreement, Mr. Gold is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. Mr. Gold declined any salary from the Group voluntarily since the date of his appointment as a Director of the Company.

DIRECTORS' BIOGRAPHIES

Mr. Li Zhi, aged 55, a senior economist. He holds a bachelor's degree in engineering. Mr. Li held various senior positions in Beijing Yanshan Petrochemical Corporation (北京燕山石油化工公司) from 1986 to 1999, and worked for various departments in the local government of Fangshan District, Beijing, China from 1999 to 2018. Mr. Li is a vice chairman of BWI, and he is also a director of BWI HK, a wholly-owned subsidiary of BWI. Each of BWI and BWI HK is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Li has extensive experience in mechanical engineering, corporate operations management as well as governmental economic planning and development.

An engagement letter was entered into between Mr. Li and the Company for a term commencing on 17 January 2020 and ending on 31 December 2022, subject to renewal. Under the engagement letter, Mr. Li is entitled to a director's fee as may be determined by the Board from time to time. Mr. Li declined any director's fee from the Group voluntarily since the date of his appointment as a Director of the Company.

Mr. Tam King Ching, Kenny, aged 70, holds a bachelor's degree in commerce from Concordia University, Canada. Mr. Tam was appointed an Independent Non-executive Director of the Company in January 2014 and is the chairman of the Audit Committee as well as a member of each of the Nomination Committee and the Remuneration Committee of the Company. He is a practising Certified Public Accountant in Hong Kong. Mr. Tam is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Professional Accountants of Ontario, Canada (formerly named as the Institute of Chartered Accountants of Ontario, Canada). He is a Past President of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of certain listed companies on the main board of The Stock Exchange of Hong Kong Limited, namely, Shougang Concord Grand (Group) Limited ("Shougang Grand"), CCT Fortis Holdings Limited, Greater Bay Area Investments Group Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited, Kingmaker Footwear Holdings Limited, Starlite Holdings Limited, West China Cement Limited and Wisdom Education International Holdings Company Limited.

An engagement letter was entered into with Mr. Tam for a term of three years commencing on 1 January 2020. Under the engagement letter, Mr. Tam is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2019 and 2020, the director's fee of Mr. Tam is HK$240,000 per annum. Such director's fee was determined with reference to Mr. Tam's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Yip Kin Man, Raymond, aged 73, holds a bachelor's degree in arts with honours from the University of Hong Kong. Mr. Yip was appointed an Independent Non-executive Director of the Company in January 2014 and is the chairman of the Remuneration Committee as well as a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Yip is also an independent non-executive director of Shougang Concord Century Holdings Limited, a Hong Kong listed company. He was an independent non-executive director of Shougang Grand from January 2007 to December 2019. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC. He has extensive experience in legal profession.

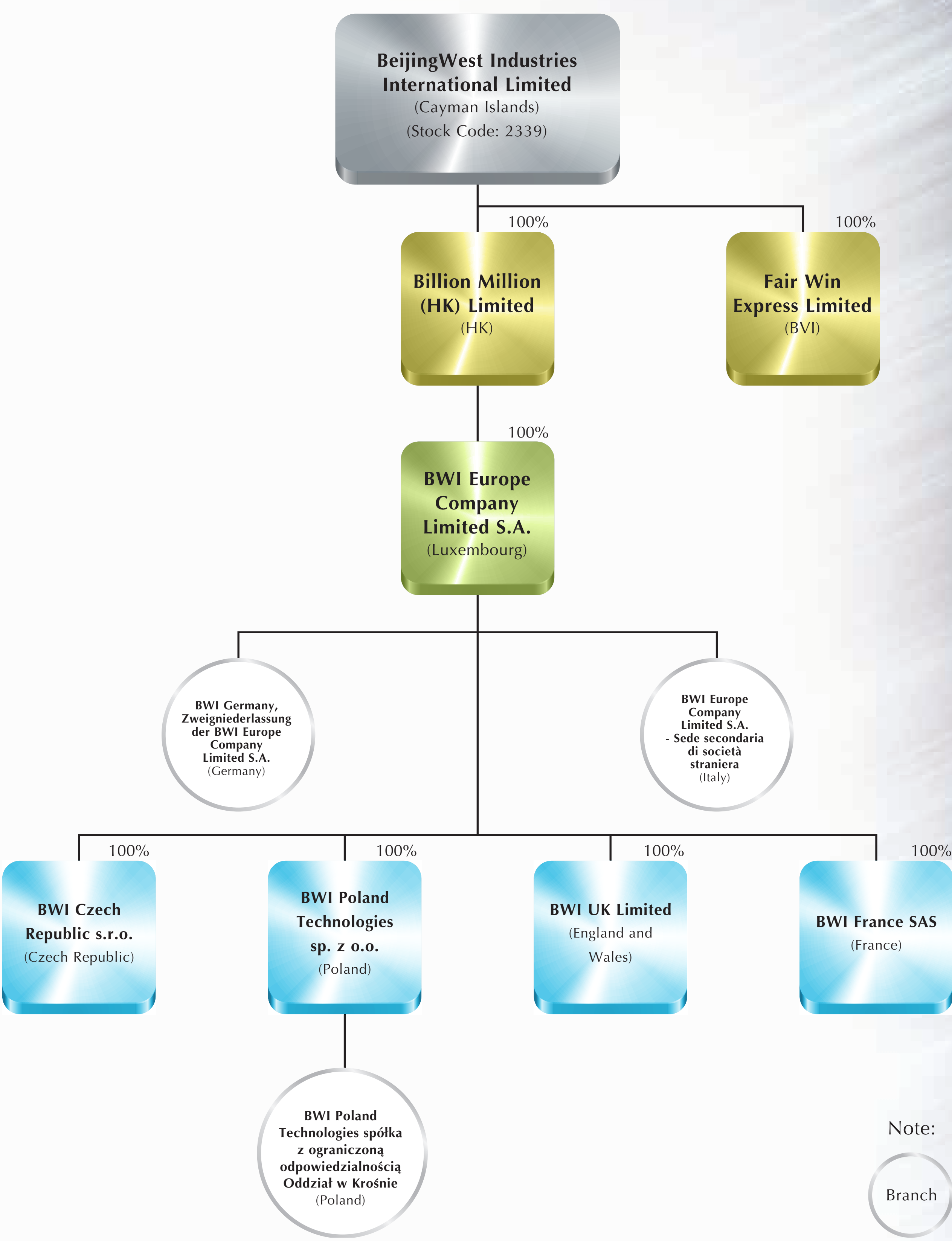
An engagement letter was entered into with Mr. Yip for a term of three years commencing on 1 January 2020. Under the engagement letter, Mr. Yip is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2019 and 2020, the director's fee of Mr. Yip is HK$240,000 per annum. Such director's fee was determined with reference to Mr. Yip's experience and duties as well as the then prevailing market conditions.

Mr. Chan Pat Lam, aged 71. Mr. Chan was appointed an Independent Non-executive Director of the Company in November 2018 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Shougang Resources, a Hong Kong listed company. Mr. Chan is the consultant of a private company which is an international container shipping agency in the Western region of Pearl River Delta. He is also a partner of Chan Kai Wing & Brothers Limited, a private company which engages in trading and wholesaling of grocery items. Mr. Chan has extensive experience in the field of international banking industry in Hong Kong, Macau and California.

An engagement letter was entered into with Mr. Chan for a term of three years commencing on 1 January 2020. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2019 and 2020, the director's fee of Mr. Chan is HK$240,000 per annum. Such director's fee was determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

GROUP STRUCTURE

As at 31 December 2019



CHAIRMAN'S STATEMENT

On behalf of the board of directors of BeijingWest Industries International Limited (hereinafter the "Company"), I am pleased to present the annual report and the financial statements of the Company and its subsidiaries (hereinafter the "Group") for the year ended 31 December 2019 (hereinafter the "Review Year").

FINANCIAL PERFORMANCE

After the disposal of the brake business in 2018, the Group has focused on developing our suspension business. However, as being affected by factors such as the sluggish economic growth in Europe and the Brexit, the demand for new cars in Europe declined, as a result the entire auto parts industry confronted with various difficulties. Under such unfavourable circumstances, our suspension business did not perform well in 2019. Our subsidiaries in the United Kingdom and Poland recorded a significant drop in sales revenue and profit. Consequently, the revenue of the Group in the Review Year decreased by 22.34% to HK$2,654.59 million year on year, and the net profit fell to HK$4.89 million, representing a decrease of 32.60% as compared to that of 2018 (after excluding the one-time gain from the disposal of the brake business).

In spite of great challenges, the management of the Company has endeavored to reduce the impacts on the Group arising from various negative factors by improving the utilization of raw materials and enhancing the production efficiency. In addition, as the Group had disposed of the brake business of relatively lower profit margin, the overall profit margin of the Group in the Review Year no longer being dragged by it. During the Review Year, the Group did not record a decline in the gross profit margin, instead it slightly increased to 20.80%.

During the Review Year, the Group maintained a healthy cash position with net cash inflow recorded from operating activities. The Group's overall financial position remained strong as well. As at 31 December 2019, the cash and bank balance of the Group amounted to HK$366.84 million and the gearing ratio (measured as total borrowings over total assets) maintains at a low level of approximately 5.06%.

CHAIRMAN'S STATEMENT

OUTLOOK

Looking forward to 2020, we expect that there will be a great deal of uncertainties in the future. The automobile industry in Europe may also be affected by the following factors: (i) as the coronavirus outbreak continues to spread globally, the supply chain of the global trade will be undermined, such that trade costs and order deliveries may be affected in certain extent; (ii) the coronavirus outbreak may also bring the United Kingdom and the Europe into economic recession along with the impact of the Brexit and the slowdown of Germany's economy, which may lead to the decline of European consumers' income and consumption confidence; (iii) the enduring global trade tensions may have a direct impact on the export trade of automobile in Europe. In addition, as the United States intends to reduce its long lasting trade deficit with the Europe, it is possible that additional tariffs will be imposed on European automobile; (iv) the consumption demand for imported European automobile may be reduced if China's economy records a further slowdown. Facing such uncertain yet complicated market situations, we will be well prepared for any possible challenges in the future.

In order to maintain and increase the sales revenue, the Group will strengthen the cooperation with automobile manufactures, and provide them with high quality products to procure the completion of the sales orders. Meanwhile, we will endeavor to boost the scales of new orders and new projects in the future so as to safeguard the long-term steady development of the Group. Furthermore, we will take measures to speed up the improvement of the production capacity and efficiency of our new plant in Czech and strives to improve its contribution to the sales revenue and profit of the Group.

For the purpose of maintaining market competitiveness, the Group emphasizes not only on the technical enhancement of existing products, but also focuses on the research and development on new products and technologies. The Group will continue to make investments on the research and development as always. It is expected that our new technical centre in Poland will commence its operation in 2020. We believe that these new equipment and facilities will help us strengthen our capabilities of researching and developing new market-oriented products.

In order to generate a sustainable and better return to the shareholders, the Group is always exploring the possibility of acquiring high quality assets from BeijingWest Industries Co., Ltd. and/or other independent collaborative parties. The management intends to remain prudent in assessing acquisition opportunities and will only invest in opportunity with a clear long-term growth prospect and without overvaluation. Accordingly, the Group will continue to steadily increase its market share as well as to explore new business segments.

CHAIRMAN'S STATEMENT

Overall, I consider there is still much more room for improvement in the business performance of the Group. Nevertheless, I am confident that every one of the Group will try his/her best to regain business growth of the Company as well as to create and maintain long-term value for the shareholders.

INVESTOR RELATIONS AND COMMUNICATION

The Group is committed to continuously maintaining and enhancing its transparency. Latest developments and financial reports of the Group are available to investors through the Company's website, or by directly contacting the Company's Investor Relations Department. The Company also maintains effective communications and good relationships with fund managers and analysts through meetings, conference calls, road shows, etc.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to all our Directors, management team and all staff for their efforts in contributing to the Group. I would also like to thank all our shareholders, customers and business partners for their trust and support throughout all these years, and sincerely value your continued support to the Group.

Jiang Yunan
Chairman

26 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

During the year ended 31 December 2019, the Group involved in the manufacture and sale of automotive parts and components and the trading of automotive parts and components. The core products of the Group were suspension products.

Suspension products

The Group's automotive suspension products were mainly utilized on premium passenger vehicles, which were manufactured by our plants in Europe. There are two major plants in Poland and the United Kingdom ("UK"), which manufacture and assemble suspension products for their customers. Also, a new plant in the Czech Republic commenced production in the second quarter of year 2017. However, the new plant would not make any profit contribution to the Group before the plant reaches the optimal production status. By all means, the Group will try to expedite the process of reaching the designed capacity of the new plant so as to generate profit contribution as soon as possible.

The Group develops and maintains strong relationships with its customers, who are mainly well-known European automobile manufacturers, therefore the Group well understood the technical requirements of our customers and has the expertise on the manufacturing process for premium passenger vehicles.

The Group purchases raw materials and components mainly from the suppliers in Europe, which are selected based on certain factors, including the history of relationship with the Group, quality and price of the products, delivery time, and after-sales services. The Group maintains stable relationships with its major suppliers and does not rely on any single supplier for any type of raw materials and components.

Brake products

The brake business of BWI (Shanghai) Co., Ltd. ("BWI Shanghai") recorded an operating loss in 2018 due to changes in the market conditions in China. In order to mitigate the adverse effect caused by BWI Shanghai on the Group's performance and better concentrate the Group's resources to develop our other businesses, the Group disposed of its 51% interests in BWI Shanghai (the "Disposal"), which was completed in August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded revenue of HK$2,469.38 million from manufacture and sales of suspension products. While for the year ended 31 December 2018, the Group recorded revenue of HK$3,272.58 million from manufacture and sales of suspension and brake products. The decrease in revenue for the year ended 31 December 2019 is mainly because (i) after the completion of the Disposal, the Group no longer recorded the revenue from the brake business; and (ii) the impact of Brexit on the automotive components business started emerging and at the same time the European economy was weak. These affected the sales of suspension products.

For the year ended 31 December 2019, the Group also recorded HK$185.21 million in provision of technical services (year ended 31 December 2018: HK$145.70 million).

Gross profit and gross profit margin

For the year ended 31 December 2019, the gross profit and gross profit margin for the suspension products were HK$552.19 million and 20.80% respectively. While for the year ended 31 December 2018, the gross profit and gross profit margin for the suspension and brake products were HK$622.69 million and 18.22% respectively. The gross profit decreased mainly because the Group no longer recorded the gross profit from the brake business and decrease in sales of suspension products. However, the gross profit margin increased because after the Disposal, the gross profit margin would not be dragged downwards by the lower profit margin of the brake products.

In addition, lower profit margin was observed from our new plant in the Czech Republic at its commencement stage, which also had a slight impact on the overall gross profit margin. The Group expects the plant in the Czech Republic will be able to achieve a higher gross profit margin in the coming future when the production volume ramps up and the utilization of raw materials and production efficiency improve due to economy of scale.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income

Other income of the Group for the year ended 31 December 2019 decreased by 66.56% to HK$58.10 million (year ended 31 December 2018: HK$173.77 million), which was mainly contributed by the decrease in profit from sale of scrap materials and a one-off disposal gain of HK$86.28 million realized upon the Disposal in 2018; while no such one-off disposal gain was recorded in 2019.

Selling and distribution expenses

Selling and distribution expenses of the Group for the year ended 31 December 2019 increased by 18.03% to HK$40.38 million (year ended 31 December 2018: HK$34.22 million), mainly due to increase in warranty expenses. Selling and distribution expenses mainly consisted of delivery expenses, salary and welfare for sales personnel and warranty expenses.

Administrative expenses

Administrative expenses of the Group for the year ended 31 December 2019 decreased by 11.02% to HK$197.16 million (year ended 31 December 2018: HK$221.58 million), mainly because the Group no longer recorded the administrative expenses from the brake business after the Disposal as well as tighten cost control was in place. Administrative expenses mainly consisted of salaries for administrative staff and management service fee charged by related companies.

Research and development expenses

Research and development expenses of the Group for the year ended 31 December 2019 decreased by 23.78% to HK$294.83 million (year ended 31 December 2018: HK$386.82 million), mainly because the Group no longer recorded the research and development expenses from the brake business after the Disposal as well as tighten cost control was in place. Research and development expenses mainly consisted of salaries for technical staff and service fee charged by related companies.

Finance costs

Finance costs of the Group for the year ended 31 December 2019 decreased by 14.06% to HK$11.64 million (year ended 31 December 2018: HK$13.55 million) because the Group no longer recorded the finance costs from the brake business. Finance costs mainly represented interest on bank loans obtained by subsidiaries in Europe and Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to equity owners of the Company

For the year ended 31 December 2019, profit for the year attributable to equity owners of the Company approximate to HK$4.89 million (year ended 31 December 2018: HK$120.88 million). The decrease in profit for the year attributable to equity owners is mainly due to a one-off disposal gain of HK$86.28 million realized upon the Disposal in 2018 and no such one-off disposal gain was recorded in 2019. Moreover, the impact of Brexit on the automotive components business started emerging and at the same time the European economy was weak which led to a decline in the net profits contributed by the subsidiaries in Europe.

Liquidity and Financial Resources

Our business requires a significant amount of working capital, which is primarily used to finance the purchase of raw materials, capital spending, research and development and other operating expenses. The working capital and other capital requirements were satisfied principally by cash generated from internal operations, and moderate level of bank loans as well.

The Group was operating in a net cash outflow position for the year ended 31 December 2019, with net cash flows from operating activities amounted to HK$17.91 million (year ended 31 December 2018: net cash flows from operating activities of HK$222.86 million). As at 31 December 2019, the Group maintained cash and bank balances of HK$366.84 million (as at 31 December 2018: HK$727.91 million).

Indebtedness

As at 31 December 2019, the Group had bank borrowings of HK$98.27 million, which were obtained by subsidiaries in Europe and were denominated in Euro ("EUR") with an interest of 1-month EURIBOR plus 2.00% per annum and Polish Zloty ("PLN") with an interest of 1-month WIBOR plus 2.00% per annum.

As at 31 December 2018, the Group had bank borrowings of HK$349.37 million, in which HK$124.97 million obtained by subsidiaries in Europe were denominated in EUR with an interest of 1 Month EURIBOR plus 2.20% per annum, United States Dollar (US$) with an interest of 1 Month LIBOR plus 2.20% per annum and PLN with an interest of 1 Month WIBOR plus 2.00% per annum; and the remaining bank borrowings of HK$224.40 million obtained by a subsidiary in Hong Kong were denominated in EUR with an interest of 1 Month EURIBOR plus 1.20% per annum.

The Group's gearing ratio (measured as total bank borrowings over total assets) as at 31 December 2019 was 5.06% (as at 31 December 2018: 16.12%). The Company would keep monitoring the financial and liquidity position of the Group closely, and make appropriate financing strategy for the Group in accordance with the change of the financial market from time to time.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

As at 31 December 2019 and 2018, there were no assets being pledged.

Foreign Exchange Exposure

The Group's transactions are mainly denominated in EUR and the local currencies of our operations, which include PLN, Great Britain Pound Sterling and Czech Koruna. Some transactions would also be denominated in US$. The Group will closely monitor the foreign exchange market and take appropriate and effective measures from time to time to reduce any negative impact from exchange-rate risk to the furthest extent.

Capital and other commitments

Save as disclosed in note 31 in the notes to financial statements, the Group and the Company had no other commitments as at 31 December 2019 and 2018.

Contingent Liabilities

As at 31 December 2019, the Group and the Company did not have any significant contingent liabilities.

OTHER INFORMATION

Environmental, Health and Safety

The Group is dedicated to protecting the health of people, natural resources and the global environment, and has adopted the hazardous material control programs and chemical material assessment procedures. The Group has obtained all necessary permits under applicable environmental protection laws for its production facilities.

The Group strictly complies with the laws and regulations that exert great influence on the Group such as various environmental protection laws relating to emissions to land, air and water and waste production from its production facilities. Various hazardous material control programs and chemical material assessment procedures have also been adopted to meet the applicable legal requirements.

The Group also emphasizes the health and safety of its employees and is committed to providing a safe and healthy working environment for the benefits of its staff. In order to reduce the contact with occupational hazard factors of employees, the Group provides training of occupational health and safety and prevention and control of occupational disease for all relevant employees. The Group also adopted human resources policies, which provide the health and safety initiatives such as: (i) identifying and communicating health and safety initiatives; (ii) monitoring trends in statistics for occupational injuries or illnesses; (iii) complying with health and safety regulations; and (iv) promoting incident reduction through investigation, assessments, corrective actions and proactive intervention. The Group has also complied with applicable social, health and work safety laws and regulations in all material aspects.

The Group also emphasizes continuous learning and hopes employees can grow together with the Group. Diversified training and development opportunities are provided for all employees to help them reach their full potential.

Review and Prospects

During the year under review, the Group involved in the manufacture and sale of automotive parts and components and trading of automotive parts and components in Europe.

The Group relies on passenger vehicle manufacturers as customers or potential customers of its products. Its financial performance largely depends on the continuing growth of the automotive industry in Europe. The overall market demand for cars may be affected by factors such as regional economic conditions, fuel price and end customers' expectations on future economic situation. These factors are beyond the Group's control, and may affect the annual production of automobiles by passenger vehicle manufacturers, which possibly in turn affect the sales and profitability of the Group's products.

The Group will keep moving forward and aim to maintain a solid and healthy growth and development. Despite the continued pricing pressure from customers and the increase in commodity prices, the Group is capable of maintaining its gross profit margin at a reasonable level. Apart from the commencement of production of the new sales order awarded from previous years, the Group is confident that it will be able to maintain a sustainable business development.

The Group has accumulated extensive technical knowledge and developed a high degree of technical expertise with a consistent focus on research and development. We believe that our technical expertise, the long-term relationship with different vehicle manufacturers, as well as the well-understanding of the requirements of the vehicle manufacturers will enable us to capture more market opportunities and develop products that meet the technical requirements of the vehicle manufacturers. It would be a strong support for the Group's long-term development.

The Group believes that the continuing investment on research and development as well as engineering activities is vitally significant for the Group to maintain and improve its leadership position in the industry. It would contribute greatly to the improvement of the Group's competitiveness over other competitors. Meanwhile, it keeps evolving in the automotive industry to cater to the change of requirements from customers. To keep pace with our customers, the Group will endeavor to collaborate closely with the vehicle manufacturers and develop innovative solutions to better serve our customers.

MANAGEMENT DISCUSSION AND ANALYSIS

With a view to improve long-term profitability and shareholders' value, the Company will also seriously evaluate and review the business of the Group, and optimize the business structure of the Group by acquisition or restructuring of operations appropriately. In addition, the Group will continue to seek potential acquisition opportunities in both the PRC and abroad to strengthen its revenue base and improve its profitability.

Employees and Remuneration Policy

As at 31 December 2019, the Group had approximately 930 full-time employees (as at 31 December 2018: 880 full-time employees). During the year ended 31 December 2019, the total employees' cost was HK$471.04 million (year ended 31 December 2018: HK$557.18 million). Remuneration packages of the employees are determined by reference to the qualifications and experience of the employee concerned and are reviewed annually by the management with reference to market conditions and individual performance. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group has defined benefit pension plans covering substantially all of its qualified employees in Poland, France and Germany. The Group has also adopted a mandatory provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and enhancing accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2019.

BOARD OF DIRECTORS

(a) Composition

The Board currently comprises a total of seven Directors, being three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" in this annual report. An updated list of the Directors and their roles and functions is published on the websites of the Stock Exchange and the Company respectively.

The Board is characterised by diversity and has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" in this annual report.

The Directors give sufficient time and attention to the affairs of the Company and its subsidiaries (the "Group"). All Directors are required to disclose to the Company at the time of their appointment and annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

Save for those as disclosed in the section headed "Directors' Biographies" as set out on page 3 to page 6 of this annual report, the Board members have no other financial, business, family or other material/relevant relationships with each other.

The Board includes a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that there is a sufficient independent element on the Board, which can effectively exercise independent judgement.

BOARD OF DIRECTORS (continued)

(a) Composition (continued)

The Non-executive Directors are of sufficient number and calibre for their views to carry weight. The functions of Non-executive Directors include:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance and monitoring performance reporting.

The Non-executive Directors (including Independent Non-executive Directors) have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They give the Board and the committees on which they serve the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Composition of the Board is disclosed, and the Independent Non-executive Directors are identified, in all corporate communications to shareholders.

(b) Role and function of the Board and the management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

(c) Board meetings

The Board meets regularly and holds at least four Board meetings a year. Additional meetings will be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication in accordance with the articles of association of the Company (the "Articles").

The Company Secretary assists the Chairman in drawing up the agenda of each Board meeting. Draft agenda of each regular Board meeting will be sent to all Directors for review before the agenda is issued and all Directors may request for inclusion of other matters in the agenda. The Chairman will take into account the matters proposed by the Directors and where appropriate, approve the inclusion of such matters in the agenda of the Board meeting. Generally, at least 14-day notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting. Where queries are raised by Directors, prompt and full responses will be given if possible.

There has been procedure in place to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses. The Board shall resolve to, upon reasonable request, provide separate independent professional advice to Directors to assist them in performing their duties to the Company.

The Company Secretary is responsible for taking minutes of Board meetings and Board committee meetings, draft and final versions of which would be sent to Directors for comments and records respectively, within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and Board committees meetings are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, the matter will be dealt with by a physical Board meeting, rather than a written resolution. Independent Non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at that Board meeting.

BOARD OF DIRECTORS (continued)

(c) Board meetings (continued)

Except for those circumstances permitted by the Articles and all applicable laws, rules and regulations, a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates (or associates where the transaction or arrangement is a connected transaction under Chapter 14A of the Listing Rules) has a material interest nor shall he be counted in the quorum present at the meeting.

(d) Attendance records

During the financial year ended 31 December 2019, the Directors have made active contribution to the affairs of the Group and five physical Board meetings were held to consider various projects contemplated by the Group, as well as to review and approve the interim results and final results of the Group.

Details of the Directors' attendances in 2019 are as follows:

	Number of meeting(s) attended/ eligible to attend
Executive Directors	
Jiang Yunan *(Chairman)*	5/5
Chen Zhouping	5/5
Li Shaofeng*	2/5
Thomas P Gold	5/5
Non-executive Director	
Zhang Yaochun*	1/5
Independent Non-executive Directors	
Tam King Ching, Kenny	5/5
Yip Kin Man, Raymond	5/5
Chan Pat Lam	5/5

* *Resigned as Director with effect from 27 November 2019.*

BOARD OF DIRECTORS (continued)

(e) Access to information

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval. The management provides all Board members with monthly updates which give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Directors to discharge their duties. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

(f) Board diversity

The Company adopted a board diversity policy (the "Board Diversity Policy") on 27 January 2014 which sets out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board Diversity Policy is posted on the website of the Company.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

(g) Nomination, appointment and re-election of Directors

Recommendation of candidates for directorship of the Company is a matter for consideration by the Nomination Committee. The Company adopted a director nomination policy (the "Nomination Policy") on 11 December 2018 which sets out the nomination procedures and the process and the criteria to select and recommend candidates for directorship.

In evaluating and selecting any candidate for directorship, the Nomination Committee and/or the Board should consider the certain criteria including but not limited to:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy, as well as diversity aspects under the Board Diversity Policy of the Company;
- any potential contributions that the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity; and
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.

As regards the nomination process, the Nomination Committee should review the biographical information of the candidate and evaluate such candidate based on the criteria as set out in the Nomination Policy to determine whether such candidate is qualified for directorship. If the process yields one or more desirable candidates, the Nomination Committee should rank them by order of preference based on the needs of the Company. After reviewing the suitable candidates, the Nomination Committee should make recommendation to the Board for appointment of the appropriate candidate for directorship.

For re-election of Directors at general meeting, the Nomination Committee will give adequate consideration to the Board Diversity Policy, the Nomination Policy and the relevant requirements of the Listing Rules before making recommendations to the Board.

BOARD OF DIRECTORS (continued)

(g) Nomination, appointment and re-election of Directors (continued)

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the first general meeting of the Company after his/her appointment or, in the case of an addition to the existing Board, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director is subject to retirement by rotation at least once every three years.

All Directors (including all Non-executive Directors) have entered into service agreements or letters of engagement with the Company for a term of not more than three years.

(h) Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to Rule 3.10A of the Listing Rules, the number of Independent Non-executive Directors of the Company represents not less than one-third of the Board.

The Company has received from each of its Independent Non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Any re-election of an independent non-executive director who has served the board for more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders.

(i) Insurance for directors' and officers' liability

Appropriate insurance covering directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

BOARD OF DIRECTORS (continued)

(j) Directors' training and professional development

Every newly appointed Director will be given an introduction of regulatory requirements. Directors are continually updated on the latest development of the Listing Rules, legal and other regulatory requirements to ensure compliance and upkeep of good corporate governance practice. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary facilitates induction and professional development of Directors and the Company is responsible for arranging and funding suitable training for the Directors.

All Directors have provided to the Company their records of training received during the financial year ended 31 December 2019, a summary of which is as follows:

	Continuous professional development	
Directors	**Type** *(Note I)*	**Subject** *(Note II)*
Jiang Yunan	B	1, 4
Chen Zhouping	B	1, 4
Li Shaofeng	B	1, 4
Thomas P Gold	B	1, 4
Zhang Yaochun	B	1, 4
Tam King Ching, Kenny	A	1, 2
	B	1, 4
Yip Kin Man, Raymond	A	1
	B	1, 4
Chan Pat Lam	A	1
	B	1, 4

Note I:

A: Attending seminars, conferences, forums, in-house briefings or in-house training

B: Reading newspapers, journals and updates

Note II:

1: Laws, rules and regulations

2: Finance, accounting or taxation

3: Management

4: Businesses relating to the Company

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. Mr. Jiang Yunan is the Chairman and Mr. Chen Zhouping serves as the Managing Director of the Company. The Chairman provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

The responsibilities of the Chairman include, amongst other things:

- taking primary responsibility for ensuring that good corporate governance practices and procedures are established;

- ensuring that all Directors are properly briefed on issues arising at Board meetings, and ensuring that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;

- encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interest of the Company;

- encouraging Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus;

- ensuring that appropriate steps are taken to provide effective communications with shareholders and that their views are communicated to the Board as a whole; and

- promoting a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

During the year, the Chairman met with the Independent Non-executive Directors without the presence of other Directors.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

(a) Executive Committee

An Executive Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties.

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group and has been assigned with the responsibilities to perform the corporate governance duties as follows:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

- to review and monitor the training and continuous professional development of Directors and senior management;

- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors;

- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

- to conform to any requirement, direction, regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The Executive Committee comprises all Executive Directors of the Company.

BOARD COMMITTEES (continued)

(a) Executive Committee (continued)

During the year, six physical meetings of the Executive Committee were held. Amongst those meetings, one meeting was held for the purpose of performing the corporate governance duties and the attendances of the members of the Executive Committee at that meeting are as follows:

Committee members	Number of meeting(s) attended/ eligible to attend
Jiang Yunan *(chairman of the committee)*	1/1
Chen Zhouping	1/1
Li Shaofeng*	1/1
Thomas P Gold	1/1

* *Ceased to be committee member with effect from 27 November 2019.*

The major work in relation to the corporate governance of the Group performed by the Executive Committee during the year included, amongst other things, the following:

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2018.

(b) Audit Committee

An Audit Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Audit Committee include, amongst other things:

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements;
- reviewing the Company's financial reporting system, risk management and internal control systems; and
- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

BOARD COMMITTEES (continued)

(b) Audit Committee (continued)

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary. It is given access to and assistance from the employees and reasonable resources to perform its duties properly.

The chairman of the Audit Committee is an Independent Non-executive Director and the Audit Committee comprises all Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company.

During the year, four physical meetings of the Audit Committee were held and the attendances of the members of the Audit Committee are as follows:

Committee members	**Number of meeting(s) attended/ eligible to attend**
Tam King Ching, Kenny *(chairman of the committee)*	4/4
Yip Kin Man, Raymond	4/4
Chan Pat Lam	4/4

The major work performed by the Audit Committee during the year included, amongst other things, the following:

- reviewing the final results of the Group for the year ended 31 December 2018;
- reviewing the interim results of the Group for the six months ended 30 June 2019; and
- reviewing the reports on the risk management and internal control systems of the Group prepared by an independent advisory firm.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

BOARD COMMITTEES (continued)

(c) Nomination Committee

A Nomination Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;

- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;

- assessing the independence of Independent Non-executive Directors;

- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that have been set for implementing the Board Diversity Policy, and reviewing the progress on achieving the objectives; and

- reviewing the Nomination Policy, including to review the nomination procedures and the process and criteria to select and recommend candidates for directorship, as appropriate.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will give adequate consideration to the Board Diversity Policy and the Nomination Policy, and take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

BOARD COMMITTEES (continued)

(c) Nomination Committee (continued)

The Board Diversity Policy is posted on the website of the Company. For further details of the Nomination Policy, please refer to the sub-section headed "Nomination, appointment and re-election of Directors" under "Board of Directors" section in this report.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The chairman of the Nomination Committee is the Chairman of the Board and the Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

During the year, two physical meetings of the Nomination Committee were held and the attendances of the members of the Nomination Committee are as follows:

Committee members	Number of meeting(s) attended/ eligible to attend
Jiang Yunan *(chairman of the committee)*	2/2
Zhang Yaochun*	1/2
Tam King Ching, Kenny	2/2
Yip Kin Man, Raymond	2/2
Chan Pat Lam	2/2

* *Ceased to be committee member with effect from 27 November 2019.*

The major work performed by the Nomination Committee during the year included, amongst other things, the following:

- assessing the independence of the Independent Non-executive Directors;
- considering and making recommendations to the Board on the re-election of Directors at the annual general meeting; and
- reviewing the structure and composition of the Board with due regard for the benefits of diversity on the Board.

BOARD COMMITTEES (continued)

(d) Remuneration Committee

A Remuneration Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;

- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;

- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;

- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee may consult the Chairman of the Board and/or the Managing Director of the Company about their remuneration proposals for other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

BOARD COMMITTEES (continued)

(d) Remuneration Committee (continued)

The chairman of the Remuneration Committee is an Independent Non-executive Director and the Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

During the year, one physical meeting of the Remuneration Committee was held and the attendances of the members of the Remuneration Committee are as follows:

Committee members	Number of meeting(s) attended/ eligible to attend
Yip Kin Man, Raymond *(chairman of the committee)*	1/1
Jiang Yunan	1/1
Tam King Ching, Kenny	1/1
Chan Pat Lam	1/1

The major work performed by the Remuneration Committee during the year included, amongst other things, the following:

- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2020;
- considering the bonuses of the Executive Directors of the Company for the year 2019; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2020.

Details of remuneration paid to Directors and senior management for the year are set out in note 9 to financial statements.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman and/or the Managing Director of the Company on corporate governance and the implementation of the CG Code. The Company Secretary is an employee of the Company and has day-to-day knowledge of the Group's affairs.

The Company Secretary reports to the Chairman and the Managing Director. All Directors also have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations, are followed. The selection, appointment and dismissal of the Company Secretary is subject to the Board approval.

Mr. Cheng Chun Shing has been appointed as the Company Secretary of the Company since 21 March 2018. He has confirmed that he has taken no less than 15 hours of relevant professional training during the year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledged that it is the Board's responsibility to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems.

During the year, the Group has complied with Principle C.2 of the Corporate Governance Code by maintaining appropriate and effective risk management and internal control systems. The management is responsible for the design, implementation and monitoring of such systems, while the Board, with the assistance of the Audit Committee, oversees the management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below.

Risk Management System

The Group adopts a risk management system which manages the risks associated with its businesses and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that may affect the achievement of objectives.

- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Risk Management System (continued)

Based on the risk assessments conducted in 2019, the details of significant risks and the relevant risk responses are highlighted as follow:

Risk Categories	Risk Title	Risk Descriptions	Risk Responses
Strategic risk	Over reliance on certain suppliers	Over reliance of several major suppliers may increase the risk of vendor concentration which could result in supply disruption.	To mitigate the risk, the Group is actively looking for the opportunity of multiple sourcing. Besides, the Group tries to develop a healthy, long-term business relationship with the suppliers so as to stabilize the supply chain.
Strategic risk	Deterioration of business environment	The financial performance of the Group largely depends on the growth of automotive industry and business environment in Europe. Challenges from the emergence of trade protectionism, global economy slowdown and the soar of operating costs have made a negative impact on the profitability of the Group.	In order to maintain sustainable business development, the Group has actively and closely monitored the industrial environment and prepared scenario analysis. The Group also devoted its effort in improving operational efficiency and cost saving methods to strengthen its competitiveness.

The management has established risk management framework to identify risks, set risk aptitudes and develop risk responses plans. The management will review the framework regularly to ascertain the effectiveness of the risk management process. The management will also actively identify, report and discuss the risk responses based on the dynamic economic environment and uncertainties. In addition, the management will also establish mechanisms to identify environmental changes and analyze the related risks and opportunities.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Control Systems

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee assists the Board to discharge its responsibilities of ensuring and maintaining appropriate and effective internal control functions by continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can manage the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss of the Group.

The internal control systems of the Group are embedded within the business processes so that they function as an integral part of the overall operations of the Group. The systems comprise a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

The Company has in place internal control systems which are compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The main components of the framework are shown as follows:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- *Control Activities:* Policies and procedures to help ensure that the management directives to mitigate risks to the achievement of objectives are carried out.

- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- *Monitoring:* Ongoing and separate evaluations to ascertain whether each component of the internal control systems is present and functioning.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Control Systems (continued)

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has reviewed, with the assistance of the Audit Committee, the Group's risk management and internal control systems and is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal control systems of the Group. Also, based on the internal control reviews conducted in 2019, no significant control deficiency was identified.

Internal Audit

The Group has an internal audit ("IA") function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA personnel are independent of the Group's daily operation and carry out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

According to the established plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Audit Committee and the Board.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by the IA personnel and the Audit Committee, concluded that the risk management and internal control systems of the Group were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. In respect of accounting, internal audit and financial reporting functions of the Company, the Board also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

INSIDE INFORMATION DISCLOSURE POLICY

The Company adopted an inside information disclosure policy (the "Inside Information Disclosure Policy") on 21 December 2015 which sets out the procedures for the handling and dissemination of inside information with a view to preventing uneven, inadvertent or selective dissemination of inside information and ensuring shareholders and the public are provided with full, accurate and timely information about the activities and the financial condition of the Group. The Inside Information Disclosure Policy covers the following:

- setting out the processes for identifying, assessing and escalating potential inside information to the Board;

- setting out the responsibilities of officers in preserving the confidentiality of inside information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and

- identifying who are the Company's authorized spokespersons and their responsibilities for communications with stakeholders of the Company.

In addition, the Company has communicated to all relevant staff regarding the implementation of the Inside Information Disclosure Policy.

The Board considers that the Company's existing measures are effective and appropriate compliance mechanisms to safeguard the Company and its officers in discharging their disclosure obligations in respect of inside information.

The Inside Information Disclosure Policy is posted on the website of the Company.

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2019.

Employees who are likely to possess inside information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the Company's auditor, Ernst & Young, is set out as follows:

Services rendered	HK$'000
Audit services	2,593
Non-statutory audit services:	
– Interim review	1,095
	3,688

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the annual and interim reports and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Ernst & Young, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 80 to 85 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.bwi-intl.com.hk.

(a) Shareholders' Communication Policy

On 27 January 2014, the Board adopted a Shareholders' Communication Policy reflecting the current practices of the Company for communication with its shareholders. Such policy aims at ensuring the shareholders of the Company are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders to engage actively with the Company.

(b) General meetings

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

During the year, two general meetings were held by the Company. One of the general meetings was the annual general meeting of the Company held on 23 May 2019 (the "2019 AGM") and the other one was the extraordinary general meeting held on 17 December 2019 (the "EGM") for approving the continuing connected transactions of the Company.

COMMUNICATION WITH SHAREHOLDERS (continued)

(b) General meetings (continued)

The auditor of the Company, Ernst & Young, attended the 2019 AGM. Details of the Directors' attendances at the general meetings held during the year are as follows:

Directors	2019 AGM	EGM
Executive Directors		
Jiang Yunan *(Chairman)*	✓	×
Chen Zhouping	✓	✓
Li Shaofeng*	×	N/A
Thomas P Gold	×	×
Non-executive Director		
Zhang Yaochun*	✓	N/A
Independent Non-executive Directors		
Tam King Ching, Kenny	✓	✓
Yip Kin Man, Raymond	✓	✓
Chan Pat Lam	✓	✓

* *Resigned as Director with effect from 27 November 2019.*

During the year, all notice(s) of general meeting(s) despatched by the Company to its shareholders for meeting(s) held were sent for annual general meeting at least 21 clear days and at least 20 clear business days before the meeting and for extraordinary general meeting (at which the passing of a special resolution was considered) at least 21 clear days and at least 10 clear business days before the meeting, and for all other extraordinary general meeting(s) at least 14 clear days and at least 10 clear business days before the meeting(s). Separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors, and all resolutions put to the vote of a general meeting were taken by way of a poll. At the general meetings, the chairman of the meetings explained the procedures for conducting a poll and answered questions from shareholders on voting by poll, if any. The results of the poll were published on the websites of the Stock Exchange and the Company respectively.

COMMUNICATION WITH SHAREHOLDERS (continued)

(c) Dividend Policy

The Company adopted a dividend policy (the "Dividend Policy") on 11 December 2018 which set out the principles and guidelines in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company.

The Company does not have any pre-determined dividend payout ratio. In respect of recommendation or declaration of any dividend, the Board should ensure that the Company can maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value on an ongoing basis.

The Board shall also take into account the following factors of the Company and its subsidiaries when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

Save for the factors as set out in the Dividend Policy, the Board must also comply with the Articles and all applicable laws and regulations before declaration and distribution of any dividends to the shareholders of the Company at its discretion.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

(a) Convene an extraordinary general meeting and put forward proposals at shareholders' meetings

There are no provisions under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands allowing shareholders to propose new resolutions at general meetings.

However, pursuant to the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 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 requisitionist himself may do so in the same manner, and all reasonable expenses incurred by the requisitionist as a result of the failure of the Board shall be reimbursed to the requisitionist by the Company.

(b) Shareholders' enquiries

Specific enquiries or suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our principal office in Hong Kong or by email to our Company. In addition, shareholders can contact Tricor Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlement to dividend. Relevant contact details are set out on page 2 of this annual report.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company's constitutional documents during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

BeijingWest Industries International Limited (the "Company") and its subsidiaries (collectively the "Group" or "We") are pleased to present our environmental, social and governance ("ESG") report. The ESG report summarises the efforts and achievements made by the Group in corporate social responsibility and sustainable development. As for the information on corporate governance, please refer to the corporate governance report on pages 18 to 43 of this annual report.

Scope of the Report

The ESG report covers the business segment of the Group, namely, manufacturing and sales of auto parts, focusing on the operation of the production facilities in the Czech Republic, Poland, and the United Kingdom (the "UK") and the technical centre in Poland. As the production facility in Shanghai of the People's Republic of China (the "PRC") was disposed of in 2018, its performance after the disposal date is no longer disclosed in the ESG report. Our sustainability approach and performance in the environmental and social aspects of our business for the reporting period from 1 January 2019 to 31 December 2019 (the "Year") are presented in the ESG report. The Group continues to strengthen information collection in order to enhance the performance in environmental domains and to disclose relative information on sustainable development.

Reporting Standard

The ESG report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Feedback

We welcome your feedback and your opinions will be highly valued. Should you have any advice or suggestions on the ESG report, please contact us at info@bwi-intl.com.hk.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE GROUP

The Group principally engages in the manufacture and sale of automotive parts and components, trading of automotive parts and components and the provision of technical services. The Group's automotive suspension products are mainly for premium passenger vehicles, which are manufactured by our plants in Europe. Through developing and maintaining a strong relationship with the major customers, the Group well understands the technical requirements of the customers and has expertise in the manufacturing process for premium passenger vehicles.

Being a responsible enterprise with businesses in different countries, the Group and its employees are subject to the laws and regulations of the countries where it operates, as well as the requirements and standards of the industry.

Stakeholder Engagement

During the preparation of the ESG report for the Year, the Group engaged an independent third-party consultant to assist in gathering opinions from its internal key stakeholders on ESG. The opinions received enabled us to improve our internal management while enhancing the quality of the ESG report. Therefore, the Group attaches great importance to stakeholders' opinions and takes their opinions as the basis for its formulation and implementation of short-term and long-term sustainability strategies. Through a wide range of channels, we strive to communicate with stakeholders, understand their requirements and expectations so as to further improve our ESG performance.

Stakeholders	Requirements and Expectations	Means of Communication and Response
Governments and Regulators	• Compliance with national policies, laws and regulations • Support local economic growth • Drive local employment • Pay taxes in full and on time • Ensure production safety	• Report information regularly • Meet the regulators regularly • Dedicated reports • Examinations and inspections
Shareholders	• Returns • Compliant operation • Raise company value • Transparency in information and effective communication	• General meetings • Announcements • Email, telephone communication and company website • Dedicated reports

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Requirements and Expectations	Means of Communication and Response
Business Partners	• Operate with integrity • Equal Rivalry • Performance of contracts • Mutual benefit and win-win result	• Review and appraisal meetings • Business communications • Exchanges and discussions • Engagement and cooperation
Customers	• Outstanding products and services • Health and safety • Performance of contracts • Operate with integrity	• Customer service center and hotlines • Customer feedback surveys • Customer communication meetings • Social media platforms • Calling for feedback
Environment	• Compliant emission • Energy saving and emission reduction • Ecosystem protection	• Communicate with local environmental department • Reporting
Industry	• Establishment of industry standards • Drive industry development	• Participate in industry forums • Visits and inspections
Employees	• Protection of rights • Occupational health • Remunerations and benefits • Career development • Humanity cares	• Employee communication meetings • House journal and intranet • Employee mailbox • Training and workshop • Employee activity
Community and the Public	• Improve community environment • Participation in charity • Transparent information	• Company website • Announcements • Interview with media

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EXCELLENCE IN ENVIRONMENT

Environmental Principles

The role of a responsible corporate citizen is largely defined by the Group's commitment to protecting natural resources and the global environment. The Group strictly abides by the local laws and regulations where it operates regarding environmental protection, including the Act on Environmental Impact Assessment of the Czech Republic, Environmental Protection Law of Poland and Environmental Protection Act 1990 of the UK. The daily operations of the Group are governed by the environmental principles. To ensure the Group's sustained growth and prosperity while protecting the environment, we keep on reducing solid waste and air pollution, conserving resources and recycling materials by harnessing technologies.

Our commitment goes beyond compliance with the laws and encompasses the integration of sound environmental practices in our business decisions. Necessary permits were obtained under applicable environmental protection laws for the operation of production facilities in the Czech Republic, Poland and the UK, such as environmental permits in the areas of air emissions, water discharge and waste disposal.

Aiming at indicating risk factors in business operation, the environmental management system was executed. According to the system, identification and determination of environmental aspects are conducted by site environmental specialists to control the environmental risks and further lessen the environmental impact. Our dedication to implementing the environmental management system can be reflected by the certifications of ISO14001:2015 Environmental Management System Standard obtained from the production facilities in the Czech Republic, Poland and the UK.

The Group endeavours to educate, train and motivate employees to carry out tasks in an environmentally responsible manner, so as to raise their awareness on environmental protection. During the Year, environmental trainings were held in the production facilities in the Czech Republic, Poland and the UK, as well as the technical centre in Poland, in order to broaden employees' environmental protection knowledge. Looking forward, we will conduct an ongoing assessment on the impact of our production facilities and products on the environment and the communities, in an effort to achieve the goal of continual improvement.

Minimising Emissions and Reducing Resource Consumptions

(a) Minimising air and water pollutants

Emissions of our business operations are mainly from the manufacturing processes of the production facilities in the Czech Republic and Poland, while there is no air pollutant or water pollutant emitted from the production facility in the UK or the technical centre in Poland. Our air emissions and wastewater discharges are monitored on a regular basis to ensure the compliance with the relevant emission standards. In order to mitigate the wastewater discharges, modernisation has been taken place in the production facility in Poland, including installation of lamella settler for chromium-alkaline wastewater treatment process and upgrade of the existing sewage final filtration system.

EXCELLENCE IN ENVIRONMENT (continued)

Minimising Emissions and Reducing Resource Consumptions (continued)

(a) Minimising air and water pollutants (continued)

The following table shows the Group's performance in relation to air emissions and wastewater discharges in the Year.

Production Facility	Pollutant	Emission Amount	Emission Limit of the Standard
Czech Republic	Air Pollutants: (Relevant Standard: Requirements of Integrated Pollution Prevention and Control)		
	Carbon monoxide	2.53 mg/m³	50 mg/m³
	Nitrogen dioxide	7.38 mg/m³	100 mg/m³
	Volatile Organic Compounds	3.29 mg/m³	20 mg/m³
	Water Pollutants: (Relevant Standard: Requirements of Integrated Pollution Prevention and Control)		
	Aluminium	4.14 – 9.16 mg/L	5 – 10 mg/L
	Iron	7.23 – 12.90 mg/L	10 – 20 mg/L
	Nickel	<0.15 mg/L	0.1 – 0.2 mg/L
	Sulphates	474.6 – 1,070.0 mg/L	1,100 – 1,600 mg/L
Poland	Air Pollutants: (Relevant Standard: Requirements of Integrated Pollution Prevention and Control)		
	Aliphatic hydrocarbons	≦0.004 kg/h	0.143 kg/h
	Aromatic hydrocarbons	≦0.006 kg/h	0.093 kg/h
	Chromium	≦0.001 kg/h	0.100 kg/h
	Nitrogen Oxides	≦0.015 kg/h	0.078 kg/h
	Particulates	≦0.001 kg/h	0.100 kg/h
	Water Pollutants: (Relevant Standard: Integrated Wastewater Discharge Standard)		
	Chromium	0.01 – 0.10 mg/L	0.25 mg/L
	Copper	0.01 – 0.07 mg/L	0.25 mg/L
	Nickel	0.02 – 0.04 mg/L	0.25 mg/L
	Zinc	0.03 – 0.15 mg/L	1.00 mg/L

EXCELLENCE IN ENVIRONMENT (continued)

Minimising Emissions and Reducing Resource Consumptions (continued)

(a) Minimising air and water pollutants (continued)

In addition to the emissions from manufacturing processes, air emissions are also produced from the use of vehicles and stationary combustion. The air emissions of vehicles and stationary combustion from production facilities in the Czech Republic, Poland and the UK, as well as the technical centre in Poland are as follows:

Air Emissions	**2019**	2018[1]
Nitrogen oxides (kg)	**1,589**	1,473
Sulphur oxides (kg)	**13**	17
Particulate matter (kg)	**18**	9

(b) Reducing water consumption

Driven by our dedication to reducing water consumption in the manufacturing processes of our business operation, we have taken measures to achieve the target. Analysis of water consumption is conducted from time to time for better control of water usage.

Details of water consumption from the production facilities in the Czech Republic, Poland and the UK, as well as the technical centre in Poland are as follows:

Water Consumption	**2019**	2018[1]
Total water consumption (m^3)	**85,190**	100,708
Water consumption per production machine (m^3/production machine)	**132**	142

1 The performance of the production facility in Shanghai of the PRC till the disposal date was included in the 2018 key performance indicator ("KPI") disclosure.

EXCELLENCE IN ENVIRONMENT (continued)

Minimising Emissions and Reducing Resource Consumptions (continued)

(c) *Reducing energy consumption*

Energy-saving initiatives include switching off all working machinery and other electrical devices, as well as the power supply after the entire manufacturing process. Also, we carry out regular monitoring on the energy consumption. During the Year, an energy saving programme has been introduced in the production facility in Poland and training conducive to boost employees' energy-saving awareness was provided. In addition, new LED lamps have replaced the obsolescence and an independent control system on the heating and electricity has been set up in the production facility in Poland, as a result energy was consumed in a more efficient way.

The energy consumption from the production facilities in the Czech Republic, Poland and the UK, as well as the technical centre in Poland is as follows:

Energy Consumption	**2019**	2018[2]
Total energy consumption (MWh)	**50,203**	56,203
Energy consumption per production machine (MWh/production machine)	**78**	79
Non-renewable fuel consumption (MWh)	**6,265**	5,981
Purchased electricity and heating (MWh)	**43,938**	50,223

(d) *Sorting of waste*

The Group has established several waste management procedures on sites, complying with corporate standards and local legal requirements. We have a clear process in handling the waste, from the generation of waste to the transfer of waste to the contractor.

A waste sorting system that is applicable to waste like paper, glass, plastic and metal is implemented in the production areas. Waste is collected and stored in clearly labeled segregation containers. Mixed storage of hazardous waste and non-hazardous waste or hazardous waste of different types is strictly forbidden. Thus, the containers with hazardous waste and non-hazardous waste are collected and stored separately. After the waste sorting, we cooperate with the authorised waste contractor to collect the waste. The waste is always recycled to the greatest extent, while non-recyclable waste, such as municipal waste, is disposed of by an external service provider via landfill or incineration.

2 The performance of the production facility in Shanghai of the PRC till the disposal date was included in the 2018 KPI disclosure.

EXCELLENCE IN ENVIRONMENT (continued)

Minimising Emissions and Reducing Resource Consumptions (continued)

(d) Sorting of waste (continued)

The hazardous waste and non-hazardous waste produced by the production facilities in the Czech Republic, Poland and the UK, as well as the technical centre in Poland are listed in the table below:

Wastes	2019	2018[3]
Hazardous waste generated (tonnes)	**260**	456
Hazardous waste generated per production machine (tonnes/production machine)	**0.40**	0.64
Total non-hazardous waste generated (tonnes)	**6,258**	6,555
Non-hazardous waste generated per production machine (tonnes/production machine)	**10**	9

To achieve our goal of recycling the waste to the greatest extent, we recycled over 90% of non-hazardous waste, including paper or carton, plastic, wood and metal, in the production facilities in the Czech Republic, Poland and the UK, as well as the technical centre in Poland during the Year. By recycling reusable waste, we have minimised the disposal of waste at landfills.

(e) Minimising the use of natural resources

Our endeavour to preserve the environment can be embodied by the actions we take to reduce waste and pollutants, conserve resources and recycle materials, as well as to reduce the greenhouse gas emissions.

The Group has adopted measures to reduce paper use, such as encouraging the use of electronic system for information dissemination. Through electronic information transmission, we minimise the paper consumption and hazardous waste produced as far as possible. Besides, we have taken measures to utilise materials to the greatest extent. To reduce the amount of packaging materials used, we use collective packaging in lieu of individual packaging as well as use returnable packaging in the loop between suppliers and us.

3 The performance of the production facility in Shanghai of the PRC till the disposal date was included in the 2018 KPI disclosure.

EXCELLENCE IN ENVIRONMENT (continued)

Minimising Emissions and Reducing Resource Consumptions (continued)

(e) Minimising the use of natural resources (continued)

Packaging materials used by the production facilities in the Czech Republic, Poland and the UK, as well as the technical centre in Poland are as follows:

Packaging Materials	2019	2018[4]
Total packaging materials used (tonnes)	**3,338**	1,976
Packaging materials used per production machine (tonnes/production machine)	**5**	3
Paper or carton (tonnes)	**845**	931
Plastic (tonnes)	**330**	294
Wood (tonnes)	**1,580**	642
Metal (tonnes)	**583**	109

As a responsible enterprise, the Group understands the importance of contributing to the greenhouse gas emissions reduction. For example, in order to lower the greenhouse gases emissions from the flight taken, our employees are encouraged to take economy class for unavoidable business trips. During the Year, some of our employees from the technical center in Poland again participated in the campaign of cycling to work and back home, which was organised by the Municipal Services Department of the City of Kraków, in order to support the promotion of cycling as daily modes of transport for commuting to and from work. The greenhouse gas emissions from the production facilities in the Czech Republic, Poland and the UK, as well as technical centre in Poland are set out in the table below:

Greenhouse Gases	2019	2018[4]
Total greenhouse gas emissions (tonnes CO_2e)	**29,056**	33,672
Greenhouse gas emissions per production machine (tonnes CO_2e/production machine)	**45**	47
Scope 1 – Direct Emissions (tonnes CO_2e)	**1,612**	1,838
Scope 2 – Energy Indirect Emissions (tonnes CO_2e)	**26,922**	31,048
Scope 3 – Other indirect emissions (tonnes CO_2e)	**522**	786

In the future, the Group will continue to use natural resources rationally through closely monitoring the consumption of resource and taking actions if the limit is exceeded, and further reduce the greenhouse gas emissions.

[4] The performance of the production facility in Shanghai of the PRC till the disposal date was included in the 2018 KPI disclosure.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EXCELLENCE IN OUR WORKPLACE

Employment and Welfare

Our employees are the most valuable asset to the Group and are the foundation of our development. We continue to comply with national and local labour laws and regulations relating to employment, as well as the rights and welfare of employees, including the Labour Code of the Czech Republic, Labour Code of Poland and Employment Rights Act 1996 of the UK.

We believe that the key to success lies in talent attraction and retention. We commenced internal and external hiring process for relevant vacancy under the principle of fairness. Our employees enjoy equal treatment in the establishment and termination of employment, conditions of employment, promotion and access to professional development trainings, regardless of sex, age, disability, race, religion, nationality and mode of employment, etc. To ensure no child labour is recruited, the dates of birth of all employees are checked during the recruitment process. For departing employees, exit interviews are conducted to understand the reasons of departure, and for our further improvement in business operations.

The working hours are set in accordance with the labour laws and our internal regulations to ensure sufficient rest is provided to employees. Those employees required to work outside normal hours will be offered overtime pay. Employees work within the agreed time frame to avoid forced labour. Apart from public holidays, employees are entitled to annual leaves subject to their length of service. In order to attract, motivate and retain our talented employees, the Group offers comprehensive and competitive remuneration, retirement scheme and benefit packages to employees. Remuneration packages of the employees are reviewed annually by management with reference to market conditions and individual performance.

The diversified experiences, background, ethnicity, lifestyles, cultural orientation and beliefs inject vitality to the Group. Reasonable accommodations are offered to disabled employees. The Group keeps on promoting anti-discrimination, fairness and justice. If any employee encounters discriminatory situation or bullying in the workplace, he/she can submit an anonymous complaint to the Group via an external telephone line. We will not tolerate behaviour that is inconsistent with the mechanism and will take appropriate action to prevent such behaviour.

Moreover, the Group emphasises the importance of employees' work-life balance and encourages employees to join our leisure events. During the Year, the production facility in the UK organised a "Wellness Day" for its employees.

EXCELLENCE IN OUR WORKPLACE (continued)

Health and Safety

The Group is dedicated to protecting the health and safety of each employee, and closely observes the local health and safety laws and regulations, including the Act on Other Occupational Health and Safety Conditions of the Czech Republic, Labour Code of Poland and Health and Safety at Work Act 1974 of the UK. Employees should comply with all safety rules and policies at each location of the Group. By implementing a management system for health and safety, health and safety risks are identified such that our employees can be protected from foreseeable work hazards. We promote the safety awareness to our employees as they go about the jobs, and managers are delegated to support safe work practices. Our production facilities in Poland and the Czech Republic have been certificated to the OHSAS18001:2007 Occupational Health and Safety Management System Standard.

To ensure safety at work, our employees are allowed to work after undergoing and passing the initial checkup and periodic medical examination. We believe that occupational injuries and illnesses are preventable. For staff working at production lines, we provide them with protective clothing and work clothing, as well as personal protective equipment and measures for maintaining personal hygiene. As regards the prevention of occupational diseases, we arrange prophylactic or sanatorium treatment for employees working in workplaces with potential harms. In order to pursue the ultimate goal of creating an injury and illness free workplace, the Group conducts regular safety trainings for employees in terms of regulations, rules and principles of occupational health and safety, such as general instructions of basic health and safety regulations, safe operations inside workshops, and information about potential risks regarding health and safety, if any.

On the other hand, hazardous material control programme and chemical material assessment procedure were adopted for safeguarding employees' health and safety. For example, hazardous and chemical substances must be properly marked, placed in original containers and stored at designated place, so as to prevent leakage of hazardous and chemical substances. At the same time, equipment and tools are kept in order, while materials, products and wastes are placed in specific areas and containers, for the sake of maintaining clean and safe workplace. Clear guidelines for handling emergencies were established to ensure prompt and effective control in case of any accidental situation.

EXCELLENCE IN OUR WORKPLACE (continued)

Development and Training

The Group aims at creating an intellectually stimulating environment which encourages employees to harness their talents and skills in the pursuit of high quality work. A clear career path is provided for every employee. Our merit-based promotion aims to promote outstanding employees to a higher level with regard to our evaluation on employees' performance and level description. Also, the Group provides various trainings to employees in order to enrich their professional technical skills and job-related knowledge, as well as to make continual improvements. New employees are required to participate in the orientation training, which is essential for understanding their duties, practice of a given position and their fundamental rights. Professional trainings are also tailored to the needs of different positions. Examinations may be required for verifying the knowledge and skills acquired during the training, subject to the types of courses. Upon the completion of trainings, course evaluation will be taken place in order to ensure the effectiveness of trainings.

During the Year, employees in the production facilities in the Czech Republic, Poland and the UK, as well as the technical centre in Poland have participated in various training courses, such as personal skill development courses, cross functional training courses and trainings related to technical knowledge, in order to keep employees up-to-date with the latest working techniques and knowledge.

EXCELLENCE IN OUR BUSINESS

Promoting Integrity

The Group complies with the local laws and regulations in regard to anti-corruption, including the Criminal Code of the Czech Republic, Polish Penal Code of Poland and Bribery Act 2010 of the UK. To maintain our reputation of operation integrity, concrete effort has been made to educate our employees to avoid acts and relationships that violate or conflict with their duties or the interest of the Group. Employees are also required to sign the declaration of acknowledgement. Through our consistent effort in promoting open communication, employees are strongly encouraged to immediately disclose any possible conflict of interest, suspected misconduct and misbehaviour committed by individuals in the operations of the Group. If our employees have a concern about any unethical, illegal or irresponsible activity, they may seek assistance from their supervisors or report online through an independent reporting system. We are always dedicated to promoting integrity through our business practices.

EXCELLENCE IN OUR BUSINESS (continued)

Respecting Intellectual Property

The Group continually strives to maintain our competitive edge in the manufacturing industry and abides by the relevant local laws and regulations, including the Copyright Act of the Czech Republic, Act on Copyright and Related Rights of Poland and Patents Act 2004 of the UK. We respect and protect the intellectual property, such as company patents, trademarks, copyrights, and trade secrets. We will take measures to protect new works of authorship, technological advances or unique solutions to business problems, if there is any suspicion of infringement of company patent, trademark, copyright or trade secret. It is our ongoing effort to safeguard our own confidential information, as well as respecting the proprietary and confidential information of others.

EXCELLENCE IN THE MARKETPLACE

Fair Treatment of Suppliers

Suppliers of the Group are valued partners in the success of our business. As a responsible corporate citizen, the Group is committed to protecting human health, natural resources, and the environment. We encourage and promote responsible environmental management to the suppliers and encourage them to achieve environmental certification, so as to mitigate the environmental risk of our supply chain. In addition, we do not purchase goods produced by forced labour and we have signed a statement of undertaking with certain suppliers for the management of the social risk in the supply chain.

Suppliers are selected on the basis of quality and after-sales services with respect to the raw materials and components, so as to ensure the quality of the raw materials will not affect the quality of our products. We also take priority to choose suppliers in the regions and countries where we operate, so as to lower the greenhouse gases emissions from transportation. Suppliers' performance is monitored through their delivered product quality, delivery schedule performance and special status of customer notifications related to quality or delivery issues. We will maintain stable and fair relationships with our major suppliers and avoid relying on any single supplier for any given types of raw materials and components.

Product Quality

In the manufacture of products, the Group adheres to the local laws and regulations in regard to product quality, including the Act on General Product Safety of the Czech Republic, General Product Safety Act of Poland and Consumer Protection Act 1987 of the UK. On top of regulatory compliance, we strive to communicate with our customers on any potential issues at every step of the product launch, from product design to the provision of service. Moreover, with our customer-oriented operation and enthusiastic attitude, we aim at enhancing customer satisfaction through advanced method and achieving perfection at each step. For consistent improvement of service quality, designated procedures for complaint handling are also implemented to timely address and prevent potential issues.

EXCELLENCE IN THE MARKETPLACE (continued)

Product Quality (continued)

To provide high-quality products to our customers, the Group has also set up a comprehensive quality management system with rigorous production control plan, for the purpose of implementing and supervising the operating procedures to assure the quality of products. The quality management systems of the production facilities in the Czech Republic, Poland and the UK are certified to the IATF16949:2016 Quality Management System Standard, while the technical centre in Poland holds the certification of ISO9001:2015 Quality Management System.

Various quality checks are carried out before, during and after the production process. For example, to assure the quality of our products, the Group handles raw materials properly with the following actions:

i. Upon the arrival of the deliveries, the initial verification is performed. If the raw materials fail to meet the verification requirements, they will be rejected and returned to the carrier.

ii. After passing the preliminary approval, the materials are labeled with a unique tracking number for the traceability and stored in the closed area in the warehouse with restricted access.

iii. The materials are stored according to manufacturers' instructions on storage condition and shelf life.

iv. The condition of the materials stored is assessed periodically to ensure no damaged or deteriorated materials are used.

Procedures for handling unsatisfied goods have been implemented as well. To ensure the product quality, all unsatisfied raw materials, finished goods and products are stored separately and not allowed to undergo the next production step without permission. In the case of receiving any complaints from customers, we will first identify the issue regarding the complaint and implement containment as necessary. Internal communication regarding the complaint will be carried out. After that, we will initiate a problem-solving process to deal with the identified issue.

EXCELLENCE IN THE MARKETPLACE (continued)

Data Protection and Security

In order to secure the privacies of both our clients and the Group, we strictly obey the laws and regulations of data protection, including the Act on the Protection of Personal Data of the Czech Republic, Personal Data Protection Act of Poland and Data Protection Act 2018 of the UK.

As for suppliers, they are prohibited to manufacture goods for their own use or selling to third parties by using our information, without prior an explicit written consent from our authorised employees. As for employees, stringent procedure is in place to handle and manage internal documentation. Employees should save, store and communicate personal data only via internally authorised information and communications systems. Furthermore, the disclosure of any confidential information to a third party and the use of our computers to browse, download or transmit illegal materials are not allowed. The removal of any materials or items from the working premises without proper prior authorisation is also prohibited. At the end of a workday, documents of confidential nature are not allowed to be left on desks or in other generally accessible places. Such documents shall be placed in drawers or special locked file cabinets. To ensure the understanding of employees on the Group's firm practice in terms of confidentiality, training on handling confidential information was provided to employees in the production facility in Poland during the Year.

EXCELLENCE IN SOCIETY AND COMMUNITIES

The Group adheres to its commitment to implementing a global philanthropy scheme that benefits the society and community in the pursuit of business growth. As a corporate citizen, our effort on community relations seeks to ensure the presence of brand image in our local communities in such a way that the Group is viewed as a "neighbour of choice". Contributions are tailored to local needs and priorities as well.

Support on Education

We have set a goal aimed at helping the youth to unearth the greatest possible potential through creating education opportunities and supporting mechanism, with an emphasis on technology education. Furthermore, our primary focus resides on programmes which are in alignment with our business vision and orientation, including the ability to measure effectiveness, innovative approach, customer-driven, and global programmes that encourage international reach and involvement. During the Year, the production facility in the UK was invited once again by the University of Bedfordshire as one of the members in its Industrial Advisory Committee for the School of Computer Science and Technology, so as to provide expertise on employability, industry challenges and project collaboration. The production facility in the UK also supported engineering design and manufacturing students by providing tours of the production facility and demonstrating the automotive manufacturing work.

EXCELLENCE IN SOCIETY AND COMMUNITIES (continued)

Participation in Charity

To create a positive corporate culture, we are eager to join charitable events and make contributions to the local society. Various charitable events participated during the Year are as follows:

Production Facility in the UK

- Organised fundraising for the Samaritans in support of suicide prevention; and
- Made food donations to NOAH Enterprise to help the homelessness in the local community.

Technical Centre in Poland

- Participated in the Kraków Business Run to support the foundation of taking care of disabled people after limb amputations;
- Joined Złombol Charity Rally with money donated to orphanages;
- Held fundraising for the families in need in the Noble Gift event, with additional sub-events organised to increase employees' involvement and raise the awareness of contributing to defeat poverty in the society; and
- donated used clothes and sold to less developed countries, in which the earnings were donated to local charity organizations

REPORT OF THE DIRECTORS

The Board of Directors of the Company (the "Board") herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Group at that date are set out in the financial statements on pages 86 to 183 of this annual report.

The Board does not recommend the payment of any final dividend in respect of the year (2018: a final dividend of HK 2 cents per ordinary share and a special dividend of HK 4 cents per ordinary share).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 8 to 10 and pages 11 to 17 of this annual report respectively.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 184 of this annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2019 are set out in note 24 to the financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 28 to the financial statements.

DONATION

No charitable donation was made by the Group during the year (2018: Nil).

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Jiang Yunan	
Chen Zhouping	
Thomas P Gold	
Li Zhi	*(appointed with effect from 17 January 2020)*
Tam King Ching, Kenny*	
Yip Kin Man, Raymond*	
Chan Pat Lam*	
Li Shaofeng	*(resigned with effect from 27 November 2019)*
Zhang Yaochun	*(resigned with effect from 27 November 2019)*

* *Independent Non-executive Directors*

In accordance with clause 84 of the Company's articles of association, Messrs. Tam King Ching, Kenny and Yip Kin Man, Raymond will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. Mr. Li Zhi will be subject to re-election at the forthcoming annual general meeting of the Company according to clause 83 of the Company's articles of association, and he is eligible and will offer himself for re-election.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets and profit of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officer's liability coverage for the directors and officers of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2019, none of the Directors or chief executives of the Company, or their respective associates had any personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity	*Notes*
Jiang Yunan	北京京西重工有限公司 (BeijingWest Industries Co., Ltd*) ("BWI")	Sale of auto parts, machinery and equipment	Director	*1*
Chen Zhouping	BWI	Sale of auto parts, machinery and equipment	Director	*1*
Thomas P Gold	BWI	Sale of auto parts, machinery and equipment	Director	*1, 2*
Zhang Yaochun	BWI	Sale of auto parts, machinery and equipment	Director	*1, 3*

* *For identification purpose only*

Notes:

1. *The relevant information is disclosed on a group basis. The businesses of such entity may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.*

2. *Mr. Thomas P Gold only holds directorship for certain subsidiaries of the entity.*

3. *Mr. Zhang Yaochun resigned as director of each of BWI and the Company during the year.*

The Board of the Company is independent from the board of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of that entity.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2019, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the issued share capital of the Company as at 31.12.2019	*Note*
BWI Company Limited ("BWI HK")	Beneficial owner	301,842,572	52.55%	*1*
BWI	Interests of controlled corporation	301,842,572	52.55%	*1*
北京房山國有資產經營有限責任公司 (Beijing Fangshan State-owned Assets Management Co. Ltd.*) ("Beijing Fangshan")	Interests of controlled corporation	301,842,572	52.55%	*1*
首鋼集團有限公司 (Shougang Group Co., Ltd.*) ("Shougang Group")	Interests of controlled corporation	301,842,572	52.55%	*1*

* *For identification purpose only*

Note:

1. *BWI HK was a wholly owned subsidiary of BWI. BWI was held as to 55.45% by Shougang Group and as to 44.55% by Beijing Fangshan. The interests held by BWI HK, BWI, Shougang Group and Beijing Fangshan were the same block of shares of the Company.*

Save as disclosed above, as at 31 December 2019, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" below, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder (as defined under the Listing Rules) or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder or any of its subsidiaries.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this annual report.

SHARE OPTION SCHEME

On 6 June 2014, the shareholders of the Company adopted a share option scheme (the "Scheme").

The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any of the entities in which any member of the Group holds any equity interest (the "Invested Entities"). The Scheme shall be valid and effective from 18 June 2014, being the date on which the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the Scheme, and ending on 6 June 2024, being the tenth anniversary of the date on which the Scheme was adopted by the shareholders of the Company (both dates inclusive).

Under the Scheme, the Board may, at its discretion, offer full-time or part-time employees, executives, officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

No share option has been granted under the Scheme. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 25,189,232, representing approximately 4.39% of the shares of the Company in issue as at the date of this annual report. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the number of shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK$5,000,000 (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which the grantee, his/her associates and all core connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the grantee of the options).

The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than ten years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of offer of any share options.

SHARE OPTION SCHEME (continued)

The exercise price in relation to each share option will be determined by the Board at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1.00 as a consideration for his acceptance of the grant of share options in accordance with the Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

Share options to be granted under the Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the Scheme since its adoption. Accordingly, as at 31 December 2019, there was no share option outstanding under the Scheme.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement that will or may result in the Company issuing shares or that require the Company to enter into any agreement that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, as calculated in accordance with the applicable provisions of the companies law of Cayman Islands, amounted to approximately HK$991.41 million which was distributable to the shareholders (subject to the provisions of the Company's articles of association), provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend, if any, is proposed to be paid.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 58.75% of the total revenue from sales of goods and rendering of services for the year and revenue from sales of goods and rendering of services to the largest customer included therein amounted to approximately 30.33%. Purchases from the Group's five largest suppliers accounted for approximately 23.53% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 9.40%. None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions were recorded during the year and up to the date of this annual report:

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates

BWI is a controlling shareholder of the Company. Accordingly, the transactions under the agreements as set out in (a) to (d) below would constitute continuing connected transactions for the Company.

(a) Mutual Technical Services Agreements

The Mutual Technical Services Agreement (the "**Mutual Technical Services Agreement I**") was entered into between the Company and BWI on 10 November 2016 for a term of three financial years ended on 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS (continued)

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates (continued)

(a) Mutual Technical Services Agreements (continued)

Pursuant to the Mutual Technical Services Agreement I, BWI and/or its associates would provide technical services to the Group (the "**BWI Services I**") and the Group would provide technical services to BWI and/or its associates (the "**Company Services I**"). Such technical services comprise engineering services and manufacturing services.

The basis of determining the technical services fees for the transactions contemplated under the Mutual Technical Services Agreement I would be: (1) cost plus 5% for engineering services; and (2) cost plus 1.5% for manufacturing services.

The cap amounts of the transactions under the Mutual Technical Services Agreement I for each of the three financial years ended 31 December 2019 are as follows:

	For the financial year ended 31 December 2017 *HK$ million*	For the financial year ended 31 December 2018 *HK$ million*	For the financial year ended 31 December 2019 *HK$ million*
Cap amounts for the BWI Services I	236.6	284.0	340.8
Cap amounts for the Company Services I	120.0	144.0	172.8

The Mutual Technical Services Agreement I was entered into to facilitate the continued provision of technical services between BWI and/or its associates and the Group. The arrangement for the mutual provision of technical services would allow both parties to save and pool their resources in providing a total solution to their customers. Details of the Mutual Technical Services Agreement I were disclosed in the announcement of the Company dated 10 November 2016 and in the circular of the Company dated 28 November 2016. The Mutual Technical Services Agreement I was approved, confirmed and ratified by the independent shareholders of the Company on 23 December 2016.

CONTINUING CONNECTED TRANSACTIONS (continued)

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates (continued)

(a) Mutual Technical Services Agreements (continued)

As the Mutual Technical Services Agreement I expired on 31 December 2019, a new Mutual Technical Services Agreement (the "**Mutual Technical Services Agreement II**") was entered into between the Company and BWI on 7 November 2019 for a term of three financial years ending on 31 December 2022.

Pursuant to the Mutual Technical Services Agreement II, BWI and/or its associates would provide technical services to the Group (the "**BWI Services II**") and the Group would provide technical services to BWI and/or its associates (the "**Company Services II**"). Such technical services comprise engineering services and manufacturing services.

The basis of determining the technical services fees for the transactions contemplated under the Mutual Technical Services Agreement II would be: (1) cost plus 5% for engineering services; and (2) cost plus 1.5% for manufacturing services.

The cap amounts of the transactions under the Mutual Technical Services Agreement II for each of the three financial years ending 31 December 2022 are as follows:

	For the financial year ending 31 December 2020 *HK$ million*	For the financial year ending 31 December 2021 *HK$ million*	For the financial year ending 31 December 2022 *HK$ million*
Cap amounts for the BWI Services II	204.5	214.7	225.4
Cap amounts for the Company Services II	181.4	190.5	200.0

The Mutual Technical Services Agreement II was entered into to facilitate the continued provision of technical services between BWI and/or its associates and the Group. The arrangement for the mutual provision of technical services would allow both parties to save and pool their resources in providing a total solution to their customers. Details of the Mutual Technical Services Agreement II were disclosed in the announcement of the Company dated 7 November 2019 and in the circular of the Company dated 28 November 2019. The Mutual Technical Services Agreement II was approved, confirmed and ratified by the independent shareholders of the Company on 17 December 2019.

CONTINUING CONNECTED TRANSACTIONS (continued)

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates (continued)

(b) Parts and Components Supply Agreements

The Parts and Components Supply Agreement (the "**Parts and Components Supply Agreement I**") was entered into between the Company and BWI on 10 November 2016 for a term of three financial years ended on 31 December 2019.

Pursuant to the Parts and Components Supply Agreement I, the Group would supply auto parts and components to BWI and/or its associates.

The prices for the transactions under the Parts and Components Supply Agreement I would base on the cost plus approach at margins within the range or no less favourable to the margins of the other products of the Group supplied to independent third party customers for the prior financial year, and the pricing policies for continuing connected transactions of the Group.

The cap amounts of the transactions under the Parts and Components Supply Agreement I for each of the three financial years ended 31 December 2019 are as follows:

For the financial year ended 31 December 2017 *HK$ million*	For the financial year ended 31 December 2018 *HK$ million*	For the financial year ended 31 December 2019 *HK$ million*
25.3	29.1	33.5

The transactions under the Parts and Components Supply Agreement I were a continuation of the already established purchasing and supplying business between BWI and/or its associates and the Group. The Parts and Components Supply Agreement I was entered into to facilitate the continued supply of auto parts and components from the Group to BWI and/or its associates. Details of the Parts and Components Supply Agreement I were disclosed in the announcement of the Company dated 10 November 2016.

As the Parts and Components Supply Agreement I expired on 31 December 2019, a new Parts and Components Supply Agreement (the "**Parts and Components Supply Agreement II**") was entered into between the Company and BWI on 7 November 2019 for a term of three financial years ending on 31 December 2022.

CONTINUING CONNECTED TRANSACTIONS (continued)

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates (continued)

(b) Parts and Components Supply Agreements (continued)

Pursuant to the Parts and Components Supply Agreement II, the Group would supply auto parts and components to BWI and/or its associates.

The prices for the transactions under the Parts and Components Supply Agreement II would base on the cost plus approach at margins within the range or no less favourable to the margins of the other products of the Group supplied to independent third party customers for the prior financial year, and the pricing policies for continuing connected transactions of the Group.

The cap amounts of the transactions under the Parts and Components Supply Agreement II for each of the three financial years ending 31 December 2022 are as follows:

For the financial year ending 31 December 2020 *HK$ million*	For the financial year ending 31 December 2021 *HK$ million*	For the financial year ending 31 December 2022 *HK$ million*
23.5	86.9	212.1

The transactions under the Parts and Components Supply Agreement II are a continuation of the already established purchasing and supplying business between BWI and/or its associates and the Group. The Parts and Components Supply Agreement II was entered into to facilitate the continued supply of auto parts and components from the Group to BWI and/or its associates. Details of the Parts and Components Supply Agreement II were disclosed in the announcement of the Company dated 7 November 2019 and in the circular of the Company dated 28 November 2019. The Parts and Components Supply Agreement II was approved, confirmed and ratified by the independent shareholders of the Company on 17 December 2019.

(c) Parts and Components Purchase Agreements

The Parts and Components Purchase Agreement (the "**Parts and Components Purchase Agreement I**") was entered into between the Company and BWI on 30 November 2017 for a term of three financial years ended on 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS (continued)

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates (continued)

(c) Parts and Components Purchase Agreements (continued)

Pursuant to the Parts and Components Purchase Agreement I, the Group would purchase auto parts and components from BWI and/or its associates.

The basis of determining the prices for the transactions under the Parts and Components Purchase Agreement I would be in accordance with the following principles:

(i) by reference to the prevailing market prices of the same or substantially similar products, taking into account of the prices of the same or substantially similar products with comparable order quantities and quality offered by other suppliers; and on terms which are no less favourable to the Group than prevailing market practices; or

(ii) if (i) above is not applicable, by reference to the average price of similar products previously supplied or provided by a party, and on no less favourable terms comparable to those offered by the relevant party to independent third parties; and on normal commercial terms comparable to those received from independent third parties in respect of the same or substantially similar products with comparable quantities.

The cap amounts of the transactions under the Parts and Components Purchase Agreement I for each of the three financial years ended 31 December 2019 are as follows:

For the financial year ended 31 December 2017 *HK$ million*	For the financial year ended 31 December 2018 *HK$ million*	For the financial year ended 31 December 2019 *HK$ million*
10.0	10.0	10.0

The transactions under the Parts and Components Purchase Agreement I were a continuation of the already established purchasing and supplying business between the Group and BWI and/or its associates. The Parts and Components Purchase Agreement I was entered into to facilitate the continued purchase of auto parts and components by the Group from BWI and/or its associates. Details of the Parts and Components Purchase Agreement I were disclosed in the announcement of the Company dated 30 November 2017.

CONTINUING CONNECTED TRANSACTIONS (continued)

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates (continued)

(c) Parts and Components Purchase Agreements (continued)

As the Parts and Components Purchase Agreement I expired on 31 December 2019, a new Parts and Components Purchase Agreement (the "**Parts and Components Purchase Agreement II**") was entered into between the Company and BWI on 7 November 2019 for a term of three financial years ending on 31 December 2022.

Pursuant to the Parts and Components Purchase Agreement II, the Group would purchase auto parts and components from BWI and/or its associates.

The basis of determining the prices for the transactions under the Parts and Components Purchase Agreement II would be in accordance with the following principles:

(i) by reference to the prevailing market prices of the same or substantially similar products, taking into account of the prices of the same or substantially similar products with comparable order quantities and quality offered by other suppliers; and on terms which are no less favourable to the Group than prevailing market practices; or

(ii) if (i) above is not applicable, by reference to the average price of similar products previously supplied or provided by a party, and on no less favourable terms comparable to those offered by the relevant party to independent third parties; and on normal commercial terms comparable to those received from independent third parties in respect of the same or substantially similar products with comparable quantities.

The cap amounts of the transactions under the Parts and Components Purchase Agreement II for each of the three financial years ending 31 December 2022 are as follows:

For the financial year ending 31 December 2020 *HK$ million*	For the financial year ending 31 December 2021 *HK$ million*	For the financial year ending 31 December 2022 *HK$ million*
10.0	10.0	10.0

CONTINUING CONNECTED TRANSACTIONS (continued)

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates (continued)

(c) Parts and Components Purchase Agreements (continued)

The transactions under the Parts and Components Purchase Agreement II are a continuation of the already established purchasing and supplying business between the Group and BWI and/or its associates. The Parts and Components Purchase Agreement II was entered into to facilitate the continued purchase of auto parts and components by the Group from BWI and/or its associates. Details of the Parts and Components Purchase Agreement II were disclosed in the announcement of the Company dated 7 November 2019.

(d) Patent License Agreements

The Patent License Agreement (the "**Patent License Agreement I**") was entered into between BWI as licensor and the Company as licensee on 10 November 2016 for a term of three financial years ended on 31 December 2019.

Pursuant to the Patent License Agreement I, BWI would procure its wholly owned subsidiaries which are the registered holders of certain patents (the "**Patents**") related to automobile controlled and passive suspension products to grant to the Group a non-exclusive and non-transferrable license to use the Patents in the Group's manufacturing operations.

The Company would pay an annual license fee representing 0.5% of the net sales of the licensed products of the Group, which would be the products manufactured by the Group using the Patents. The net sales would be the total invoiced amount of licensed products less any sales allowances, customer discounts, and refunds for licensed products that were damaged or returned.

The cap amounts of the license fees for the Patents under the Patent License Agreement I for each of the three financial years ended 31 December 2019 are as follows:

For the financial year ended 31 December 2017 *HK$ million*	For the financial year ended 31 December 2018 *HK$ million*	For the financial year ended 31 December 2019 *HK$ million*
17.5	21.0	25.2

CONTINUING CONNECTED TRANSACTIONS (continued)

Continuing connected transactions in relation to BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI") and/or its associates (continued)

(d) Patent License Agreements (continued)

The transactions under the Patent License Agreement I were a continuation of the already established arrangement for the use of Patents between BWI and the Group. The entering into of the Patent License Agreement I would enable the Group to continue to use the Patents which maintain and strengthen the competitive position of the Company in the automotive market. Details of the Patent License Agreement I were disclosed in the announcement of the Company dated 10 November 2016.

As the Patent License Agreement I expired on 31 December 2019, a new Patent License Agreement (the "**Patent License Agreement II**") was entered into between BWI as licensor and the Company as licensee on 7 November 2019 for a term of three financial years ending on 31 December 2022.

Pursuant to the Patent License Agreement II, BWI would procure its wholly owned subsidiaries which are the registered holders of the Patents related to automobile controlled and passive suspension products to grant to the Group a non-exclusive and non-transferrable license to use the Patents in the Group's manufacturing operations.

The Company would pay an annual license fee representing 0.5% of the net sales of the licensed products of the Group, which would be the products manufactured by the Group using the Patents. The net sales would be the total invoiced amount of licensed products less any sales allowances, customer discounts, and refunds for licensed products that were damaged or returned.

The cap amounts of the license fees for the Patents under the Patent License Agreement II for each of the three financial years ending 31 December 2022 are as follows:

For the financial year ending 31 December 2020 *HK$ million*	For the financial year ending 31 December 2021 *HK$ million*	For the financial year ending 31 December 2022 *HK$ million*
13.5	13.5	13.5

The transactions under the Patent License Agreement II are a continuation of the already established arrangement for the use of Patents between BWI and the Group. The entering into of the Patent License Agreement II would enable the Group to continue to use the Patents which maintain and strengthen the competitive position of the Company in the automotive market. Details of the Patent License Agreement II were disclosed in the announcement of the Company dated 7 November 2019.

CONTINUING CONNECTED TRANSACTIONS (continued)

The continuing connected transactions as set out in (a) to (d) above which took place during the year have been reviewed by the Independent Non-executive Directors of the Company who have 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 or better; and

(3) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the continuing connected transactions as set out in (a) to (d) above which took place during the year.

As far as the transactions took place during the year as set out in note 34(a) to the financial statements under the heading of "Related Party Disclosures" are concerned, save for the provision of administrative service by BWI HK which was connected transaction but was exempt from any disclosure and shareholders' approval requirements under the Listing Rules, the remaining transactions were continuing connected transactions which had been approved by the independent shareholders of the Company.

As regards the transactions took place during the year as set out in notes 34(b) and 34(c) to the financial statements under the heading of "Related Party Disclosures", the provision of loan to the Group by a holding company was connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The provision of a letter of comfort by Shougang Group Co., Ltd. did not constitute connected transaction of the Company under the Listing Rules. The remaining transactions were incidental to the continuing connected transactions which had been approved by the independent shareholders of the Company.

As far as the transactions took place during the year as set out in note 34(d) to the financial statements under the heading of "Related Party Disclosures" are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Company was connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

REPORT OF THE DIRECTORS

NON-COMPETITION UNDERTAKING WITH CONTROLLING SHAREHOLDERS

On 5 August 2014, Billion Million (HK) Limited ("Billion Million"), a wholly-owned subsidiary of the Company, the Company, BWI HK and BWI entered into an agreement (the "Agreement") pursuant to which BWI HK conditionally agreed to sell and Billion Million conditionally agreed to purchase the entire issued share capital of BWI Europe Company Limited S.A. ("BWI Europe") (the "Acquisition"). BWI Europe and its subsidiaries are principally engaged in the design, research and development and manufacturing of suspension products for premium passenger vehicle manufacturers and the provision of engineering services for suspension products. Details of the Acquisition were disclosed in the announcement of the Company dated 5 August 2014 and in the circular of the Company dated 27 November 2014. The Agreement was approved, confirmed and ratified by the independent shareholders of the Company on 19 December 2014. The Acquisition was completed on 23 December 2014.

As a condition precedent to the Acquisition, a deed of non-competition was entered into between the Company and Shougang Group Co., Ltd. (formerly known as Shougang Corporation), Beijing Fangshan, BWI, BWI HK and Success Arrive Limited (collectively, the "Controlling Shareholders"), on 11 December 2014 (the "Deed"), which became effective on the completion date of the Acquisition. Pursuant to the Deed, each of the Controlling Shareholders will not, and will procure any of their respective associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the businesses of the Group; and if any future business opportunities that may arise from their existing customers and insofar that they are unable to supply the necessary products to such customers, they will consent to the Group in supplying such products. Details of the Deed are set out in the circular of the Company dated 27 November 2014.

The Company has received annual written declaration from the Controlling Shareholders on their compliance with the undertakings under the Deed. Based on the declaration, the Independent Non-executive Directors of the Company considered that the Controlling Shareholders had complied with the terms set out in the Deed during the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 18 to 43 of this annual report.

REPORT OF THE DIRECTORS

ENVIRONMENTAL AND SOCIAL MATTERS

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the financial year ended 31 December 2019 are set out in the Environmental, Social and Governance Report on pages 44 to 59 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of material subsequent event undertaken by the Group after 31 December 2019 and up to the date of this annual report are set out in note 38 to the financial statements.

AUDITOR

The accompanying consolidated financial statements have been audited by Ernst & Young ("EY"), who will retire at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting to re-appoint EY as auditor of the Company.

By Order of the Board
Chen Zhouping
Managing Director

Hong Kong, 26 March 2020

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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TO THE SHAREHOLDERS OF BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of BeijingWest Industries International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 183, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

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

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of inventories	
As of 31 December 2019, the Group's inventories were stated at HK$187,092,000, including raw materials, work in progress and finished goods, and were carried at the lower of cost and net realisable value. As disclosed in Note 4 and Note 18 to the financial statements, the impairment of inventories as at 31 December 2019 was HK$9,844,000. The determination of net realisable value is highly dependent on management's estimation, such as assumptions of the expected sales prices and costs to be incurred until completion and sale. The assumptions adopted in respect thereof are affected by expectations of future market or economic conditions.	Our audit procedures included obtaining an understanding of and assessing the design, implementation, and operating effectiveness of management's key internal controls relating to making impairment provisions for inventories, assessing the methods and assumptions used to determine the provision, discussing with management about the slow moving, excess or obsolete items, and evaluating the estimated sales prices and manufacturing costs to be incurred, as well as selling expenses on a sample basis. We also assessed the adequacy of the disclosures.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of trade and bills receivables As of 31 December 2019, the carrying amount of trade and bills receivables was HK$337,847,000. The Group adopts HKFRS 9 from 1 January 2018, which has changed the Group's accounting for impairment losses for financial assets with a forward-looking expected credit loss (ECL) approach. The Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses of trade and bills receivables. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Significant estimation is required in establishing provision matrix, including assessing the current creditworthiness, the past collection history of the customers and the forward-looking factors specific to the debtors. The Group's disclosures about the impairment of trade and bills receivables are included in Note 3.3 and Note 19 to the consolidated financial statements.	Our audit procedures included but not limited to obtaining an understanding of the Group's credit policy and accounting policy for impairment, assessing recoverability of trade and bills receivables by verifying the assumptions and basis used to establish provision matrix, checking the creditworthiness and past collection history, subsequent settlement of selected customers and the impairment calculation. We also assessed the adequacy of the disclosures.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

- Conclude on the appropriateness of 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.

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

- 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 Yim Chi Hung Henry.

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	6	**2,654,586**	3,418,281
Cost of sales		**(2,102,401)**	(2,795,592)
Gross profit		**552,185**	622,689
Other income and gains, net	6	**58,104**	173,769
Selling and distribution expenses		**(40,384)**	(34,216)
Administrative expenses		**(197,155)**	(221,583)
Impairment losses on financial assets		**(629)**	(6,467)
Research and development expenses		**(294,827)**	(386,815)
Other operating expenses, net		**(14,025)**	(391)
Finance costs	8	**(11,641)**	(13,546)
PROFIT BEFORE TAX	7	**51,628**	133,440
Income tax expense	11	**(46,739)**	(39,908)
PROFIT FOR THE YEAR		**4,889**	93,532
Attributable to:			
Owners of the Company		**4,889**	120,879
Non-controlling interests		**–**	(27,347)
		4,889	93,532
EARNING PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (HK cents per share)	12	**0.85**	21.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
PROFIT FOR THE YEAR	**4,889**	93,532
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,827)**	(43,733)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement loss on defined benefit plans	**(21,562)**	(3,596)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	**(26,389)**	(47,329)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(21,500)**	46,203
Attributable to:		
Owners of the Company	**(21,500)**	71,060
Non-controlling interests	**–**	(24,857)
	(21,500)	46,203

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**462,816**	474,595
Right-of-use assets	15	**161,258**	–
Prepaid land lease payments	15	**–**	9,590
Goodwill	16	**4,544**	4,455
Deferred tax assets	27	**67,754**	32,105
Other non-current assets	17	**188,817**	146,411
Total non-current assets		**885,189**	667,156
CURRENT ASSETS			
Inventories	18	**187,092**	171,789
Trade and bills receivables	19	**337,847**	387,696
Prepayments, other receivables and other assets	20	**166,968**	212,790
Cash and cash equivalents	21	**366,840**	727,912
Total current assets		**1,058,747**	1,500,187
CURRENT LIABILITIES			
Trade payables	22	**319,063**	383,379
Other payables and accruals	23	**150,380**	193,538
Income tax payables		**6,603**	42,669
Bank borrowings	24	**98,272**	349,366
Defined benefit obligations	25	**1,559**	2,888
Lease liabilities	15	**33,364**	–
Provision	26	**22,430**	16,543
Total current liabilities		**631,671**	988,383
NET CURRENT ASSETS		**427,076**	511,804
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,312,265**	1,178,960

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	23	**36,780**	38,664
Defined benefit obligations	25	**113,576**	85,872
Lease liabilities	15	**126,344**	–
Deferred tax liabilities	27	**71,730**	34,617
Loan from a holding company	34(c)	**436**	448
Total non-current liabilities		**348,866**	159,601
NET ASSETS		**963,399**	1,019,359
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**57,434**	57,434
Reserves	29	**905,965**	961,925
		963,399	1,019,359
Non-controlling interests		**–**	–
Total equity		**963,399**	1,019,359

Jiang Yunan
Director

Chen Zhouping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the Company							
	Issued capital HK$'000 (note 28)	Share premium account HK$'000 (note 29(ii))	Merger reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 January 2019	57,434	1,037,745	(772,332)	(20,195)	(129,584)	44,132	802,159	1,019,359
Profit for the year	–	–	–	–	–	–	4,889	4,889
Other comprehensive income for the year:								
Exchange differences related to foreign operations	–	–	–	–	(4,827)	–	–	(4,827)
Remeasurement loss on defined benefit plans	–	–	–	(21,562)	–	–	–	(21,562)
Total comprehensive income/(loss) for the year	–	–	–	(21,562)	(4,827)	–	4,889	(21,500)
Dividend paid	–	–	–	–	–	–	(34,460)	(34,460)
At 31 December 2019	57,434	1,037,745*	(772,332)*	(41,757)*	(134,411)*	44,132*	772,588*	963,399

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the Company									
	Issued capital HK$'000 (note 28)	Share premium account HK$'000 (note 29(ii))	Merger reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017	57,434	1,037,745	(772,332)	(16,599)	(88,109)	44,132	630,001	892,272	121,043	1,013,315
Effect of adoption HKFRS 9	–	–	–	–	–	–	(2,273)	(2,273)	(181)	(2,454)
Effect of adoption HKFRS 15	–	–	–	–	4,748	–	53,552	58,300	2,243	60,543
At 1 January 2018 (restated)	57,434	1,037,745	(772,332)	(16,599)	(83,361)	44,132	681,280	948,299	123,105	1,071,404
Profit for the year	–	–	–	–	–	–	120,879	120,879	(27,347)	93,532
Other comprehensive income for the year:	–	–	–	–	(46,223)	–	–	(46,223)	2,490	(43,733)
Exchange differences related to foreign operations										
Re-measurement loss on defined benefit plans	–	–	–	(3,596)	–	–	–	(3,596)	–	(3,596)
Total comprehensive income/(loss) for the year	–	–	–	(3,596)	(46,223)	–	120,879	71,060	(24,857)	46,203
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	7,021	7,021
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(105,269)	(105,269)
At 31 December 2018	57,434	1,037,745*	(772,332)*	(20,195)*	(129,584)*	44,132*	802,159*	1,019,359	–	1,019,359

* These reserve accounts comprise the consolidated reserves of HK$905,965,000 (31 December 2018: HK$961,925,000) in the consolidated statement of financial position as at 31 December 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**51,628**	133,440
Adjustments for:			
Finance costs		**11,641**	13,546
Interest income	6	**(12,405)**	(7,334)
Disposal of a subsidiary	6	**–**	(86,278)
Gain on disposal of items of property, plant and equipment	6	**(18,053)**	(1,429)
Net losses on foreign currency forward exchange contracts		**2,192**	–
Depreciation	7	**67,182**	103,643
Depreciation of right-of-use-assets/recognition of prepaid land lease payments	7	**42,359**	327
Provision for obsolete items of property, plant and equipment	7	**1,211**	–
Impairment of financial assets	7	**629**	5,972
(Write back of provision)/provision against obsolete inventories	7	**(79)**	943
		146,305	162,830
(Increase)/decrease in inventories		**(15,164)**	26,017
Decrease in trade and bills receivables		**49,163**	286,216
Increase in prepayments, other receivables and other assets		**(3,305)**	(34,366)
Increase in amounts due from fellow subsidiaries		**(2,919)**	(10,075)
Decrease/(increase) in amounts due from holding companies		**3,711**	(25,901)
Decrease in trade payables		**(64,316)**	(107,246)
(Decrease)/increase in other payables and accruals		**(7,371)**	28,154
Decrease in amounts due to fellow subsidiaries		**(18,226)**	(17,109)
Increase/(decrease) in defined benefit obligations		**1,898**	(244)
Decrease in amounts due to a holding company		**(1,187)**	(22,088)
Increase/(decrease) in a warranty provision		**6,148**	(15,943)
Cash generated from operations		**94,737**	270,245
Income tax paid		**(76,823)**	(47,386)
Net cash flows from operating activities		**17,914**	222,859

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**12,405**	7,334
Purchases of items of property, plant and equipment		**(74,499)**	(167,271)
Proceeds from disposal of items of property, plant and equipment		**28,863**	38,158
Disposal of a subsidiary	30	**–**	101,911
Net cash flows used in investing activities		**(33,231)**	(19,868)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**20,145**	118,519
Repayment of bank and other loans		**(261,552)**	(190,803)
Principal portion of lease payments		**(43,506)**	–
Dividend paid		**(34,460)**	–
Interest paid		**(15,451)**	(12,533)
Capital injection from non-controlling interests		**–**	7,021
Net cash flows used in financing activities		**(334,824)**	(77,796)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(350,141)**	125,195
Cash and cash equivalents at beginning of year		**727,912**	652,768
Effect of foreign exchange rate changes, net		**(10,931)**	(50,051)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**366,840**	727,912

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

BeijingWest Industries International Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY 1-1111, Cayman Islands and the shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively the "Group") were principally involved in the manufacture, sale and trading of automotive parts and components, and provision of technical services.

As at 31 December 2019 and the date of approval of these financial statements, the immediate holding company of the Company is BWI Company Limited ("BWI (HK)"), which is incorporated in Hong Kong with limited liability. In the opinion of the directors of the Company (the "Directors"), the ultimate holding company is Shougang Group Co., Ltd. (formerly known as "Shougang Corporation"), which is a state-owned enterprise established in the People's Republic of China ("PRC") and is supervised by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

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

Name	Date, place of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BWI France S.A.S.	France 13 August 2009	EUR2,002,500	–	100	Provision of research and technical services
BWI UK Limited	United Kingdom 16 June 2009	GBP5,938,975	–	100	Manufacture and sale of automotive parts and components
BWI Poland Technologies sp.z.o.o	Poland 12 March 2009	PLN55,538,150	–	100	Manufacture and sale of automotive parts and components
BWI Czech Republic s.r.o	Czech 20 May 2015	CZK140,000,000	–	100	Manufacture and sale of automotive parts and components

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements are prepared under the historical cost convention and are presented in Hong Kong dollars. All values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

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

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets and leases with a lease term of 12 months or less. Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities.

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities measured under HKAS 17.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019

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

	Increase/ (decrease) HK$'000
Assets	
Increase in right-of-use assets	196,750
Decrease in prepaid land lease payments	(9,590)
Decrease in prepayments, other receivables and other assets	(5,933)
Increase in total assets	181,227
Liabilities	
Increase in lease liabilities	191,574
Decrease in other payables and accruals	(10,347)
Increase in total liabilities	181,227

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

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

	HK$'000
Operating lease commitments as at 31 December 2018	214,799
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(33)
Commitments relating to leases of low-value assets	(39)
	214,727
Weighted average incremental borrowing rate as at 1 January 2019	2.62%
Discounted operating lease commitments as at 1 January 2019	191,574
Lease liabilities as at 1 January 2019	191,574

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group did not have any long-term interests in associates and joint ventures. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of HKAS 12. The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

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

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

3 No mandatory effective date yet determined but available for adoption

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

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

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

Fair value measurement

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Valuation is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profit as a movement in reserves.

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

Buildings	3.33% – 5%
Machinery and equipment	9% – 20%
Computer equipment and others	18% – 33.33%
Motor vehicles	9% – 20%
Special tools	20%

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Intangible assets (other than goodwill)

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

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

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

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(a) Right-of-use assets

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

Land	99 years
Building	10 to 15 years
Machinery	3 to 5 years
Motor vehicles	2 to 5 years

(b) Lease liabilities

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

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

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

The Group applies the short-term lease recognition exemption to its short-term leases of office equipment that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Group as lessor

When the Group acts as a lessor, it classifies at lease inception each of its leases as either an operating lease or a finance lease.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable before 1 January 2019)

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

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

General approach

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

Simplified approach

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

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

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

(a) Sale of automotive parts and components

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

(b) Provision of technical services

The Group recognizes technical services revenue when it transfers control of the services to the customers, which can occur over time or at a point in time. If the technical service is distinct, the Group accounts for the technical service separately from the production of automobile parts and recognizes revenue when service is delivered to the customer. Revenue shall be recognized over the production period if the service is not distinct and considered to be combined with the production.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other income

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

Contract liabilities

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

Contract costs

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

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Defined contribution plans

The employees of a previous subsidiary which operate in Mainland China are required to participate in central pension schemes operated by the local governments, the assets of which are held separately from those of the Group. This subsidiary disposed of in 2018 is required to contribute 5% of its payroll costs to the central pension scheme. The employees of subsidiaries of the Group which operate in the United Kingdom and Czech are entitled to defined contribution pension benefits. Contributions are made by such subsidiaries based on certain percentages of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the relevant pension schemes. The employer contributions vest fully once made.

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

Defined benefit plans

The Group operates defined benefit pension plans which require contributions to be made to a separately administered fund for employees of the Group's certain subsidiaries which operate in Europe. The benefits are unfunded. The cost of providing benefits under the defined benefit plans are determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to the remeasurement gains and losses on defined benefit plans through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plans (continued)

The Group recognises the following changes in the net defined benefit obligation under "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

The functional currencies of the Group's subsidiaries are mainly currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Transfer of construction in progress to property, plant and equipment

Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use. Thereafter, depreciation is calculated on a straight-line basis to write off the cost of each item of such property, plant and equipment to its residual value over its estimated useful life. It requires management's judgement and estimation to determine when the project under construction is substantially ready for its intended use, i.e., when it is capable of commercial operation based on the overall assessment of trial operation results. Further details are set out in note 14 to the financial statements.

Estimation uncertainty

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

Useful lives and residual values of items of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's 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 the depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods. Further details are set out in note 14 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Leases – Estimating the incremental borrowing rate

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Management reassesses the estimation at the end of the reporting period. Further details are set out in note 14 to the financial statements.

Capitalisation of pre-production costs

The Group capitalises pre-production costs when those costs are related to the contract with customers, generated or enhanced the resources used to satisfy performance obligation and are expected to be recovered.

The Group's managements need to judge and estimate whether such capitalised cost can be recovered, based on experience, historical data and estimation of the profitability of the contract.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 27 to the financial statements.

Defined benefit plan

The Group has recognised the defined benefit pension plan as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, the growth rates of the benefits and other factors. The deviation from the actual result and the actuarial result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amounts of employee pension benefit obligations. Further details are set out in note 25 to the financial statements.

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade and bills receivables. The provision rates are based on the days past due for various customer segments with similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (eg., the fluctuation of the unit price of steels and restriction policy in motor industries) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables is disclosed in note 19 to the financial statements, respectively.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision against obsolete inventories

Management reviews the condition of inventories of the Group at the end of the reporting period and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for use or sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of the reporting period. Further details are set out in note 18 to the financial statements.

Provision for warranties

Provision for product warranties granted by the Group is recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Further details are set out in note 26 to the financial statements.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are originated from a single operating segment, which is the manufacture, sale and trading of automotive parts and components, and provision of technical services. Therefore, no analysis by operating segment is presented.

Products and services

Revenue from external customers

	2019	2018
	HK$'000	HK$'000
Sale of industrial products	**2,469,381**	3,272,577
Technical service income	**185,205**	145,704
	2,654,586	3,418,281

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019	2018
	HK$'000	HK$'000
United Kingdom	**1,084,534**	1,266,688
Germany	**607,908**	615,901
United States	**198,161**	264,742
Mainland China	**75,131**	536,468
Other countries	**688,852**	734,482
	2,654,586	3,418,281

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

(b) Non-current assets

	2019	2018
	HK$'000	HK$'000
Poland	**443,472**	374,564
Czech	**243,898**	160,579
United Kingdom	**119,309**	87,419
Other countries	**10,756**	12,489
	817,435	635,051

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

5. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

During the reporting period, the revenues which were generated from two (2018: two) of the Group's customers and were individually accounted for more than 10% of the Group's total revenue are as follows:

	2019	2018
	HK$'000	HK$'000
Customer A	**805,034**	961,225
Customer B	**346,379**	350,310
	1,151,413	1,311,535

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents: (1) the net invoiced value of goods sold, net of value-added tax and government surcharges and excludes sale taxes, and after allowance for returns and trade discounts; and (2) an appropriate proportion of contract revenue of technical and consultancy service contracts.

An analysis of the Group's revenue, other income and gains, net, is as follows:

	2019	2018
	HK$'000	HK$'000
Revenue from contracts with customers		
Sale of industrial products	**2,469,381**	3,272,577
Technical service income	**185,205**	145,704
	2,654,586	3,418,281

6. REVENUE, OTHER INCOME AND GAINS (continued)

	2019 HK$'000	2018 HK$'000
Timing of revenue recognition		
Industrial products and services transferred at a point time	**2,636,699**	3,399,868
Services transferred over time	**17,887**	18,413
	2,654,586	3,418,281

An analysis of the Group's other income and gains, net, is as follows:

	2019 HK$'000	2018 HK$'000
Other income		
Bank interest income	**12,405**	7,334
Profit from sale of scrap materials	**22,096**	50,416
Foreign exchange differences, net	**–**	9,387
Others	**4,545**	9,582
	39,046	76,719
Gains		
Disposal of a subsidiary	**–**	86,278
Gain on disposal of items of property, plant and equipment	**18,053**	1,429
Government grants	**1,005**	9,343
	19,058	97,050
Other income and gains, net	**58,104**	173,769

7. PROFIT BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold and services provided		**2,102,401**	2,795,592
Depreciation of property, plant and equipment	14	**67,182**	103,643
Depreciation of right-of-use assets (2018: Amortisation of land lease payments)	15	**42,359**	327
Minimum lease payments under operating leases		**–**	48,242
Lease payments not included in the measurement of lease liabilities	15	**446**	–
Auditors' remuneration		**3,688**	4,500
Employee benefit expense (including directors' and chief executives' remuneration):			
Wages, salaries and benefits		**466,136**	554,973
Defined benefit obligation expenses	25	**4,907**	2,202
		471,043	557,175
Research and development costs		**294,827**	386,815
Less: Staff costs included in research and development costs		**(116,918)**	(145,523)
Research and development costs, net of staff costs		**177,909**	241,292
Gain on disposal of items of property, plant and equipment	6	**(18,053)**	(1,429)
Gain on disposal of a subsidiary	6	**–**	(86,278)
Impairment of trade and bills receivables, net	19	**632**	5,972
(Reversal of impairment)/Impairment of prepayment, other receivables and other assets, net	20	**(3)**	495
Provision for obsolete items of property, plant and equipment	14	**1,211**	–
(Write back of provision)/Provision for obsolete inventories*	18	**(79)**	943
Provision for warranties, net	26	**19,426**	42
Fair value loss, net:			
Derivative instrument – transaction not qualifying as hedge		**2,192**	–
Foreign exchange differences, net**		**11,538**	(9,387)

7. PROFIT BEFORE TAX (continued)

* The provision for obsolete inventories is included in "Cost of sales" in the consolidated statement of profit or loss.

** Foreign exchange loss of approximately HK$11,538,000 is included in "other operating expense" in the consolidated statement of profit or loss for the year ended 31 December 2019, and foreign exchange gain of approximately HK$9,387,000 is included in "other income and gains" in the consolidated statement of profit or loss for the year ended 31 December 2018.

8. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank loans and other loans	7,540	13,546
Interest on lease liabilities	4,101	–
	11,641	13,546

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2019 HK$'000	2018 HK$'000
Fees	720	720
Other emoluments:		
Salaries, allowances and benefits in kind	2,136	2,074
Pension scheme contributions	107	104
	2,243	2,178
	2,963	2,898

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

An analysis of the directors' remuneration, on a named basis, is as follows:

(a) Fees

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

	2019	2018
	HK$'000	HK$'000
Mr. Tam King Ching, Kenny	**240**	240
Mr. Leung Kai Cheung (resigned with effect from 16 November 2018)	**–**	210
Mr. Yip Kin Man, Raymond	**240**	240
Mr. Chan Pat Lam (appointed with effect from 16 November 2018)	**240**	30
	720	720

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

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

(b) Other emoluments

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2019			
Executive directors:			
Mr. Jiang Yunan	–	–	–
Mr. Chen Zhouping (chief executive)	2,136	107	2,243
Mr. Li Shaofeng (resigned with effect from 27 November 2019)	–	–	–
Mr. Thomas P Gold	–	–	–
	2,136	107	2,243
Non-executive director:			
Mr. Zhang Yaochun (resigned with effect from 27 November 2019)	–	–	–
	2,136	107	2,243
2018			
Executive directors:			
Mr. Jiang Yunan	–	–	–
Mr. Chen Zhouping (chief executive)	2,074	104	2,178
Mr. Li Shaofeng	–	–	–
Mr. Thomas P Gold	–	–	–
	2,074	104	2,178
Non-executive director:			
Mr. Zhang Yaochun	–	–	–
	2,074	104	2,178

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2019 (year ended 31 December 2018: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2018: one), details of the remuneration for the year of the remaining four (2018: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	**6,058**	6,630
Performance related bonuses	**9**	487
	6,067	7,117

The remuneration of these non-director and non-chief executive highest paid employees fell within the following bands:

	Number of employees	
	2019	2018
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**2**	2
	4	4

11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2019 as the Group did not generate any assessable profits arising in Hong Kong during the year (year ended 31 December 2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The rates of tax prevailing in the countries in which the Group operates include:

	2019	2018
	(%)	(%)
Luxembourg	**24.94**	26.01
Poland	**19.00**	19.00
United Kingdom	**19.00**	19.00
France	**31.00**	28.00
Germany	**29.83**	15.83
Italy	**27.50**	27.90
Mainland China (Note (i))	**–**	15.00
Czech	**19.00**	19.00

Note:

(i) In accordance with the relevant tax laws in the PRC, the subsidiary located in Mainland China is entitled to a preferential corporate income tax rate of 15% on its taxable income for the year ended 31 December 2018. In August 2018, the Group disposed of BWI (Shanghai) Co. Ltd to BWI (HK), the immediate holding company of the Company.

	2019	2018
	HK$'000	HK$'000
Current – elsewhere	**40,757**	49,648
Deferred tax (Note 27)	**5,982**	(9,740)
Total tax charge for the year	**46,739**	39,908

11. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory rate to the tax expense at the effective tax rate, and a reconciliation of the Hong Kong statutory tax rate to the effective tax rate, are as follows:

	2019		2018	
	HK$'000	**%**	HK$'000	%
Profit before tax	**51,628**		133,440	
Income tax charge at the Company's statutory tax rate of 16.5%	**8,519**	**16.5**	22,018	16.5
Effect of different income tax rates for foreign operations	**5,050**	**9.8**	11,016	8.3
Income not subject to tax	**(3,094)**	**(6.0)**	(17,489)	(13.1)
Expenses not deductible for tax purposes	**17,625**	**34.1**	9,116	6.8
Tax losses not recognised as deferred tax assets	**7,087**	**13.7**	15,761	11.8
Additional deduction of research and development expenses	**–**	**–**	(3,145)	(2.4)
Withholding tax	**11,142**	**21.6**	1,078	0.8
Others	**410**	**0.8**	1,553	1.2
Tax charge at the effective rate	**46,739**	**90.5**	39,908	29.9

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

The calculation of the basic earning per share amount is based on the profit/loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 574,339,068 (2018: 574,339,068) in issue during the year.

No adjustment has been made to the earning per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the Group did not have any potential ordinary shares in issue during the years ended 31 December 2019 and 2018.

13. DIVIDEND

	2019	2018
	HK$'000	HK$'000
Proposed final dividend and special dividend	–	34,460

The board of directors of the Company decided, on 26 March 2020, not to propose any final dividend in respect of the year ended 31 December 2019 (2018: final dividend of HK$0.02 per share and special dividend of HK$0.04 per share).

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Special tools HK$'000	Computer equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2019							
At 31 December 2018 and at 1 January 2019:							
Cost	34,127	523,808	6,795	32,921	86,874	91,501	776,026
Accumulated depreciation and impairment	(14,490)	(209,858)	(4,646)	(19,270)	(53,167)	–	(301,431)
Net carrying amount	19,637	313,950	2,149	13,651	33,707	91,501	474,595
At 1 January 2019, net of accumulated depreciation and impairment	19,637	313,950	2,149	13,651	33,707	91,501	474,595
Additions	–	1,916	–	7,237	7,127	58,219	74,499
Depreciation provided during the year (Note 7)	(1,900)	(48,588)	(690)	(9,261)	(6,743)	–	(67,182)
Disposals	–	(98)	–	(159)	(5,683)	(4,870)	(10,810)
Provision for obsolete items (Note 7)	–	(1,211)	–	–	–	–	(1,211)
Transfers	2,123	83,416	683	658	2,600	(89,480)	–
Exchange realignment	(443)	(4,550)	(45)	127	(562)	(1,602)	(7,075)
At 31 December 2019, net of accumulated depreciation and impairment	19,417	344,835	2,097	12,253	30,446	53,768	462,816
At 31 December 2019:							
Cost	35,470	601,789	7,207	33,402	86,726	53,768	818,362
Accumulated depreciation and impairment	(16,053)	(256,954)	(5,110)	(21,149)	(56,280)	–	(355,546)
Net carrying amount	19,417	344,835	2,097	12,253	30,446	53,768	462,816

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Special tools HK$'000	Computer equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	30,384	853,127	9,414	164,644	135,619	85,398	1,278,586
Accumulated depreciation and impairment	(13,555)	(363,412)	(5,775)	(119,165)	(96,650)	–	(598,557)
Net carrying amount	16,829	489,715	3,639	45,479	38,969	85,398	680,029
At 1 January 2018, net of accumulated depreciation and impairment	16,829	489,715	3,639	45,479	38,969	85,398	680,029
Additions	–	13,139	2,502	11,538	14,942	125,150	167,271
Disposal of a subsidiary	–	(120,359)	(3,853)	(27,713)	(20,660)	(34,463)	(207,048)
Depreciation provided during the year (Note 7)	(1,829)	(69,513)	(1,002)	(19,279)	(12,020)	–	(103,643)
Disposals	–	(20,731)	–	(489)	(1,217)	(14,293)	(36,730)
Transfers	5,806	46,740	1,199	5,387	17,425	(76,557)	–
Exchange realignment	(1,169)	(25,041)	(336)	(1,272)	(3,732)	6,266	(25,284)
At 31 December 2018, net of accumulated depreciation and impairment	19,637	313,950	2,149	13,651	33,707	91,501	474,595
At 31 December 2018:							
Cost	34,127	523,808	6,795	32,921	86,874	91,501	776,026
Accumulated depreciation and impairment	(14,490)	(209,858)	(4,646)	(19,270)	(53,167)	–	(301,431)
Net carrying amount	19,637	313,950	2,149	13,651	33,707	91,501	474,595

No fixed assets of the Group were held under finance leases at 31 December 2019 (31 December 2018: Nil).

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, building, machinery and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 99 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery generally have lease terms between 5 and 10 years, while motor vehicles generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are one lease contract that includes extension option for which the management assumes to extend to 5 years.

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

	HK$'000
Carrying amount at 1 January 2019	10,590
Amortisation (Note 7)	(327)
Exchange realignment	(673)
	9,590

The prepaid land lease payments are related to leasehold land situated in Poland which is held under a long term lease.

(b) Right-of-use assets

	Prepaid land lease payments HK$'000	Buildings HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2019	9,590	149,478	34,159	3,523	196,750
Additions	–	6,288	206	3,519	10,013
Depreciation charge (Note 7)	(307)	(29,895)	(8,793)	(3,364)	(42,359)
Exchange realignment	(371)	(1,666)	(1,052)	(57)	(3,146)
As at 31 December 2019	8,912	124,205	24,520	3,621	161,258

15. LEASES (continued)

(c) Lease liabilities

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

	HK$'000
Carrying amount at 1 January 2019	191,574
New leases	10,013
Accretion of interest recognised during the year	4,101
Payments	(43,506)
Exchange realignment	(2,474)
Carrying amount at 31 December 2019	159,708
Analysed into:	
Current portion	33,364
Non-current portion	126,344
Carrying amount at 31 December 2019	159,708

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

	2019 **HK$'000**
Interest on lease liabilities	**4,101**
Depreciation charge of right-of-use assets	**42,359**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	**33**
Expense relating to leases of low-value assets	**413**
Total amount recognised in profit or loss	**46,906**

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 32(c) and 31, respectively, to the financial statements.

16. GOODWILL

	2019	2018
	HK$'000	HK$'000
Cost and net carrying amount at 1 January	4,455	4,681
Exchange realignment	89	(226)
Cost and net carrying amount at 31 December	4,544	4,455

Impairment testing of goodwill

Goodwill acquired through business combinations from the acquisition in 2009 has been allocated to the relevant cash-generating units ("CGU"), mainly representing by the product lines of automotive parts and components, and technical services for impairment testing. The recoverable amounts of the CGUs have been determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections as at 31 December 2019 was 12% which is based on the weighted average cost of capital, and cash flows beyond the five-year period was extrapolated using a growth rate of 2%.

Key assumptions were used in the value in use calculation of the CGU of product lines of automotive parts and components at 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

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

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

17. OTHER NON-CURRENT ASSETS

	2019 HK$'000	2018 HK$'000
Contract performance deposits	46,907	26,457
Pre-production cost	161,375	134,748
	208,282	161,205
Within one year (Note 20)	(19,465)	(14,794)
	188,817	146,411

18. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	132,654	129,590
Work in progress	22,462	20,020
Finished goods	41,820	32,162
	196,936	181,772
Provision for impairment	(9,844)	(9,983)
	187,092	171,789

18. INVENTORIES (continued)

The movements in the provision for impairment of inventories are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of the year	**(9,983)**	(19,062)
Impairment losses reversed/(recognised), net (Note 7)	**79**	(943)
Disposal of a subsidiary	**–**	9,292
Exchange realignment	**60**	730
At end of the year	**(9,844)**	(9,983)

19. TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade and bills receivables	**341,576**	390,739
Impairment	**(3,729)**	(3,043)
Total	**337,847**	387,696

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to three months for the customers. Each third-party customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has control to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customer. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. They are stated net of provisions.

19. TRADE AND BILLS RECEIVABLES (continued)

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

	2019 HK$'000	2018 HK$'000
Within 3 months	**336,998**	386,619
3 months to 1 year	**849**	1,077
	337,847	387,696

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

	2019 HK$'000	2018 HK$'000
At the beginning of year	**(3,043)**	(12,208)
Impairment losses recognised (Note 7)	**(632)**	(5,972)
Exchange realignment	**(54)**	1,212
Disposal of a subsidiary	**–**	13,925
At end of the year	**(3,729)**	(3,043)

19. TRADE AND BILLS RECEIVABLES (continued)

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

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

As at 31 December 2019	**Not yet due**	**Overdue**	**Total**
Expected credit loss rate	**0.50%**	**85.24%**	**1.09%**
Carrying amount (HK$'000)	**339,191**	**2,385**	**341,576**
Expected credit losses (HK$'000)	**1,696**	**2,033**	**3,729**

As at 31 December 2018	Not yet due	Overdue	Total
Expected credit loss rate	0.5%	74.15%	0.78%
Carrying amount (HK$'000)	389,260	1,479	390,739
Expected credit losses (HK$'000)	1,946	1,097	3,043

20. PREPAYMENT, OTHER RECEIVABLES AND OTHER ASSETS

	2019 HK$'000	2018 HK$'000
Prepayments	**5,646**	24,102
Deposits, other receivables and others	**42,098**	73,346
Preproduction cost – current (Note 17)	**19,465**	14,794
Due from fellow subsidiaries (Note 34(c)(i))	**36,306**	33,387
Due from holding companies (Note 34(c)(i))	**63,945**	67,656
	167,460	213,285
Impairment	**(492)**	(495)
	166,968	212,790

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

	2019 HK$'000	2018 HK$'000
At the beginning of year	**(495)**	–
Impairment losses reversed/(recognised), net (Note 7)	**3**	(495)
At end of the year	**(492)**	(495)

20. PREPAYMENT, OTHER RECEIVABLES AND OTHER ASSETS (continued)

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

As at 31 December 2019	**Not yet due**	**Overdue**	**Total**
Expected credit loss rate	**0.5%**	**–**	**0.5%**
Adjusted carrying amount* (HK$'000)	**100,251**	**–**	**100,251**
Expected credit losses (HK$'000)	**492**	**–**	**492**

As at 31 December 2018	Not yet due	Overdue	Total
Expected credit loss rate	0.5%	–	0.5%
Adjusted carrying amount* (HK$'000)	101,043	–	101,043
Expected credit losses (HK$'000)	495	–	495

* The adjusted carrying amount represents the gross carrying amount excluding prepayments, deposits, other receivables and others and current preproduction cost with no default risk.

21. CASH AND CASH EQUIVALENTS

	2019	2018
	HK$'000	HK$'000
Cash and bank balances	**366,840**	727,912
	366,840	727,912

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. There was no restricted cash as at 31 December 2019 and 2018. The carrying amount of the cash and cash equivalents approximates to its fair value.

22. TRADE PAYABLES

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

	2019 HK$'000	2018 HK$'000
Within 3 months	**318,529**	381,100
3 to 6 months	**37**	1,121
6 to 12 months	**24**	23
Over 12 months	**473**	1,135
	319,063	383,379

The trade payables are non-interest-bearing and are normally settled on 30 to 90 days' terms.

23. OTHER PAYABLES AND ACCRUALS

	31 December 2019 HK$'000	1 January 2019 HK$'000	31 December 2018 HK$'000
Contract liabilities (Note (a))	**43,685**	**57,025**	57,025
Other creditors and accruals (Note (b))	**36,721**	**48,200**	58,547
Other tax payables	**36,137**	**39,946**	39,946
Accrued salaries, wages and benefits	**44,143**	**30,797**	30,797
Due to fellow subsidiaries (Note 34(c)(ii))	**15,874**	**34,100**	34,100
Due to a holding company (Note 34(c)(ii))	**10,600**	**11,787**	11,787
	187,160	**221,855**	232,202
Portion classified as current liabilities	**(150,380)**	**(183,191)**	(193,538)
Non-current portion	**36,780**	**38,664**	38,664

23. OTHER PAYABLES AND ACCRUALS (continued)

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 HK$'000	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers	**–**	–	1,669
Engineering technical service fees	**43,685**	57,025	12,836
Total contract liabilities	**43,685**	57,025	14,505

Contract liabilities include short-term advances received to deliver manufactured automatic products and technical services.

(b) Other creditors are unsecured, non-interest-bearing and repayable on demand. As a result of the initial application of HKFRS 16, accrued lease payments of HK$10,347,000 previously included in "Other payables and accruals" were adjusted to the "Lease liabilities" recognised at 1 January 2019.

24. BANK BORROWINGS

	Notes	**2019 HK$'000**	2018 HK$'000
Bank loans, unsecured	(b)	**98,272**	349,366
Analysed into, repayable:			
Within one year		**98,272**	349,366
Total bank borrowings	(a)	**98,272**	349,366
Portion classified as current liabilities		**(98,272)**	(349,366)
Non-current portion		**–**	–

24. BANK BORROWINGS (continued)

Notes:

(a) The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Notes	**2019** HK$'000	2018 HK$'000
EUR	(i)	**35,272**	269,183
PLN	(ii)	**63,000**	43,764
USD	(iii)	**–**	36,419
		98,272	349,366

(i) The bank loan denominated in EUR as at 31 December 2019 bore interest at a rate of 1 month EURIBOR plus 2.00% per annum (31 December 2018: 1 month EURIBOR plus 1.20% per annum to 1 month EURIBOR plus 2.20% per annum).

(ii) The bank loan denominated in PLN as at 31 December 2019 bore interest at a rate of 1 month WIBOR plus 2.00% per annum (31 December 2018: 1 month WIBOR plus 2.00% per annum).

(iii) The bank loan denominated in USD as at 31 December 2019 was nil (31 December 2018: bore interest at a rate of 1 month LIBOR plus 2.20% per annum).

(b) Certain interest-bearing bank loans of the Group in an aggregate amount of HK$224,396,000 as at 31 December 2018 were supported by a letter of comfort issued by Shougang Group Co., Ltd. The loans were fully repaid as at 31 December 2019.

25. DEFINED BENEFIT OBLIGATIONS

The Group has defined benefit pension plans, covering substantially all of its qualified employees in Poland, France and Germany. The amounts of employee benefit obligations recognised in the statement of financial position represent the present values of the unfunded obligations.

The defined benefit obligations were determined based on actuarial valuations performed by Wills Towers Watson Consulting Company Limited, FACTUM S.C. and Sbp, independent actuaries located in Germany, Poland and France, respectively, using the projected unit credit method.

25. DEFINED BENEFIT OBLIGATIONS (continued)

The components of net benefit expenses in profit or loss and the amounts recognised in the statement of financial position are summarised as follows:

(a) The provisions for defined benefit obligations recognised in the consolidated statement of financial position are shown as follows:

	2019 HK$'000	2018 HK$'000
Present value of unfunded obligations	**115,135**	88,760
Portion classified as current liabilities	**(1,559)**	(2,888)
Non-current portion	**113,576**	85,872

(b) The movements of the defined benefit obligations are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of the year	**88,760**	89,400
Current service costs	**2,843**	633
Interest cost on benefit obligations	**2,064**	1,569
Benefits paid during the year	**(3,009)**	(2,446)
Remeasurement losses recognised in other comprehensive income*	**26,583**	4,528
Exchange realignment	**(2,106)**	(4,924)
At end of the year	**115,135**	88,760

* Deferred tax assets of HK$5,021,000 (31 December 2018: HK$932,000) were recognised for the remeasurement losses (note 27). The remeasurement losses after deferred tax amounted to HK$21,562,000 (31 December 2018: HK$3,596,000), which was recognised in other comprehensive income.

25. DEFINED BENEFIT OBLIGATIONS (continued)

(c) The net expenses recognised in the consolidated statement of profit or loss are analysed as follows:

	2019 HK$'000	2018 HK$'000
Current service costs	**2,843**	633
Interest cost on benefit obligations	**2,064**	1,569
Net benefit expenses	**4,907**	2,202

(d) The principal actuarial assumptions used in valuing the provisions for defined benefit obligations at the end of the reporting period are as follows:

		2019	
	Germany **%**	**Poland** **%**	**France** **%**
Discount rate	**0.88**	**2.10**	**0.62**
Rate of salary increases	**3.00**	**4.00**	**2.00**
Rate of price inflation	**2.00**	**2.50**	**N/A**
Pension increase rate	**2.00**	**N/A**	**N/A**

		2018	
	Germany %	Poland %	France %
Discount rate	1.80	3.40	1.50
Rate of salary increases	3.00	3.50/4.00	2.30/2.50
Rate of price inflation	2.00	2.50	N/A
Pension increase rate	2.00	N/A	N/A

25. DEFINED BENEFIT OBLIGATIONS (continued)

(d) (continued)

The average duration of the provision for defined benefits at the end of the reporting period is as follows:

	2019		
	Germany	**Poland**	**France**
	Years	**Years**	**Years**
Average life expectancy			
Plan 1	**16**	**12.65**	**20**
Plan 2	**4**	**17.66**	**N/A**

	2018		
	Germany	Poland	France
	Years	Years	Years
Average life expectancy			
Plan 1	16	11.79	19
Plan 2	6	16.58	N/A

(e) The quantitative sensitivity analysis of the provisions for defined benefits as at the end of the reporting period is as follows:

2019

	Increase in rate	**Decrease in provisions for defined benefits**	**Decrease in rate**	**Increase in provisions for defined benefits**
	%	**HK$'000**	**%**	**HK$'000**
Discount rate	**1**	**(10,650)**	**1**	**12,778**

25. DEFINED BENEFIT OBLIGATIONS (continued)

(e) (continued)

2018

	Increase in rate	Decrease in provisions for defined benefits	Decrease in rate	Increase in provisions for defined benefits
	%	HK$'000	%	HK$'000
Discount rate	1	(7,118)	1	10,279

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the provisions for defined benefits as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

26. PROVISION

	2019	2018
	HK$'000	HK$'000
Product warranties:		
At beginning of the year	**16,543**	44,411
Provision (Note 7)	**19,426**	42
Amounts utilised during the year	**(13,278)**	(14,932)
Exchange realignment	**(261)**	(1,839)
Disposal of a subsidiary	**–**	(11,139)
At end of the year	**22,430**	16,543

The Group provides warranties of certain periods to its customers on certain products, and warranties ranging from one to five years to its customers for general repairs of defects occurring during the warranty period. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

27. DEFERRED TAX

The components of deferred tax liabilities and assets and their movements during the year are as follows:

2019

Deferred tax liabilities

	Contract assets HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from business combination HK$'000	Right-of -use assets HK$'000	Total HK$'000
At 31 December 2018	(25,602)	(7,178)	(1,837)	–	(34,617)
Effect of adoption of HKFRS 16	–	–	–	(38,252)	(38,252)
At 1 January 2019 (restated)	(25,602)	(7,178)	(1,837)	(38,252)	(72,869)
Deferred tax credited/(charged) to profit or loss during the year	(5,349)	(994)	29	7,588	1,274
Exchange realignment	(214)	(19)	41	57	(135)
At 31 December 2019	(31,165)	(8,191)	(1,767)	(30,607)	(71,730)

27. DEFERRED TAX (continued)

The components of deferred tax liabilities and assets and their movements during the year are as follows: (continued)

2019 (continued)

Deferred tax assets

	Contract liabilities HK$'000	Lease liabilities HK$'000	Warranty provision HK$'000	Defined benefit pension plans HK$'000	Accruals HK$'000	Total HK$'000
At 31 December 2018	9,423	–	8,895	8,993	4,794	32,105
Effect of adoption of HKFRS 16	–	38,252	–	–	–	38,252
At 1 January 2019 (restated)	9,423	38,252	8,895	8,993	4,794	70,357
Deferred tax credited/(charged) to profit or loss during the year	(1,032)	(7,068)	(3,764)	(5)	4,613	(7,256)
Deferred tax credited to other comprehensive income during the year	–	–	–	5,021	–	5,021
Exchange realignment	(91)	(43)	(73)	(61)	(100)	(368)
At 31 December 2019	8,300	31,141	5,058	13,948	9,307	67,754

2018

Deferred tax liabilities

	Contract assets HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from business combination HK$'000	Total HK$'000
At 1 January 2018	–	(4,056)	(5,983)	(10,039)
Effect of adoption of HKFRS 15	(16,755)	–	–	(16,755)
At 1 January 2018 (restated)	(16,755)	(4,056)	(5,983)	(26,794)
Deferred tax credited/(charged) to profit or loss during the year	(12,725)	(119)	31	(12,813)
Decrease due to disposal of a subsidiary	2,590	(3,488)	3,987	3,089
Exchange realignment	1,288	485	128	1,901
At 31 December 2018	(25,602)	(7,178)	(1,837)	(34,617)

27. DEFERRED TAX (continued)

The components of deferred tax assets and liabilities and their movements during the year are as follows: (continued)

2018 (continued)

Deferred tax assets

	Contract liabilities HK$'000	Warranty provision HK$'000	Defined benefit pension plans HK$'000	Accruals HK$'000	Deductible loss HK$'000	Total HK$'000
At 1 January 2018	–	11,143	8,180	19,876	8,808	48,007
Effect of adoption of HKFRS 15	1,151	–	–	–	–	1,151
At 1 January 2018 (restated)	1,151	11,143	8,180	19,876	8,808	49,158
Deferred tax credited/(charged) to profit or loss during the year	8,675	(288)	849	3,178	10,139	22,553
Deferred tax credited to other comprehensive income during the year	–	–	932	–	–	932
Decrease due to disposal of a subsidiary	–	(1,744)	–	(17,941)	(18,947)	(38,632)
Exchange realignment	(403)	(216)	(968)	(319)	–	(1,906)
At 31 December 2018	9,423	8,895	8,993	4,794	–	32,105

As at 31 December 2019, tax losses of the Group were HK$273,668,000 (31 December 2018: HK$237,413,000), which had not been recognised as deferred tax assets, as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax liabilities of HK$ 14,221,000 as at 31 December 2019, has not been provided in respect of withholding tax (enacted on 1 January 2019), that would be payable on the distribution of retained earnings of a subsidiary, which was determined based on the extent of its retained earnings unlikely to be distributed of HK$74,849,000 as at 31 December 2019. This is because the Group controls the dividend policy of the subsidiary and the directors determined that such retained earnings are not likely to be distributed in the foreseeable future.

28. ISSUED CAPITAL

	2019 HK$'000	2018 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each (2018: 2,000,000,000 ordinary shares of HK$0.10 each)	**200,000**	200,000
Issued and fully paid:		
574,339,068 ordinary shares of HK$0.10 each (2018: 574,339,068 ordinary shares of HK$0.10 each)	**57,434**	57,434

The amounts of the issued capital of the Company and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 90 to 91 of the financial statements.

29. RESERVES

(i) The amounts of the Group's reserves and the movements therein for the years ended 31 December 2019 and 2018 are presented in the consolidated statement of changes in equity.

(ii) Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

30. DISPOSAL OF A SUBSIDIARY

Pursuant to the agreement for the sale and purchase of shares of BWI (Shanghai) Co., Ltd. ("BWI Shanghai") dated 21 June 2018 entered into between BWI (HK) and Billion Million (HK) Limited ("Billion Million", a wholly-owned subsidiary of the Company), Billion Million had completed the disposal of a 51% equity interest in BWI Shanghai on 28 August 2018 for a consideration of RMB132,300,000 (approximately HK$ 151,587,000), which was satisfied by cash payment.

	2018 HK$'000
Net assets disposed of:	
Property, plant and equipment	207,048
Cash and bank balances	49,676
Trade receivables	262,596
Inventories	85,499
Other current assets	25,717
Prepayments and other receivables	9,621
Deferred tax assets	38,632
Trade payables	(234,435)
Bank borrowings	(120,645)
Accruals and other payables	(150,042)
Deferred tax liabilities	(3,089)
Non-controlling interests	(105,269)
	65,309
Gain on disposal of a subsidiary	86,278
Satisfied by:	
Cash	151,587

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

	2018 HK$'000
Cash consideration	151,587
Cash and bank balances disposed of	(49,676)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	101,911

31. COMMITMENTS

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

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:		
Plant and machinery	**94,186**	52,566

(b) Operating lease commitments as at 31 December 2018:

The Group leased certain of its plant, motor vehicles and equipment under operating lease arrangements, with leases negotiated for terms ranging from within one to fourteen years. Leases for other equipment were with terms of 12 months or less.

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

	2018 HK$'000
Within one year	33,467
In the second to fifth years, inclusive	63,074
After five years	81,225
	177,766

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash addition to right-of-use assets and lease liabilities of HK$10,013,000 and HK$10,013,000 respectively, in respect of lease arrangements for buildings, machineries and motor vehicles (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Bank borrowings HK$'000	Lease liabilities HK$'000	Loan from a holding company HK$'000
At 31 December 2018	349,366	–	448
Effect of adoption of HKFRS 16	–	191,574	–
At 1 January 2019 (restated)	**349,366**	**191,574**	**448**
Changes from financing cash flows	**(241,407)**	**(43,506)**	**–**
New leases	**–**	**10,013**	**–**
Exchange realignment	**(9,687)**	**(2,474)**	**(12)**
Interest expense	**–**	**4,101**	**–**
At 31 December 2019	**98,272**	**159,708**	**436**

	Bank borrowings HK$'000	Loan from a holding company HK$'000
At 1 January 2018	566,664	469
Changes from financing cash flows	(72,284)	–
Disposal of a subsidiary	(120,645)	–
Exchange realignment	(24,369)	(21)
At 31 December 2018	349,366	448

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

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

	2019 HK$'000
Within financing activities	43,506
	43,506

33. CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, the Group did not have any significant contingent liabilities.

34. RELATED PARTY DISCLOSURES

The related companies with which the Group had transactions and/or balances were as follows:

Name of the related companies	Relationship with the Group
Shougang Group Co., Ltd.	the ultimate holding company
BWI	the intermediate holding company
BWI (HK)	the immediate holding company
BWI North America Inc.	a fellow subsidiary
BWI Indiana Inc.	a fellow subsidiary
BWI Company Limited S.A.	a fellow subsidiary
Beijing Shougang Automation Information Technology Co., Ltd. ("Shougang Automation")	a fellow subsidiary
Shougang Concord International Enterprises Company Limited ("Shougang Concord International")	an associate of the ultimate holding company
BWI Vehicle Dynamics Sales and Service, S.DE R.L.DE C.V	a fellow subsidiary
BWI (Shanghai) Co., Ltd.	an associate of the ultimate holding company
Vehicle Stability Technology, S.A. de C.V.	a fellow subsidiary

34. RELATED PARTY DISCLOSURES (continued)

(a) Transactions with related parties

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

	2019 HK$'000	2018 HK$'000
Sales of goods to:		
BWI North America Inc.	9,138	14,333
BWI	2,856	2,935
BWI Indiana Inc.	2,244	425
BWI (HK)	15	1,608
	14,253	19,301
Technical services provided to:		
BWI North America Inc.	59,979	60,559
BWI Indiana Inc	40,902	19,562
BWI	25,524	24,879
BWI Vehicle Dynamics Sales and Service, S.DE R.L.DE C.V	161	110
Vehicle Stability Technology, S.A. de C.V.	53	93
BWI (HK)	–	374
BWI (Shanghai) Co., Ltd.	–	39
	126,619	105,616

34. RELATED PARTY DISCLOSURES (continued)

(a) Transactions with related parties (continued)

	2019 HK$'000	2018 HK$'000
Purchases of products from:		
BWI	**2,371**	6,646
BWI North America Inc.	**91**	264
BWI Indiana Inc	**28**	–
BWI (HK)	**–**	8
	2,490	6,918
Management and technical services provided by:		
BWI North America Inc.	**137,333**	180,438
BWI	**20,781**	17,293
Shougang Automation	**–**	63
	158,114	197,794
Royalty provided by:		
BWI	**9,339**	11,042
Company secretary service fee paid to:		
Shougang Concord International	**–**	350
Administrative service fee paid to:		
BWI (HK)	**1,200**	–

In the opinion of the Directors, the above transactions arose from the ordinary course of the Group's business and were conducted in accordance with mutually agreed terms.

(b) Other transactions with related parties:

Certain interest-bearing bank loans of the Group in an aggregate amount of HK$224,396,000 as at 31 December 2018 were supported by a letter of comfort issued by Shougang Group Co., Ltd. The loans were fully repaid as at 31 December 2019.

34. RELATED PARTY DISCLOSURES (continued)

(c) Balances with related parties

	Notes	2019 HK$'000	2018 HK$'000
Amounts due from fellow subsidiaries	(i)		
BWI Indiana Inc		**23,987**	10,589
BWI North America Inc.		**9,457**	19,826
BWI Company Limited S.A.		**1,932**	1,983
BWI (Shanghai) Co., Ltd.		**924**	989
BWI Vehicle Dynamics Sales and Service, S.DE R.L.DE C.V		**5**	–
Vehicle Stability Technology, S.A. de C.V.		**1**	–
		36,306	33,387
Amounts due from holding companies	(i)		
BWI		**63,945**	66,788
BWI (HK)		**–**	868
		63,945	67,656
Amounts due to fellow subsidiaries	(ii)		
BWI North America Inc.		**15,868**	34,041
BWI Indiana Inc		**6**	–
BWI Vehicle Dynamics Sales and Service, S.DE R.L.DE C.V		**–**	59
		15,874	34,100
Amount due to a holding company	(ii)		
BWI		**10,600**	11,787
Long term loan due to a holding company	(iii)		
BWI (HK)		**436**	448

34. RELATED PARTY DISCLOSURES (continued)

(c) Balances with related parties (continued)

Notes:

(i) The amounts due from fellow subsidiaries and holding companies included in the Group's current assets are unsecured, interest-free and repayable within one year.

(ii) The amounts due to fellow subsidiaries and a holding company included in the Group's current liabilities are unsecured, interest-free and repayable within one year.

(iii) The long term loan due to a holding company included in the Group's non-current liabilities is unsecured and bears interest at a rate of 4.758% per annum.

The related party transactions disclosed in note (a) above also constituted connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(d) Compensation of key management personnel of the Group

	2019	2018
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,058**	6,630
Performance related bonuses	**9**	487
	6,067	7,117

Further details of directors' emoluments are included in note 9 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

2019

Except for derivative financial instruments included in other payables and accruals of HK$2,192,000, which was recognized as financial liabilities at fair value through profit or loss, all other financial assets and liabilities of the Group as at 31 December 2019 were loans and receivables stated at amortised cost, and financial liabilities stated at amortised cost, respectively.

2018

All financial assets and liabilities of the Group as at 31 December 2018 were loans and receivables stated at amortised cost, and financial liabilities stated at amortised cost, respectively.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Trade and bills receivables	**337,847**	387,696	**337,847**	387,696
Financial assets included in Prepayments, other receivables and other assets	**4,016**	4,427	**4,016**	4,427
Due from fellow subsidiaries	**36,306**	33,387	**36,306**	33,387
Due from holding companies	**63,945**	67,656	**63,945**	67,656
Cash and cash equivalents	**366,840**	727,912	**366,840**	727,912
	808,954	1,221,078	**808,954**	1,221,078
Financial liabilities				
Lease liabilities	**(159,708)**	–	**(159,708)**	–
Trade payables	**(319,063)**	(383,379)	**(319,063)**	(383,379)
Financial liabilities included in other payables and accruals	**(36,721)**	(58,547)	**(36,721)**	(58,547)
Due to fellow subsidiaries	**(15,874)**	(34,100)	**(15,874)**	(34,100)
Due to a holding company	**(10,600)**	(11,787)	**(10,600)**	(11,787)
Bank borrowings	**(98,272)**	(349,366)	**(98,272)**	(349,366)
Long term loan from a holding company	**(436)**	(448)	**(436)**	(448)
	(640,674)	(837,627)	**(640,674)**	(837,627)
	(168,280)	383,451	**(168,280)**	383,451

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

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

Management has assessed that the fair values of the above short term financial instruments approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the long term financial instruments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, if the discounting effect is material. The Group's own non-performance risk as at 31 December 2019 and 2018 was assessed to be insignificant.

The Group's principal financial instruments comprise interest-bearing borrowings and cash and bank balances. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue material derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are recognised below.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from transactions in currencies other than the units' functional currency. The Group does not enter into any hedging transactions in order to reduce the Group's exposure to foreign currency risk.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the EUR and GBP exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). In the opinion of the Directors, as the currency exposures arising from possible changes in other currencies will not have any significant financial impact on the Group's equity, the relative sensitivity is not disclosed.

	Increase/ (decrease) in foreign exchange rate	Increase/(decrease) in profit before tax 2019 HK$'000	2018 HK$'000
If HK$ strengthens against EUR	10%	**(19,617)**	(17,753)
If HK$ weakens against EUR	(10%)	**19,617**	17,753
If HK$ strengthens against GBP	10%	**(4,067)**	5,375
If HK$ weakens against GBP	(10%)	**4,067**	(5,375)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

Since the Group only trades with third parties recognised to be creditworthy, no pledge of assets is required from customers. Concentrations of credit risk are managed by analysis by customer.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 19 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations, lease liabilities and bank and other borrowings.

The table below summarises the maturity profile of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

	Less than 1 year	1 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2019				
Lease liabilities	**34,336**	**86,895**	**77,691**	**198,922**
Trade payables	**319,063**	**–**	**–**	**319,063**
Financial liabilities included in other payables and accruals	**36,721**	**–**	**–**	**36,721**
Due to fellow subsidiaries	**15,874**	**–**	**–**	**15,874**
Due to a holding company	**10,600**	**–**	**–**	**10,600**
Bank borrowings	**100,161**	**–**	**–**	**100,161**
Long term loan from a holding company	**–**	**436**	**–**	**436**
	516,755	**87,331**	**77,691**	**681,777**
31 December 2018				
Trade payables	383,379	–	–	383,379
Financial liabilities included in other payables and accruals	58,547	–	–	58,547
Due to fellow subsidiaries	34,100	–	–	34,100
Due to a holding company	11,787	–	–	11,787
Bank borrowings	350,836	–	–	350,836
Long term loan from a holding company	–	448	–	448
	838,649	448	–	839,097

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new ordinary shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the year ended 31 December 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of lease liabilities, trade payables, other creditors and accruals, accrued salaries, wages and benefits, amounts due to fellow subsidiaries, amounts due to a holding company, a long term loan from a holding company and bank borrowings, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	31 December 2019 HK$'000	**1 January 2019 HK$'000**	31 December 2018 HK$'000
Lease liabilities	**159,708**	**191,574**	–
Trade payables	**319,063**	**383,379**	383,379
Other creditors and accruals	**36,721**	**48,200**	58,547
Accrued salaries, wages and benefits	**44,143**	**30,797**	30,797
Due to fellow subsidiaries	**15,874**	**34,100**	34,100
Due to a holding company	**10,600**	**11,787**	11,787
Long term loan from a holding company	**436**	**448**	448
Bank borrowings	**98,272**	**349,366**	349,366
Less: Cash and cash equivalents	**(366,840)**	**(727,912)**	(727,912)
Net debt	**317,977**	**321,739**	140,512
Equity	**963,399**	**1,019,359**	1,019,359
Net debt and equity	**1,281,376**	**1,341,098**	1,159,871
Gearing ratio	**24.82%**	**23.99%**	12.11%

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

Note: The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 12.11% to 23.99% on 1 January 2019 when compared with the position as at 31 December 2018.

38. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2019, a number of countries in Europe have reported confirmed cases of novel coronavirus. The outbreak of the novel coronavirus may negatively affect economic conditions regionally as well as globally and may disrupt supply chains and otherwise impact the operations of the Group. The ultimate severity of the novel coronavirus outbreak is uncertain and could have a material adverse effect on the business, financial condition and results of operations of the Group. These are non-adjusting subsequent events and as at the date of approval of these financial statements, the extent of the adverse effect could not be estimated pending for further developments in respect thereof.

39. COMPARATIVE AMOUNTS

As further explained in note 3.1 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
Non-current assets:		
Interests in subsidiaries	**586,154**	586,154
Total non-current assets	**586,154**	586,154
Current assets:		
Prepayments, other receivables and other assets	**147**	152
Due from subsidiaries	**504,816**	600,709
Cash and cash equivalents	**2,881**	5,823
Total current assets	**507,844**	606,684
TOTAL ASSETS	**1,093,998**	1,192,838
Current liabilities:		
Other payables and accruals	**1,023**	1,463
Total current liabilities	**1,023**	1,463
Net current assets	**506,821**	605,221
NET ASSETS	**1,092,975**	1,191,375
EQUITY		
Equity attributable to owners of the Company		
Share capital	**57,434**	57,434
Reserves	**1,035,541**	1,133,941
Total equity	**1,092,975**	1,191,375

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

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

	Share premium HK$'000	Capital reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2019	**1,037,745**	**44,132**	**52,064**	**1,133,941**
Loss and total comprehensive loss for the year	**–**	**–**	**(63,940)**	**(63,940)**
Dividend declared	**–**	**–**	**(34,460)**	**(34,460)**
At 31 December 2019	**1,037,745**	**44,132**	**(46,336)**	**1,035,541**

	Share premium HK$'000	Capital reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2018	1,037,745	44,132	(2,614)	1,079,263
Profit and total comprehensive income for the year	–	–	54,678	54,678
At 31 December 2018	1,037,745	44,132	52,064	1,133,941

41. APPROVAL OF THE FINANCIAL STATEMENTS

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

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(restated)
RESULTS					
Revenue	**2,654,586**	3,418,281	3,903,650	4,354,676	4,774,239
Profit before tax	**51,628**	133,440	5,783	190,291	203,612
Income tax expense	**(46,739)**	(39,908)	(37,296)	(44,895)	(34,297)
Profit/(loss) for the year	**4,889**	93,532	(31,513)	145,396	169,315
Profit/(loss) for the year attributable to:					
Owners of the Company	**4,889**	120,879	(8,572)	107,910	134,067
Non-controlling interests	**–**	(27,347)	(22,941)	37,486	35,248
	4,889	93,532	(31,513)	145,396	169,315

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(restated)
ASSETS AND LIABILITIES					
Total assets	**1,943,936**	2,167,343	2,815,728	2,454,258	2,779,311
Total liabilities	**(980,537)**	(1,147,984)	(1,802,413)	(1,529,311)	(1,812,427)
Net assets	**963,399**	1,019,359	1,013,315	924,947	966,884
Equity attributable to owners of the Company	**963,399**	1,019,359	892,272	789,197	860,624
Non-controlling interests	**–**	–	121,043	135,750	106,260
Total equity	**963,399**	1,019,359	1,013,315	924,947	966,884