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

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1760

2019 ANNUAL REPORT

CONTENTS

FINANCIAL SUMMARY

For the Year Ended 31 December

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**2,309,299**	2,016,690	1,473,484	1,150,173	732,262
Gross Profit	**466,125**	449,800	309,011	241,387	191,681
Gross Profit margin (%)	**20.2%**	22.3%	21.0%	21.0%	26.2%
Profit before tax	**128,183**	182,934	139,269	110,752	102,679
Profit attributable to the owners of the parent	**118,714**	162,274	122,406	93,796	87,384

As at 31 December

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	**2,272,639**	1,972,656	958,990	703,339	449,318
Total liabilities	**1,032,791**	829,918	530,800	360,585	206,556
Equity attributable to the owners of the parent	**1,239,848**	1,142,738	428,190	342,137	242,339

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY SECRETARY

Ms. Tsang Chi Ka

AUTHORIZED REPRESENTATIVES

Mr. Ng Ming Chee
Ms. Tsang Chi Ka

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

Ernst & Young
Certified Public Accountants

HONG KONG SHARE REGISTRAR

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

COMPLIANCE ADVISER

First Shanghai Capital Limited

PRINCIPAL BANKERS

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

STOCK CODE

1760

WEBSITE

www.intron-tech.com

LETTER TO SHAREHOLDERS

Luk Wing Ming
Chairman and Co-CEO

Chan Cheung Ngai
Co-CEO

Dear Shareholders,

2019 (the "**Year**") was a challenging year for the overall economy in both the People's Republic of China (the "**PRC**") and Hong Kong Special Administrative Region, the People's Republic of China ("**Hong Kong**"). The macro economy faced ever-intensifying challenges and downside risks during the Year and this was the same business environment and market where the Group conducted its business. By virtue of its strong research and development ("**R&D**") capabilities and long-standing industry experience over the years, the Group continued to strengthen its long-term cooperative relationships with its partners through its cutting-edge technology capability and exceptional service offering. During the Year, the Group continued to develop its business by reinforcing technological innovation and enhancing its competitive R&D pipeline to meet challenges and trends of future market development, as well as to deliver business growth and continuous returns for the shareholders of the Company (the "**Shareholders**").

In 2019, according to the data published by the China Association of Automobile Manufacturers ("**CAAM**"), the automotive market in the PRC remained weak since the second half of 2018. Sales volume of vehicles in the PRC recorded a year-on-year decline of 8% during the Year. The New Energy Vehicle ("**NEV**") market recorded a year-on-year decline in sales volume for the first time, with a drop of 4% to 1.21 million units due to the decrease in subsidies. Under these downward macro market conditions, the Group performed better with its competitive advantages in its technological edge and the leading position in the market. As the Chinese government reduced subsidies for NEVs and raised the technological thresholds requirements during the Year, the Group's provision of leading solutions and services became prominent and sought by its automotive makers and brands that manufacture motors vehicles ("**OEMs**") customers as a result, driving the NEV segment business to maintain its growth and outperformed the overall market in 2019. As for the traditional vehicle-related businesses, notwithstanding the weak overall market conditions, the Group was able to provide leading solutions to meet demand for the continuous electrification and intelligent development of automotive vehicles, achieving better-than-market performance during the Year with Safety and Powertrain Solutions business segments recorded year-on-year increase.

The Industrial Solutions segment continued to experience satisfactory growth with the development of big data era, as well as continuous market demand for data centres and cloud servers. Although the recent outbreak of coronavirus disease (COVID-19) has adversely affected the overall economic and commercial activities, it has created more demand for remote services market such as online conferences. This has further stimulated investment for data centres and online services and will continue to drive demand and benefit the Group's Industrial Solutions business in the long run.

Over the past year, the Group continued to invest in its R&D as the core foundation of its business development. The year-on-year increase of R&D expenses reached 27%. This included setting up of a brand new R&D Testing and Validation Centre in Shanghai where its Phase One construction project will be completed by the second half of 2020. The total number of fulltime R&D personnel of the Group had increased by 32% to 547 by the end of 2019, accounting for 65% of the total number of employees. The Group's R&D team had also achieved various technological breakthroughs demonstrated in the increased number of patents and awards received during the Year.

In 2019, the Group introduced the world-class Product Lifecycle Management ("**PLM**") and Application Lifecycle Management ("**ALM**") platforms, integrating the complex process of R&D stages with the management and protection of research data. With the platforms, the Group successfully created a series of R&D systems, management tool chains, design tool chains and testing tool chains which comply with world's leading Automotive SPICE and ISO26262 standards, leading the market demand on system, hardware as well as software development.

In the area of Motor Control Unit ("**MCU**"), the Group's functional safety technology product platform for multicore motor controller has been granted technical certification conducted by ***exida***, an internationally renowned consultant company. The Group is the first company in the PRC receiving such functional safety product award certification from ***exida***.

As for Advanced Driver-assistance System ("**ADAS**") solutions, the Group successfully launched the CAELUS system of domain control technology platform for automated driving during the Year. The Group participated in the Consumer Electronics Show ("**CES**") 2020 with its first generation of hardware product to showcase.

Meanwhile, on the medium-and-long range millimetre-wave radar products, the Group has started working with OEMs and tier-1 automotive components suppliers in the PRC on joint R&D, product prototyping and road testing.

For Driving Behaviour Monitoring System ("**DMS**") products, the Group completed the entire workflows from product design to installation testing. The Group is cooperating with various customers on these products and completed technical communication and product showcase with a number of OEMs and tier-1 automotive components suppliers in the PRC.

During the Year, the Group has further strengthened its cooperation with world leading R&D institutions and auto-related enterprises. This included: cooperation with the German-based CONTACT Software to upgrade its R&D technological platform; technological cooperation with Karlsruhe Institute of Technology (KIT), a top-class polytechnic university in Germany, to jointly develop applied technologies of the functional safety, information security and virtual machinery (Hypervisor) for automotive multicore software systems; strategic partnership with Wind River, a world renowned embedded software company, to jointly develop the embedded software platform technologies for automated driving domain control stations; and strategic partnership with Kalray, a pioneer for artificial intelligence ("**AI**") chips, to jointly develop the hardware platform technologies for automated driving.

In 2020, we are all exposed to tougher economic and business environment with the impact of COVID-19 in Hong Kong, the PRC and globally. Although the Group's operating environment in the PRC is presented with the same challenges, we believe that through the continual improvement in the business environment in the PRC, the business activities for the Group and its customers in the PRC will continue to improve and recover.

Looking ahead, the Group will continue to focus its efforts on R&D as foundation, solidify its own technological edge and leading position in the market as well as actively explore opportunities of strategic acquisitions and alliances to expand its business presence. The Group will devote to the long-term sustainable business growth and capture enormous market growth opportunities to provide satisfactory returns to its Shareholders.

APPRECIATION

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

Luk Wing Ming
Chairman and Co-Ceo

Chan Cheung Ngai
Co-Ceo

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY

For the year of 2019, the automotive industry of the PRC has experienced negative growth and multiple challenges in the overall business environment since the second half of 2018. Despite the difficult environment, the Group was able to continue to deliver revenue growth with overall better-than-market performance. This was mainly driven by the NEV related business thereby maintaining our leading position in the market.

According to the data published by the CAAM, the overall sales of automotive vehicles in the PRC in 2019 decreased by 8% as compared to 2018, of which the NEV decreased by 4%. Within the severe market conditions, the Group accomplished continual business growth with sizable expansion in NEV business, benefiting from our leading technology in the NEV related business and better-than-market performance in the overall traditional vehicle business segment. For the year ended 31 December 2019, total revenue of the Group continued to grow, recorded a year-on-year increase of 15%, whereby the NEV business improved by 42%, Safety and Powertrain business from the traditional vehicle segment increased by 3% and 5% respectively, and the Industrial related business grew by 34%. The gross profit of the Group continued to expand compared to the year before. The Group's gross profit margin decreased slightly and maintained at 20.2% despite harsh market operating environment. In addition to growing the business, the Group continued its strategy in R&D investment for leading technology and innovation to cater to development needs for the future. In 2019, the R&D expenses accounted for 6.6% of revenue, representing an increase of 27% compared to the year before. With a lower profit margin and higher investment in R&D, the Group's net profit decreased by 27% compared to the year before in 2019. The net profit margin as a result was 5.1% of revenue.

BUSINESS REVIEW

Although the overall PRC automotive market experienced a year-on-year decrease in 2019, as a fast-growing automotive electronics solutions provider in the PRC, leveraging its leading technology level and market position, the Group reported continuous growth of revenue. For the year ended 31 December 2019, the revenue reported a year-on-year increase by 15% to RMB2,309.3 million while gross profit increased by 4% to RMB466.1 million.

During the Year, the Group's key customers continued to comprise OEMs in the PRC, including the top ten renowned Chinese new energy passenger vehicles brands, such as BYD and BAIC BJEV.

New Energy Vehicle Solutions

In 2019, the Chinese government further lowered the subsidy level for the NEVs while lifted the technological threshold qualification for the industry. The indicators include driving distance, battery power system, energy density and vehicle energy consumption of the NEVs. This had led to requirement for higher technology-content product from automotive OEMs, who in-turn raised the technical standard requirements for automotive parts and solutions from its suppliers and collaborative partners. Given that the Group is well-positioned in the market with its advanced technology and R&D capabilities as well as outstanding NEV solutions, the trend abovementioned has enabled the Group to further expand its market share in the NEV business, driving the segment revenue and recorded a better-than-market increase of 42% compared to 2018, reaching RMB1,011.8 million.

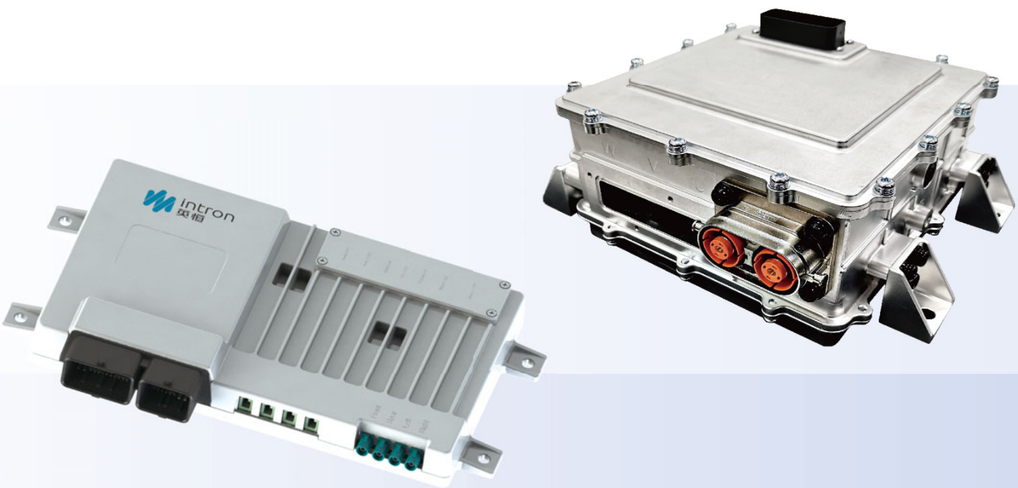
Body Control, Safety and Powertrain Solutions

Automotive electronics is one of the pillars of automotive industry. With the continuous development and trend of electrification, intelligent and connected vehicles, the automotive electronics market in the PRC continued to expand in 2019 particularly in Safety and Powertrain related businesses. The Group achieved revenue growth of 3% and 5% in the Safety and Powertrain businesses respectively, reaching RMB373.7 million and RMB230.1 million. However, for Body Control business, the Group recorded a revenue decrease of 17% resulting in RMB318.1 million, in line with the overall weak automotive market performance.

Industrial Solutions

The Group's industrial-related solutions for applications business mainly includes power solutions designed for high-performance CPUs and graphics processors in cloud servers. Its performance in the first half of 2019 was affected by the fact that enterprises around the world took a prudent approach in their investments in data centres and cloud servers against the backdrop of the Sino-U.S. trade tensions. However, the performance picked up strongly with increased business demand and investment gathered momentum in the second half of the year, generating high demand for the Group's advanced product solutions. In 2019, segmental revenue rose by 34% to RMB310.8 million as compared to 2018.

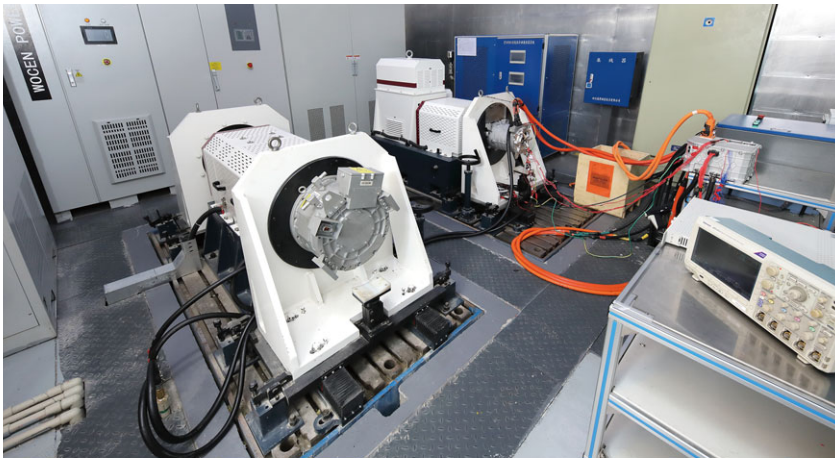
For the year ended 31 December 2019, the Group provided 181 solutions to 1,044 customers. Delivering comprehensive solutions has enabled the Group to stand out among its industry peers, gain market share and command a leading presence in the field.



Research and Development

R&D has always been an important part of the Group's business model. With the continual trend on electrification and intelligent development of automotive vehicles, the Group is fully confident of pursuing long-term R&D strategy, which will enable the Group to expand its market share in the future and facilitates long-term business growth. During the Year, the Group continued to invest to strengthen its R&D capabilities. R&D expenses increased by 27% year-on-year to RMB151.9 million, accounting for 6.6% of revenue. As at 31 December 2019, the Group had 547 full-time R&D-related professionals, making up 65% of its total employees. As at 31 December 2019, the Group had secured 66 patents and 102 software copyrights, representing an increase of 17 patents and 13 software copyrights, respectively.

With a view to provide timely and professional services to the OEMs, the Group has completed R&D expansion projects in 2019 for Shanghai, Nanjing, Guangzhou, Chengdu, Wuhan and Chongqing successively adhering to its service principle of "staying close to customers with multi-location R&D facilities". In addition, the Group expects to complete the first phase construction of a brand new R&D Testing and Validation Centre in Shanghai in the second half of 2020. Upon the launch of the centre, it will strengthen the Group's delivery capabilities to facilitate customers' mass production in addition to testing and validation functions. Such further solidify the implementation of the Group's strategy will deepen its ability to support its customer and on market penetration. Outside the PRC, the Group has commenced setting up operation base in Europe to strengthen communication and cooperation with top automotive electronics enterprises in the world. The Group expects to complete establishment of a subsidiary in Germany in the first half of 2020.



Outlook

Technology is the foundation for the Group's future strategic development and business expansion. The Group is confident on its long-term development and delivery of future business results. It remains optimistic on the long-term development of automotive and industrial segments it operates in, in particular, the Group strongly believes the trend of electrification and intelligent development of automotive vehicles will continue in the long run.

In February 2020, the National Development and Reform Commission of the People's Republic of China (the "**NDRC**") issued the national innovation development strategy for intelligent vehicles which clearly supports the accelerated promotion and innovative development of intelligent vehicles. As automotive electronics is an important underlying technology for intelligent vehicles, the demand for the products is expected to increase sharply with the support of such favourable national policy. The Group believes that electrification and intelligent development of automotive vehicles would stimulate the demand for its leading automotive electronics solutions, supporting future business expansion for the Group.

With regards to NEV, adjustments for subsidy levels were lowered and the technological threshold was raised in 2019. These changes offered the Group opportunity to demonstrate its technological advantages in area of the NEV and offer the leading NEV technological solutions to OEMs. This has enabled the Group to deliver better-than-market results in 2019. The Group believes that the above trend continues, which contributes to the NEV solutions business as a major growth momentum for the Group.

The Group positions ADAS as another focus of R&D and the next growth engine in the automotive market. The Group has increased resources for R&D in this area and made progress in developing a variety of related products, working with customers to conduct quality and safety tests. The Group expects customers' mass production of its ADAS-related product solutions in 2021.

In addition, the Group is optimistic about the outlook of long-term development of Industrial Solutions business, mainly benefitting from the constantly growing demand for cloud computing, big data services and AI computing. The recent outbreak of coronavirus disease (COVID-19) created demand for online video conferences and classes, stimulating corporate investments in data centres and cloud servers. The Group believes that with the coming of 5G era, demand in this respect will continue to grow, creating opportunities for the development of the Group's Industrial Solutions business.

At the same time, the Group will continue to seek strategic acquisitions and explore possibility in extending its business presence to expand coverage and seize opportunities in the market.

Looking ahead, the Group believes that with the electrification and intelligent development of automotive vehicles, increasing popularity of ADAS and the investment in data centres and cloud servers driven by technological development, there will be considerable development opportunities in every business area of the Group. With years of industry and operation experience, leading position in the industry and substantial investment in R&D to strengthen its technological advantages, the Group is confident to achieve long-term sustainable growth and generate satisfactory returns for the Shareholders.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, total revenue increased by 15% or RMB292.6 million from RMB2,016.7 million recorded the year before to RMB2,309.3 million in 2019. The growth was mainly driven by the sales increase of the Group's solutions, in particular applications in the New Energy segment. Among the growth, NEV business achieved a growth of 42%, Safety and Powertrain business from the traditional vehicle segment experienced year-on-year increase of 3% and 5% respectively, and industrial-related business reached a growth rate of 34%.

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

	31 December 2019 RMB'000	31 December 2018 RMB'000	Change
New Energy	**1,011,828**	713,381	42%
Body Control	**318,102**	381,416	-17%
Safety	**373,747**	362,366	3%
Powertrain	**230,058**	219,457	5%
Industrial	**310,845**	231,624	34%
Rendering of Services & Others	**64,719**	108,446	-40%
Total	**2,309,299**	2,016,690	15%

Gross Profit and Gross Profit Margin

For the year ended 31 December 2019, the Group's gross profit continued to grow by 4% to RMB466.1 million compared to the year before. Due to adverse market conditions, the gross profit margin decreased slightly but maintained at 20.2%.

Other Income and Gains

The Group's other income and gains mainly included bank interest income, government grants and others. For the year ended 31 December 2019, other income and gains increased by 12% to RMB23.1 million, mainly due to the increase of interest income from higher bank balances in 2019 compared to the year before.

Sales and Distribution Expenses

Sales and distribution expenses mainly consist of salaries and benefits for staff, transportation and insurance costs, maintenance and repair expenses, travelling expenses, office utility expenses, marketing expenses, and depreciation costs. During the Year, the Group's sales and distribution expenses amounted to RMB66.7 million, representing an increase of 44% as compared to 2018. The increase was mainly due to increased number of sales and distribution staffs and higher travelling expenses in 2019 incurred to support a bigger business.

Administrative Expenses

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

During the Year, administrative expenses amounted to RMB239.8 million, representing an increase of 20% as compared to 2018. Among which, (a) R&D expenses increased by 27% to RMB151.9 million, which was mainly attributable to the increase in the headcount of the R&D team from 415 employees in 2018 to 547 employees in 2019; and (b) other administrative expenses increased by 10%, which was mainly due to compliance costs after listing, listing-related advisory, legal and equity-settled share option expenses.

Other Expenses

During the Year, other expenses mainly consist of losses on exchange including operational exchange difference and different functional book currencies applied outside the PRC. This amounted to RMB18.5 million in 2019, representing an increase of 22% as compared to 2018.

Finance Costs

During the Year, finance costs amounted to RMB35.0 million, representing an increase of 33% as compared to 2018, which was mainly due to short-term trade financing facilities incurred to support a bigger business.

Income Tax Expense

During the Year, income tax expense was RMB9.5 million, representing a decrease of 54% year-on-year, which was mainly attributable to lower income before tax and lower tax of the Group benefitted from the implementation of favourable tax policy allowing additional tax deduction for R&D expenses in the PRC.

Profit for the Year

The Group's profit for the Year decreased by 27% from RMB162.3 million recorded for the year ended 31 December 2018 to RMB118.7 million for the year ended 31 December 2019 due to lower gross margin and higher expenses for R&D.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group continued to maintain a satisfactory and healthy liquidity position. As at 31 December 2019, the Group had cash and cash equivalents of RMB497.3 million (31 December 2018: RMB625.7 million).

The Group recorded net current assets of RMB1,018.9 million (31 December 2018: RMB1,080.3 million). Capital expenditure for the Year was RMB116.4 million, which was mainly used for acquisition of the R&D facility in Shanghai, addition of R&D equipment and improvement of R&D infrastructures facilitating multi-location R&D support and services to our customers.

As at 31 December 2019, the gearing ratio of the Group was 27% (31 December 2018: 13%), which represents net debt divided by the total equity plus net debt. Net debt includes interest-bearing bank and other loans, trade payables, other payables and accruals, less cash and cash equivalents and pledged deposits.

At as 31 December 2019, the Group had outstanding bank loans amounting to RMB454.0 million (31 December 2018: RMB374.7 million), among which RMB321.7 million was denominated in USD and RMB132.3 million was denominated in RMB. The Group manages reasonable debt maturity profile according to its cash flow and refinancing ability. All the bank loans are repayable within one year or on demand. Details of the Group's assets pledged are included in note 34 to the financial statements.

The annual effective interest rate of the bank loans and other borrowings during the Year ranged from 2.9% to 5.1% (2018: 3.5% to 5.2%).

CAPITAL COMMITMENT

As at 31 December 2019, the Group had capital commitments contracted, but not provided for, amounting to RMB2.8 million (31 December 2018: RMB12.3 million).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, the Group did not have any material investments, material acquisitions or disposals of subsidiaries, associates and joint ventures (31 December 2018: nil except for those in relation to the reorganisation of the Group for the listing of the Company's shares on the Main Board of the Stock Exchange (the "**Listing**") as disclosed in the prospectus of the Company dated 29 June 2018 (the "**Prospectus**").

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (31 December 2018: nil).

FOREIGN EXCHANGE EXPOSURE

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

During the Year, the Group managed foreign currency exchange rate fluctuations by the aforesaid means to mitigate such exposure. The Group will closely monitor the change in foreign exchange rates to manage currency risks and consider necessary actions as required.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 844 employees (31 December 2018: 640 employees). The Group's labour costs (including salaries, bonuses, pension and welfare but excluding directors' and co-chief executives' remuneration and equity-settled share option expenses) were RMB154.7 million, equivalent to 6.7% of the Group's revenue in the Year.

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

As at 31 December 2019, the Group had a total of 29,282,600 outstanding share options granted to eligible employees under the share option scheme adopted on 22 June 2018, to enhance attractiveness in compensation as well as motivation for employee performance. For details, please refer to the announcement of the Company dated 21 January 2019.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to upholding high standards of corporate governance practices and business ethics in the firm belief that they are crucial to improving the efficiency and performance of the Group and to safeguarding the interests of the shareholders. The Board reviews the Company's corporate governance practices from time to time in order to meet the expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance. Set out below are the principles of corporate governance as adopted by the Company during the year ended 31 December 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability. The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance.

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code during the Year.

At the same time, since the Listing Date, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

BOARD OF DIRECTORS

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

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

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

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

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

Executive Directors

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

Independent Non-executive Directors

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

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 30 to 34 of this annual report.

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

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

BOARD OF DIRECTORS (CONTINUED)

Chairman and Chief Executive Officer

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

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

Independent Non-executive Directors

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

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

BOARD OF DIRECTORS (CONTINUED)

Appointment and Re-election of Directors

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

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

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

Responsibilities of the Directors

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

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

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

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

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

BOARD OF DIRECTORS (CONTINUED)

Continuous Professional Development of Directors

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

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate.

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

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

The individual training record of each Director received during the year ended 31 December 2019 is set out below:

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

BOARD OF DIRECTORS (CONTINUED)

Board Meetings and Directors' Attendance Records

Code provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

Four Board meetings and one annual general meeting of the Company ("**AGM**") were held during the Year. The attendance of each Director at the Board meetings and the AGM is as follows:

Name of Directors	Attendance/ Number of Meetings	Attendance rate
Mr. Luk Wing Ming	5/5	100%
Mr. Chan Cheung Ngai	5/5	100%
Mr. Chan Ming	5/5	100%
Mr. Ng Ming Chee	5/5	100%
Mr. Jiang Yongwei	5/5	100%
Mr. Yu Hong	5/5	100%
Mr. Tsui Yung Kwok	5/5	100%

BOARD OF DIRECTORS (CONTINUED)

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

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

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on such matters;

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

(f) to review and monitor the Company's compliance with the Company's whistleblowing policy.

BOARD COMMITTEES

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

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

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

BOARD COMMITTEES (CONTINUED)

Audit Committee

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

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

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

The Audit Committee held two meetings during the Year to review and consider, in respect of the year ended 31 December 2019, the interim and annual financial results and reports, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor.

The Audit Committee also met the external auditors twice during the Year without the presence of the executive Directors and the management.

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

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

BOARD COMMITTEES (CONTINUED)

Remuneration Committee

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

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

The Remuneration Committee held one meeting during the Year. The attendance records of the members of the Remuneration Committee are as follows:

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

During the meeting, the Remuneration Committee reviewed the remuneration policy and structure of the Company, the remuneration packages of the executive Directors and senior management and other related matters of the Company.

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended 31 December 2019 is as follows:

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

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

BOARD COMMITTEES (CONTINUED)

Nomination Committee

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

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

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

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

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

BOARD COMMITTEES (CONTINUED)

Nomination Committee (Continued)

The Nomination Committee held one meeting during the Year. The attendance records of the members of the Nomination Committee are as follows:

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

During the meeting, the Nomination Committee discussed and made recommendation to the Board on the assessment of the independence of the independent non-executive Directors, considered the re-election of Directors and reviewed the structure, size, composition and diversity of the Board.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

During the Year, the Audit Committee, through the engagement of Protiviti Shanghai Co., Ltd. ("**Protiviti**"), an independent internal control consultant, reviewed the adequacy and effectiveness of the Group's system of risks management and internal controls including financial, operational, compliance, risk management policies and systems established by the Company.

Risk management

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

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Internal control

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

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

Internal audit function

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

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

– the financial records have been properly maintained and the financial statements give a true and fair view of the operations and finances of the Group; and

– the risk management and internal control systems of the Group are effective.

Based on the framework for risk management and internal control system established by the Group, the procedures performed by Protiviti and management, the Board and the Audit Committee are of the view that through the review of risk management and internal control systems of the Group, they can evaluate and improve the effectiveness of these systems, and the Board, with the concurrence of the Audit Committee, considered that such systems including financial, operational and compliance were effective and adequate for the year ended 31 December 2019.

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2019 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 53 to 57 of this annual report.

DIVIDEND POLICY

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

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

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

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

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2019 is set out below:

Service Category	**Fees Paid/Payable** RMB'000
Audit Services	2,394
Non-audit Services	–
TOTAL	2,394

COMPANY SECRETARY

Ms. Tsang Chi Ka has been appointed as the joint company secretary of the Company on 25 March 2019 and has been acting as the sole company secretary of the Company since 28 August 2019. She is a full time employee of the Company who has day-to-day knowledge of the Company and is responsible for advising the Board on corporate governance matters. Ms. Tsang confirmed that she has attended sufficient professional training as required in accordance with Rule 3.29 of the Listing Rules during the Year.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

SHAREHOLDERS' RIGHTS (CONTINUED)

Contact Details

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

Address:	Unit 1008-10, 10/F Delta House 3 On Yiu Street, Shatin New Territories, Hong Kong (For the attention of the Investor Relations Department)
Fax:	+ 852 3580 1876
Email:	ir@intron-tech.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, there was no change in the Company's constitutional documents. A copy of the latest consolidated version of the Articles of Association is posted on the Company's and the Stock Exchange's respective websites.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Luk Wing Ming (陸穎鳴), aged 50, is a co-founder and an executive director. Mr. Luk is also our Chairman and co-CEO responsible for our strategic development and business operations. Mr. Luk also holds positions in other members of our Group: he is a director of Shanghai Intron Electronics Company Limited ("**Shanghai Intron**"), Intron Technology (China) Limited and Evertronics Technology (China) Company Limited; a supervisor of Shanghai G-Pulse Electronics Technology Company Limited, and Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited; and the executive director of Intron Intelligent Technology (Shanghai) Limited.

Mr. Luk has over 20 years of working experience including 18 years of experience in automotive electronics. Prior to our founding in 2001, Mr. Luk worked in Array Electronics (China) Ltd., a semiconductor distributor, from February 1996 to January 2001. He was initially a sales executive and was then promoted to strategic marketing manager. Mr. Luk graduated with a Master of Business Administration from China Europe International Business School, the PRC and a Bachelor of Engineering in materials engineering from Shanghai Jiaotong University, the PRC.

Mr. Chan Cheung Ngai (陳長藝), aged 47, is a co-founder and an executive director. Mr. Chan is also our co-CEO responsible our overall strategic planning and business development. Mr. Chan also holds positions in other members of our Group: he is the executive director of Shanghai G-Pulse Electronics Technology Company Limited and Shanghai G-pulse Automotive Electronics Company Limited; a director of Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited and Intron Technology (China) Limited and a supervisor of Intron Intelligent Technology (Shanghai) Company Limited. Since the early stage of our Group's development, Mr. Chan has been involved in the product design process and has been named as an inventor in a number of our patents, including the patent for an electric control board of machine oil pressure sensor of engine (patent number: ZL 03 2 55715.9) and an automobile instrument comprehensive checking device (patent number: ZL 2009 2 0209166.9). As an executive director of Shanghai G-Pulse Electronics Technology Company Limited, Mr. Chan also oversees its research and development function.

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

Mr. Chan has over 20 years of working experience including 18 years of experience in automotive electronics. Prior to setting up our Group in 2001, Mr. Chan had about six years of experience in sales with Array Electronics Limited, a company engaged in distribution of electronic devices. Mr. Chan joined Array Electronics Limited in March 1994 as a sales engineer and was promoted to his last position as a sales manager in 1998. In the same year, Mr. Chan was transferred to Array Electronics (China) Limited to work in the Shanghai office of Array Electronics Limited.

Mr. Chan Ming (陳銘), aged 50, is our general manager and an executive Director, and is responsible for marketing and business development of our Group. Mr. Chan graduated with a Bachelor of Engineering (majoring in Electronic and Electrical Engineering) from the University of Birmingham, the United Kingdom in 1992. Mr. Chan also obtained a Master of Business Administration from the University of Wales, the United Kingdom in 1994. Mr. Chan has more than 20 years of experience in electronic components industry. Mr. Chan's career began as a sales engineer for Array Electronics Limited where he worked from 1993 to 1994. Prior to joining our Group in 2005, Mr. Chan worked with DMX Technologies (Hong Kong) Limited, a networks solutions provider, from 2001 to 2004 as senior regional sales manager.

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

Mr. Ng Ming Chee (黃晞華), aged 54, is our chief financial officer and an executive Director. Mr. Ng is responsible for financial and public relations matters of our Group.

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

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

Independent non-executive Directors

Mr. Jiang Yongwei (江永瑋), Mr. Jiang Yongwei, aged 49, currently is an independent non-executive Director of the Company. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee.

Mr. Jiang graduated with a Bachelor in Metallurgy Engineering from Shanghai Jiaotong University, the PRC in 1992.

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

Mr. Yu Hong (余宏), aged 66, currently is an independent non-executive Director of the Company. He is a member of each of the Audit Committee and the Remuneration Committee.

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

Mr. Tsui Yung Kwok (徐容國), aged 51, currently is an independent non-executive Director of the Company. He is the chairman of the Audit Committee and a member of the Nomination Committee.

Mr. Tsui graduated with a Bachelor of Business majoring in Accounting from the Curtin University of Technology in Australia in 1992 and a Master of Corporate Governance from the Hong Kong Polytechnic University in 2007.

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

Mr. Tsui has also served as an independent non-executive director of Shenguan Holdings (Group) Limited (stock code: 829), SITC International Holdings Company Limited (stock code: 1308), and Cabbeen Fashion Limited (stock code: 2030) since September 2009, September 2010, and February 2013 respectively, the shares of which are all listed on the Hong Kong Stock Exchange. He was also appointed as an independent non-executive director of 361 Degrees International Limited (stock code: 1361), which is listed on the Stock Exchange, from September 2012 to May 2019.

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

SENIOR MANAGEMENT

Mr. Zhu Xinping (朱欣平), aged 42, is the deputy general manager of Shanghai Intron. He started working as a sales engineer in February 2002 and was promoted to his current capacity in 2014. Mr. Zhu is also the legal representative of Shanghai Intron.

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

Mr. Qin Chen (秦晨), aged 42, is the manager of R&D department of Shanghai Intron. He joined the Group in September 2002 as an R&D engineer, working on automotive embedded system development. He was promoted to his current position in September 2008. Mr. Qin is also the general manager of Intron Technology Intelligent (Shanghai) Limited and the supervisor of Shanghai G-pulse Automotive Electronics Company Limited.

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

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

Ms. Cheng Lijuan (成麗娟), aged 52, is the deputy general manager and financial controller of Shanghai Intron. She started working as a financial manager in August 2002, and was promoted to her current position in 2009.

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

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

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

COMPANY SECRETARY

Ms. Tsang Chi Ka (曾芝嘉) has been appointed as the joint company secretary of the Company on 25 March 2019 and has been acting as the sole company secretary of the Company since 28 August 2019. She joined the Company as assistant to general manager in January 2016.

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

REPORT OF DIRECTORS

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

PRINCIPAL ACTIVITIES

The Company, together with its subsidiaries, is a fast-growing automotive electronics solutions provider in China. We focus on providing solutions targeting critical automotive electronic components applied in new energy, body control, safety and powertrain systems.

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

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group during the year and a discussion and analysis on the Group's future business development are set out in the sections headed "Management Discussion and Analysis" on pages 7 to 14 of this annual report.

Environmental Policies and Performance

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

To the best knowledge of the Group, during the year ended 31 December 2019, the Group has complied with the relevant environmental and occupational health and safety laws and regulations and we did not have any incidents or complaints which had a material and adverse effect on our business, financial condition or results of operations during the reporting period.

Compliance with Relevant Laws and Regulations

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

BUSINESS REVIEW (CONTINUED)

Key Relationship with Stakeholders

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

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

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

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

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

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

Key Risks and Uncertainties and Risk Management

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. The COVID-19 outbreak since early 2020 has sharply put every economic sector at stake. The Board is aware that the Group is exposed to various risks and the principal risks and uncertainties are summarized below:

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

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

BUSINESS REVIEW (CONTINUED)

Key Risks and Uncertainties and Risk Management (Continued)

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

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

Events after Reporting Period

Significant events that have an effect on the Group subsequent to the financial year ended 31 December 2019 are set out in note 40 to the consolidated financial statements in this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the reporting period are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of this annual report. The Board resolved to propose to the Shareholders in the forthcoming AGM on Thursday, 28 May 2020 for the distribution of a final dividend of HK cents: 3.8 per share for the year ended 31 December 2019. The final dividend is expected to be paid on or about Thursday, 2 July 2020 to the Shareholders whose names are listed in the register of members of the Company on Wednesday, 10 June 2020. On the basis of the total issued share capital of 1,035,975,000 shares of the Company as of 31 December 2019, it is estimated that the aggregate amount of final dividend would be approximately HK$39.4 million. The actual total amount of final dividends to be paid will be subject to the total issued share capital of the Company as at the record date for determining the entitlement of Shareholders to the final dividend. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

DIRECTORS

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

Executive Directors

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

Independent non-executive Directors

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

Biographies of the Directors and Senior Management

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 30 to 34 of this annual report.

Service Contracts of the Directors

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

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

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

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

DIRECTORS (CONTINUED)

Service Contracts of the Directors (Continued)

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

Accordingly, Mr. Ng Ming Chee, Mr. Jiang Yongwei and Mr. Yu Hong shall retire from office at the forthcoming AGM to be held on Thursday, 28 May 2020. All of the retired directors, being eligible, offer themselves for re-election, at the AGM.

Remuneration of the Directors and Five Highest Paid Individuals

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

Employees and Remuneration Policies

A review of the employees and remuneration policies of the Group during the Year are set out in the section headed "Management Discussion and Analysis" on pages 14 of this annual report.

Independence of Independent Non-Executive Directors

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

NON-COMPETE UNDERTAKING

Mr. Luk Wing Ming and Mr. Chan Cheung Ngai hold their interests in the Company together through Magnate Era Limited ("**Magnate Era**") and Zenith Benefit Investments Limited ("**Zenith Benefit**") as well as individually through Treasure Map Ventures Limited ("**Treasure Map**") and Heroic Mind Limited ("**Heroic Mind**"), respectively. Therefore, Mr. Luk, Mr. Chan, Magnate Era, Zenith Benefit, Treasure Map and Heroic Mind are considered to be a group of controlling shareholders (as defined under the Listing Rules) (the "**Controlling Shareholders**"). The Controlling Shareholders had entered into a deed of non-competition in favour of the Company on 22 June 2018 (the "**Deed of Non-competition**"). The Controlling Shareholders have confirmed in writing to the Company that they all have complied with the undertakings under the Deed of Non-competition during the period from the date of the Deed of Non-competition until 31 December 2019.

The independent non-executive Directors have also reviewed such confirmations on the undertakings of the Deed of Non-competition by the Controlling Shareholders during the period from the date of the Deed of Non-competition until 31 December 2019 and confirmed that there was no breach of undertakings in the Deed of Non-competition by the Controlling Shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed in this annual report, as at 31 December 2019, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in note 36 to the consolidated financial statements headed "Related Party Transactions" and the section headed "Continuing Connected Transaction" of this annual report below, no Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party as at 31 December 2019 or at any time during the year ended 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transaction of the Group constituted a continuing connected transaction for the Group for the year ended 31 December 2019. All capitalized terms used in this section shall have the same meaning defined in the Prospectus, unless otherwise specified. This continuing connected transactions also constituted a related party transaction of the Group as disclosed in note 36 to the consolidated financial statements.

Non-Exempt Continuing Connected Transaction

For the year ended 31 December 2019, the Group engaged in the continuing connected transaction with United Trinity Electronics Company Limited (無錫盛邦電子有限公司) ("**UTE**"). UTE is wholly-owned by United Trinity Holdings Limited, a limited company incorporated in Hong Kong, which was in turn owned by Decisions Investment Limited and an independent third party as to 90% and 10%, respectively. Decision Investment Limited was incorporated in the BVI and owned by Mr. Luk and Mr. Chang in equal shares.

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

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

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

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Non-Exempt Continuing Connected Transaction (Continued)

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

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

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

For the year ended 31 December 2019, the sales made under the framework supply agreement amounted to approximately RMB44,259,000.

Confirmation of Independent Non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transaction of the Company and confirmed that such transaction has been entered into:

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

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

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

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Confirmation from the Company's Independent Auditors

The Board has received a confirmation from the auditor of the Company with respect to the above continuing connected transaction and the letter stated that for the year ended 31 December 2019:

a) nothing has come to the auditor's attention that causes them to believe that the disclosed continuing connected transaction has not been approved by the Board;

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

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

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

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

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Future Ordinance (the "**SFO**"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

(a) Long position in the ordinary shares of the Company (the "Shares")

Name of Shareholder	Nature of Interest	Number of Shares held [1]	Approximate shareholding percentage (%)
Luk Wing Ming ("**Mr. Luk**") [2]	Interest of controlled corporations	655,330,000 (L)	63.25%
Chan Cheung Ngai ("**Mr. Chan**") [3]	Interest of controlled corporations	655,330,000 (L)	63.25%
Zhang Dan [4]	Interest of spouse	655,330,000 (L)	63.25%
Zhang Hui [5]	Interest of spouse	655,330,000 (L)	63.25%
Chan Ming	Beneficiary	2,000,000 (L)	0.19%
Ng Ming Chee	Beneficiary	2,000,000 (L)	0.19%

Notes:

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

2. Mr Luk owned 50.0% shareholding interest in Magnate Era, 50.0% shareholding interest in Zenith Benefit and 100.0% shareholding interest in Treasure Map (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 655,330,000 Shares directly held by the aforesaid three holding companies.

3. Mr Chan owned 50.0% shareholding interest in Magnate Era, 50.0% shareholding interest in Zenith Benefit and 100.0% shareholding interest in Heroic Mind (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 655,330,000 Shares directly held by the aforesaid three holding companies.

4. Ms Zhang Dan is the spouse of Mr Luk. Under the SFO, Ms. Zhang Dan is deemed to be interested in the entirely of the 655,330,000 Shares in which Mr Luk is interested.

5. Ms Zhang Hui is the spouse of Mr Chan. Under the SFO, Ms Zhang Hui is deemed to be interested in the entirely of the 655,330,000 Shares in which Mr Chan is interested.

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

(b) Long position in underlying Shares – share options

The following directors of the Company have personal interests in options to subscribe for the Shares:

			Number of share options				
Name	Date of grant	Exercisable period	Balance as at 1 January 2019	Granted during the Year	Exercised during the Year	Balance as at 31 December 2019	Exercise price per share HK$
Chan Ming	21 January 2019	1 January 2020 to 31 December 2025	–	1,550,000	–	1,550,000	2.662
Ng Ming Chee	21 January 2019	1 January 2020 to 31 December 2025	–	1,500,000	–	1,500,000	2.662
Jiang Yongwei	21 January 2019	1 January 2020 to 31 December 2025	–	50,000	–	50,000	2.662
Tsui Yung Kwok	21 January 2019	1 January 2020 to 31 December 2025	–	50,000	–	50,000	2.662
Yu Hong	21 January 2019	1 January 2020 to 31 December 2025	–	50,000	–	50,000	2.662

Save as disclosed above, as at the date of this annual report, none of the Directors or the chief executives of the Company or any of their respective associates had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 22 June 2018 (the "**Scheme**") for the purpose of recognizing and acknowledging the contributions of certain eligible participants had or may have made to the Group whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years from the date of its adoption.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors or proposed director (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; any direct or indirect shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at 12 July 2018 (the date on which the Shares were listed on the Main Board of the Stock Exchange), i.e. 100,000,000 shares of the Company representing approximately 9.65% of the issued share capital of the Company as at the date of this annual report. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the shareholders of the Company in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

The maximum number of Shares issuable upon the exercise of options granted under the Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) to each eligible participant within any 12-month period, is limited to 1% of the Shares in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company; and

(ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

SHARE OPTION SCHEME (CONTINUED)

The exercise period of the share options granted is determined by the Directors, which period may commence on the date of the offer of the share options, and end on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Scheme shall pay HK$1.00 to the Company by way of consideration for the grant.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of:

(i) the closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day;

(ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and

(iii) the nominal value of a share.

On 21 January 2019, the Company granted share options to the eligible participants to subscribe for a total of 30,678,600 Shares under the Scheme. The following table discloses movements in the outstanding share options granted under the Scheme during the Year:

			Number of share options						
Category	Date of grant	Exercisable period	Balance as at 1 January 2019	Granted during the Year	Exercised during the Year	Lapsed/ forfeited during the Year	Cancelled during the Year	Balance as at 31 December 2019	Exercise price per share HK$
Executive Directors	21 January 2019	1 January 2020 to 31 December 2025	–	3,050,000	–	–	–	3,050,000	2.662
Independent non-executive Directors	21 January 2019	1 January 2020 to 31 December 2025	–	150,000	–	–	–	150,000	2.662
Employees	21 January 2019	1 January 2020 to 31 December 2025	–	27,478,600	–	–	1,396,000[1]	26,082,600	2.662
Total	21 January 2019	1 January 2020 to 31 December 2025	–	30,678,600	–	–	1,396,000[1]	29,282,600	2.662

Note:

1. The 1,396,000 share options were cancelled due to resignation of the relevant employees.

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

As at 31 December 2019, the following persons (other than the interests of the Directors or chief executives of the Company as disclosed above) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares held (1)	Approximate shareholding percentage (%)
Magnate Era (2, 5 & 7)	Beneficial owner	525,000,000 (L)	50.67%
Treasure Map (4 & 5)	Beneficial owner	75,000,000 (L)	7.23%
Heroic Mind (6 & 7)	Beneficial owner	75,000,000 (L)	7.23%
Zenith Benefit (3, 5 & 7)	Beneficial owner	55,330,000 (L)	5.34%
FIL Limited (8)	Interest in controlled corporations	52,577,000 (L)	5.08%
Pandanus Partners L.P. ("**Pandanus Partners**") (8)	Interest in controlled corporations	52,577,000 (L)	5.08%
Pandanus Associates Inc. ("**Pandanus Associates**") (8)	Interest in controlled corporations	52,577,000 (L)	5.08%
Fidelity China Special Situations PLC ("**Fidelity China**")	Beneficial owner	52,421,000 (L)	5.06%

Notes:

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

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

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

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

5. As disclosed in Notes 2 to 4 above, Mr Luk owned 50.0% shareholding interest in Magnate Era, 50.0% shareholding interest in Zenith Benefit and 100.0% shareholding interest in Treasure Map (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 655,330,000 Shares directly held by the aforesaid three holding companies.

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

7. As disclosed in Notes 2, 3 and 6 above, Mr Chan owned 50.0% shareholding interest in Magnate Era, 50.0% shareholding interest in Zenith Benefit and 100.0% shareholding interest in Heroic Mind (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 655,330,000 Shares directly held by the aforesaid three holding companies.

8. FIL Limited owned 100% shareholding interest in FIL Investment Management (Hong Kong) Limited, which is interested in 52,577,000 Shares. FIL Limited is owned as to 38.69% by Pandanus Partners, which is in turn 100.0% held by Pandanus Associates. Each of FIL Limited, Pandanus Partners and Pandanus Associates is deemed under the SFO to be interested in the entirety of 52,577,000 Shares held by FIL Investment Management (Hong Kong) Limited.

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

Save as disclosed above, as at 31 December 2019, there are no other persons (other than Directors or chief executives of the Company) who had or are taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company under Section 336 of the SFO, or which are notified to the Company.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

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

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2019, the Group's sales to its five largest customers accounted for 46.0% of the Group's total revenue, as compared to 33.4% for the year ended 31 December 2018. The Group's sales to the largest customer accounted for 12.0% of the Group's total revenue, as compared to 13.1% for the year ended 31 December 2018.

Major Suppliers

For the year ended 31 December 2019, the Group's five largest suppliers accounted for 89.9% of the Group's total purchase, as compared to 91.5% for the year ended 31 December 2018. The Group's single largest supplier accounted for 72.6% of the Group's total purchases, as compared to 78.1% for the year ended 31 December 2018.

During the year ended 31 December 2019, none of the Directors or any of their close associates or any Shareholders (which, to the 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.

MANAGEMENT CONTRACTS

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

DIRECTORS' PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts or otherwise in relation thereto in accordance with the Articles of Association. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group during the year ended 31 December 2019.

SHARE CAPITAL

Details of movements in share capital of the Company during the reporting period are set out in note 29 to the consolidated financial statements in this annual report.

RESERVES

Details of movements in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity and note 31 to the consolidated financial statements in this annual report.

The Company's reserves available for distribution to the Shareholder as at 31 December 2019 amounted to RMB621.6 million (RMB670.0 million as at 31 December 2018).

PROPERTY, PLANT AND EQUIPMENT

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

USE OF PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 July 2018 with net proceeds received by the Company from the Global Offering (as defined in the Prospectus) amounted to HK$766.7 million (equivalent to RMB655.4million), after deducting the underwriting fees, commissions and all related expenses (the "**Net Proceeds**").

As disclosed in the announcement of the Company dated 12 July 2019, having reassessed the funding needs for the enhancement of the Group's overall R&D infrastructure, the Board has resolved to change the proposed use of part of the Net Proceeds originally allocated for the enhancement of the Group's R&D infrastructure by (i) investing in and acquiring testing and other equipment, and technology software to accelerate the Group's solution development cycle and thus increase exposure of the Group's solutions to customers; and (ii) investing in, acquiring and renovating properties for R&D purposes.

During the Year, the Net Proceeds have been used for the purpose consistent with the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus and the announcement of the Company dated 12 July 2019.

The planned applications of the Net Proceeds, details of the original and revised allocation of the Net Proceeds, and the utilization of the Net Proceeds as at 31 December 2019 are set out below:

Use of proceeds	**Planned applications** (RMB million)	**Percentage of total Net Proceeds** (%)	**Actual usage up to 31 December 2019** (RMB million)	**Unutilized Net Proceeds as at 31 December 2019** (RMB million)	**Expected timeframe for utilizing the remaining unused Net Proceeds**
1. For the expansion of research and development capabilities	196.6	30	103.3	93.3	Expected to be fully utilized by end of 2020
2. For the enhancement of research and development infrastructure	196.6	30	117.0	79.6	Expected to be fully utilized by end of 2021
3. For the acquisitions of research and development capabilities	196.6	30	10.0	186.6	Expected to be fully utilized by end of 2021
4. General working capital	65.6	10	65.6	0	N/A
Total	655.4	100	295.9	359.5	

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

EQUITY-LINKED AGREEMENTS

Details of the share option scheme of the Company are set out in the section headed "Share Option Scheme" above and Note 30 to the consolidated financial statements.

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

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM will be held on Thursday, 28 May 2020. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 15 to 29 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

AUDITORS

The Company has appointed Ernst & Young as the auditor of the Company for the year ended 31 December 2019. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

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

Hong Kong, 26 March 2020

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Independent auditor's report
To the shareholders of Intron Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Intron Technology Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 58 to 156, 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.

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories As at 31 December 2019, the net carrying value of inventories amounted to RMB617,074,000 which represented 27.2% of the Group's total assets. The Group stated inventories at the lower of cost and net realisable value. While cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads, net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Allowance for inventory obsolescence is based on management's judgement using the available facts and circumstances, including but not limited to, the inventories' own physical conditions, their market selling prices and estimated selling costs of the inventories. We focused on this area as the inventories are material to the Group and the determination of allowance for slow moving and obsolete involves significant judgement and estimation from management. The Group's disclosures about impairment of inventories are included in notes 2.4, 3 and 17 to the financial statements, which also explain the accounting policies and management's accounting estimates.	We evaluated management's assessment on the impairment of inventories by checking the detailed analyses of the ageing of the inventories, and reviewing on a sample basis, market selling price after the year end, estimated selling costs of the inventories and assessing the actual and forecast usage or sale of inventories. We recalculated the expected provisions to ensure the mathematical accuracy of the calculation. We also attended physical inventory counts, on a sample basis, to ascertain the condition of the inventories and to evaluate the provision for slow moving and obsolete inventories.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables As at 31 December 2019, the net carrying value of the Group's trade receivables amounted to RMB559,998,000, after netting off with an impairment provision of RMB3,047,000 which represented 24.6% of the Group's total assets. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management. Impairment of trade receivables was assessed based on the expected credit loss model which requires significant judgements and estimates from management. In assessing the expected credit loss of the trade receivables, management considered various factors such as the age of the balance, existence of disputes, recent historical payment patterns, any other available information concerning the creditworthiness of counterparties and influence from macroeconomy. The assessment is highly judgemental. The Group's disclosures about trade receivables are included in notes 2.4, 3 and 18 to the financial statements, which also explain the accounting policies, management's accounting estimates and the related expected credit losses.	 We evaluated management's assessment on the recoverability of the trade receivables by reviewing the detailed analyses of the ageing of the receivables and testing, on a sample basis, payments received subsequent to the year end, historical payment patterns, any disputes between the parties involved and the credit status of the counterparties where available. We also evaluated the expected credit loss provision methodology used by the Group and the estimates used to determine the expected credit losses by considering cash collection performance against historical trends.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**2,309,299**	2,016,690
Cost of sales		**(1,843,174)**	(1,566,890)
Gross profit		**466,125**	449,800
Other income and gains	5	**23,068**	20,601
Selling and distribution expenses		**(66,679)**	(46,294)
Administrative expenses		**(239,844)**	(199,696)
Other expenses		**(18,514)**	(15,223)
Finance costs	7	**(34,999)**	(26,254)
Share of loss of an associate	16	**(974)**	–
PROFIT BEFORE TAX	6	**128,183**	182,934
Income tax expense	10	**(9,469)**	(20,660)
PROFIT FOR THE YEAR		**118,714**	162,274
Attributable to:			
Owners of the parent		**118,714**	162,274
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**RMB11.46 cents**	RMB18.41 cents
Diluted	12	**RMB11.41 cents**	RMB18.41 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**118,714**	162,274
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(145)**	5,973
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(145)**	5,973
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company	**14,740**	17,332
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**14,740**	17,332
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**14,595**	23,305
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**133,309**	185,579
Attributable to:		
Owners of the parent	**133,309**	185,579

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**126,624**	37,022
Right-of-use assets	14	**29,559**	–
Other intangible assets	15	**51,170**	13,957
Investment in an associate	16	**9,026**	–
Deferred tax assets	27	**15,781**	9,605
Advance payments for property, plant and equipment		**5,617**	4,248
Total non-current assets		**237,777**	64,832
CURRENT ASSETS			
Inventories	17	**617,074**	464,234
Trade and notes receivables	18	**787,056**	723,395
Prepayments, other receivables and other assets	19	**99,005**	63,446
Financial assets at fair value through profit or loss	20	**500**	–
Pledged deposits	21	**33,896**	31,031
Cash and cash equivalents	21	**497,331**	625,718
Total current assets		**2,034,862**	1,907,824
CURRENT LIABILITIES			
Trade and notes payables	22	**170,035**	171,502
Other payables and accruals	23	**360,207**	275,105
Derivative financial instruments	24	**262**	191
Interest-bearing bank and other loans	25	**453,960**	374,727
Lease liabilities	14	**14,173**	–
Tax payable		**15,884**	5,530
Government grants	28	**1,456**	456
Total current liabilities		**1,015,977**	827,511

	Notes	2019 RMB'000	2018 RMB'000
NET CURRENT ASSETS		**1,018,885**	1,080,313
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,256,662**	1,145,145
NON-CURRENT LIABILITIES			
Lease liabilities	14	**16,012**	–
Government grants	28	**802**	2,407
Total non-current liabilities		**16,814**	2,407
Net assets		**1,239,848**	1,142,738
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**8,816**	8,816
Reserves	31	**1,231,032**	1,133,922
Total equity		**1,239,848**	1,142,738

Mr. Luk Wing Ming
Director

Mr. Chan Cheung Ngai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

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

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

	Notes	Attributable to owners of the parent							
		Share capital RMB'000 (note 29)	Share premium* RMB'000 (note 31)	Share option reserve* RMB'000	Statutory surplus reserves* RMB'000 (note 31)	Capital reserve* RMB'000 (note 31)	Exchange fluctuation reserve* RMB'000 (note 31)	Retained profits* RMB'000	Total equity RMB'000
At 1 January 2019		8,816	671,983	–	11,572	7,733	21,129	421,505	1,142,738
Profit for the year		–	–	–	–	–	–	118,714	118,714
Other comprehensive income for the year:									
Exchange differences on translation of the Company		–	–	–	–	–	14,740	–	14,740
Exchange differences on translation of foreign operations		–	–	–	–	–	(145)	–	(145)
Total comprehensive income for the year		–	–	–	–	–	14,595	118,714	133,309
Transfer of surplus reserve		–	–	–	2,427	–	–	(2,427)	–
Equity-settled share option arrangements	30	–	–	13,891	–	–	–	–	13,891
Dividends declared and paid	11	–	–	–	–	–	–	(50,090)	(50,090)
At 31 December 2019		8,816	671,983	13,891	13,999	7,733	35,724	487,702	1,239,848

* These reserve accounts comprise the consolidated reserves of RMB1,231,032,000 (2018: RMB1,133,922,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**128,183**	182,934
Adjustments for:			
Finance costs	7	**34,999**	26,254
Share of loss of an associate	16	**974**	–
Interest income	5	**(8,344)**	(4,755)
Gain on disposal of items of property, plant and equipment	5	**(224)**	(166)
Fair value loss, net:			
Derivative instruments – transactions not qualifying as hedges		**71**	185
Investment income from financial assets at fair value through profit or loss	5	**(17)**	(50)
Depreciation of property, plant and equipment	6	**17,282**	9,474
Depreciation of right-of-use assets	14(a)	**14,665**	–
Amortisation of other intangible assets	6	**5,566**	4,362
Recognition of government grants		**(455)**	(456)
Gain on bargain purchase	5	**–**	(79)
Equity-settled share option expense		**13,891**	–
		206,591	217,703
Increase in inventories		**(144,652)**	(164,363)
Increase in trade and notes receivables		**(63,661)**	(199,751)
Increase in prepayments, other receivables and other assets		**(36,276)**	(50,081)
Decrease in trade and notes payables		**(1,467)**	(7,163)
Increase in other payables and accruals		**79,596**	82,857
Decrease in government grants		**(150)**	(510)
Cash generated from/(used in) operations		**39,981**	(121,308)
Interest received		**9,061**	3,624
Interest paid		**(34,950)**	(26,153)
Income tax paid		**(5,291)**	(40,994)
Net cash flows from/(used in) operating activities		**8,801**	(184,831)

	Note	2019 RMB'000	2018 RMB'000
Net cash flows from/(used in) operating activities		**8,801**	(184,831)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(110,455)**	(23,031)
Additions to other intangible assets		**(40,908)**	(4,299)
Purchases of financial assets at fair value through profit or loss		**(3,000)**	(9,500)
Proceeds from disposal of financial assets at fair value through profit or loss		**2,500**	11,500
Investment income from financial assets at fair value through profit or loss		**17**	50
Acquisition of a subsidiary		**–**	(3,059)
Proceeds from disposal of items of property, plant and equipment		**425**	188
Purchase of shareholding of an associate		**(5,000)**	–
Net cash flows used in investing activities		**(156,421)**	(28,151)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	707,345
Share issue expenses		**–**	(26,546)
New bank and other loans	32(b)	**1,443,181**	1,325,276
Repayment of bank and other loans	32(b)	**(1,369,346)**	(1,124,879)
Principal portion of lease payments	32(b)	**(13,941)**	(357)
Repayment of loans from related parties		**–**	(2,754)
Payment to the Controlling Shareholders and entities jointly controlled by the Controlling Shareholders		**–**	(10,000)
Dividends paid		**(50,090)**	(123,157)
Increase in pledged deposits		**(2,865)**	(11,576)
Net cash flows from financing activities		**6,939**	733,352
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(140,681)**	520,370
Effect of foreign exchange rate changes, net		**12,294**	13,096
Cash and cash equivalents at beginning of year		**625,718**	92,252
CASH AND CASH EQUIVALENTS AT END OF YEAR		**497,331**	625,718

	Note	2019 RMB'000	2018 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**255,085**	274,343
Non-pledged time deposits with original maturity of less than three months when acquired	21	**242,246**	351,375
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows		**497,331**	625,718

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries:

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Intron Technology (China) Limited ("**Intron HK**")	Hong Kong	HK$7,500,000	100%	–	Sale of automotive and other electronic components
Evertronics Technology (China) Company Limited	Hong Kong	HK$10,000	–	100%	Sale of automotive and other electronic components
Shanghai Intron (上海英恒電子有限公司)**	People's Republic of China ("**PRC**")/ Mainland China	RMB10,000,000	–	100%	Research and development and sale of automotive and other electronic components
Guangzhou Intron Electronics Technology Company Limited ("**Guangzhou Intron**") (廣州英創電子科技有限公司)**	PRC/Mainland China	RMB1,000,000	–	100%	Sale of automotive and other electronic components
Shanghai G-Pulse Electronics Technology Company Limited ("**G-Pulse**") (上海金脈電子科技有限公司)**	PRC/Mainland China	RMB50,000,000	–	100%	Research and development and sale of automotive and other electronic components

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries: (Continued)

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited ("**Beijing G-Pulse**") (北京脈創智恒新能源科技有限公司)**	PRC/Mainland China	RMB10,000,000	–	100%	Research and development of renewable electronic components
Intron China (英恒智能科技(上海)有限公司)*	PRC/Mainland China	US$3,000,000	–	100%	Investment holding
Wuxi Maxdone Electronics Technology Company Limited ("**Wuxi Maxdone**") (無錫麥道電子科技有限公司)**	PRC/Mainland China	RMB15,000,000	–	100%	Research and development and related business on embedded control electronics product and devices
Intron Technology Limited (英恒科技有限公司)	Taiwan	TWD2,000,000	–	100%	Research and development and sale of automotive and other electronic components
Shanghai G-Pulse Auto Electronics Company Limited (上海金脈汽車電子有限公司)*	PRC/Mainland China	US$1,000,000	–	100%	Research and development and testing services
Intron Technology (Netherlands) Holdings B.V.	Netherlands	EUR10,000	–	100%	Research and development and sale of automotive and other electronic components

* These entities are wholly-foreign-owned enterprises under PRC law.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised 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.

2.2 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 and motor vehicles. 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 (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

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

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease payments recognized previously under finance leases of RMB592,000 that were reclassified from property, plant and equipment.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impact on transition (continued)

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

As a lessee – Lease previously classified as finance leases

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 (i.e., finance lease payables) measured under HKAS 17.

2.2 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) RMB'000
Assets	
Increase in right-of-use assets	22,166
Decrease in property, plant and equipment	(592)
Increase in total assets	21,574
Liabilities	
Decrease in finance lease payables	(375)
Increase in lease liabilities	21,949
Increase in total liabilities	21,574

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

	RMB'000
Operating lease commitments as at 31 December 2018	27,646
Less: Commitments relating to short-term lease	1,530
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	21,574
Add: Finance lease liabilities recognised as at 31 December 2018	375
Lease liabilities as at 1 January 2019	21,949

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(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 assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. 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.

2.3 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 is available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

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.

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.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (Continued)

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

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

Business combinations and goodwill

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

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

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

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.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

Buildings	4.75%
Leasehold improvements	31.67%-37.50%
Plant and machinery	9.50%-33.33%
Office equipment	19.00%-33.33%
Motor vehicles	19.00%-33.33%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

Patents and software

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

Research and development costs

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

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

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

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(a) Right-of-use assets

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

Leasehold buildings	1-5 years
Motor vehicles	5 years

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

(b) Lease liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office and residential properties and warehouse (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). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

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 motor vehicle lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

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

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.

2.4 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.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

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

General approach

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

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

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

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

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.

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, derivative financial instruments and interest-bearing bank and other loans.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

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.

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if 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 asset and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

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

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

Current versus non-current classification

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

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

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

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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.

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

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

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

Government grants

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

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

2.4 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.

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

(a) Sale of products

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

(b) Consulting services

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

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

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

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

Other employee benefits

Pension scheme

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

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

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

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

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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

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

Foreign currencies

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Estimation uncertainty

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

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18, to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made for those identified obsolete and slow-moving inventories and inventories with a carrying amount higher than net realisable value. The assessment of the provision required involves management's judgement and estimates on which are influenced by assumptions concerning future sales and usage and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. At 31 December 2019, the carrying amount of inventories was RMB617,074,000 (2018: RMB464,234,000).

Leases – Estimating the incremental borrowing rate

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

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was RMB7,327,000 (2018: RMB3,821,000). The amount of unrecognised tax losses at 31 December 2019 was RMB23,034,000 (2018: RMB4,268,000). Further details are contained in note 27 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, the best estimate of the carrying amount of capitalised development costs was RMB34,933,000 (2018: Nil).

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Hong Kong	**42,733**	29,406
Mainland China	**2,254,415**	1,976,330
Other countries/regions	**12,151**	10,954
	2,309,299	2,016,690

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information (Continued)

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Hong Kong	**13,609**	7,490
Mainland China	**207,615**	47,737
Other countries/regions	**772**	–
	221,996	55,227

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

Information about major customers

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

	2019 RMB'000	2018 RMB'000
Customer 1	**278,075**	N/A*
Customer 2	**267,084**	N/A*
Customer 3	**260,392**	206,763
Customer 4	**N/A***	263,182

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for the years.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**2,309,299**	2,016,690

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregation of revenue

Timing of revenue recognition	2019 RMB'000	2018 RMB'000
At a point in time		
– Sale of products	**2,295,996**	1,996,758
– Rendering of consulting services	**13,303**	19,932
	2,309,299	2,016,690

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**3,329**	1,072
Consulting services	**2,231**	4,858
	5,560	5,930

(ii) Performance obligations

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

Sale of products

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

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Consulting services

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

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

	2019 RMB'000	2018 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**925,639**	1,131,266

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	2019 RMB'000	2018 RMB'000
Other income		
Government grants (note a)	**11,537**	11,756
Bank interest income	**8,344**	4,755
Investment income from financial assets at fair value through profit or loss	**17**	50
Commission income	**2,068**	2,550
Others	**219**	929
	22,185	20,040
Gains		
Gain on bargain purchase	**–**	79
Fair value gains, net:		
Derivative instruments		
– transaction not qualifying as hedges	**659**	316
Gain on disposal of items of property, plant and equipment	**224**	166
	883	561
	23,068	20,601

Note:

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

6. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**1,841,340**	1,557,111
Cost of services provided		**1,834**	9,779
Depreciation of property, plant and equipment		**17,282**	9,474
Depreciation of right-of-use assets	14(a)	**14,665**	–
Amortisation of other intangible assets*		**5,566**	4,362
Research and development costs		**151,927**	119,546
Minimum lease payments under operating leases		**–**	13,138
Lease payments not included in the measurement of lease liabilities	14(c)	**7,363**	–
Listing expenses		**–**	18,493
Auditor's remuneration		**2,394**	1,757
Employee benefit expense (excluding directors' and co-chief executives' remuneration (note 8)):			
Wages and salaries		**127,160**	111,632
Equity-settled share option expense		**12,321**	–
Pension scheme contributions		**12,250**	7,288
Staff welfare expenses		**2,941**	1,614
		154,672	120,534

6. PROFIT BEFORE TAX (CONTINUED)

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

	Note	2019 RMB'000	2018 RMB'000
Foreign exchange losses, net		**17,246**	14,087
Recognition/(reversal) of impairment of trade receivables	18	**1,923**	(78)
Write-down of inventories to net realisable value**		**6,331**	2,650
Fair value gains, net:			
Derivative instruments			
– transactions not qualifying as hedges		**(659)**	(316)
Investment income from financial assets at fair value through profit or loss		**(17)**	(50)
Bank interest income		**(8,344)**	(4,755)
Government grants		**(11,537)**	(11,756)
Gain on disposal of items of property, plant and equipment		**(224)**	(166)
Gain on bargain purchase		**–**	(79)

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	**18,194**	13,803
Interest on lease liabilities	**1,195**	–
Interest on discounted notes receivable	**15,610**	12,451
	34,999	26,254

8. DIRECTORS' AND CO-CHIEF EXECUTIVES' REMUNERATION

Directors' and co-chief executives' 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 RMB'000	2018 RMB'000
Fees	**531**	270
Other emoluments:		
Salaries, allowances and benefits in kind	**16,311**	12,234
Performance related bonuses	**1,063**	3,852
Equity-settled share option expense	**1,570**	–
Pension scheme contributions	**112**	60
	19,056	16,146
	19,587	16,416

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and co-chief executives' remuneration disclosures.

8. DIRECTORS' AND CO-CHIEF EXECUTIVES' REMUNERATION

(a) Independent non-executive directors

	Fees RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2019			
Mr. Yu Hong	159	25	184
Mr. Tsui Yung Kwok	213	25	238
Mr. Jiang Yongwei	159	25	184
	531	75	606

	Fees RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2018			
Mr. Yu Hong	81	–	81
Mr. Tsui Yung Kwok	108	–	108
Mr. Jiang Yongwei	81	–	81
	270	–	270

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

(b) Executive directors and the co-chief executives

2019

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contribution RMB'000	Total remuneration RMB'000
Executive directors:						
Mr. Luk Wing Ming	–	5,323	–	–	28	5,351
Mr. Chan Cheung Ngai	–	5,203	106	–	28	5,337
Mr. Chan Ming	–	3,207	337	760	28	4,332
Mr. Ng Ming Chee	–	2,578	620	735	28	3,961
	–	16,311	1,063	1,495	112	18,981

2018

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2018: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2018: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**980**	617
Performance related bonuses	**570**	950
Equity-settled share option expense	**520**	–
Pension scheme contributions	**77**	80
	2,147	1,647

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

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

During the year, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax in the Cayman Islands. The Company has registered with the Company Registry in Hong Kong on 22 December 2017 and derived an interest income during 2019. Since the provision of credit of the loan was in Hong Kong, the interest income received is subject to Hong Kong Profits Tax.

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

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

Shanghai Intron and G-Pulse are qualified as High and New Technology Enterprises and were subject to a preferential income tax rate of 15% (2018: 15%) during the year. Guangzhou Intron, Beijing G-Pulse, Intron China and Wuxi Maxdone are qualified as small and micro enterprises and were subject to a preferential tax rate of 10% during the year.

	2019 **RMB'000**	2018 RMB'000
Current – Mainland China		
Charge for the year	**191**	8,414
Current – Hong Kong		
Charge for the year	**15,454**	14,766
Deferred tax (note 27)	**(6,176)**	(2,520)
Total tax charge for the year	**9,469**	20,660

10. INCOME TAX (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Profit before tax	**128,183**	182,934
Tax at the statutory income tax rate of 25%	**32,046**	45,733
Effect of tax rate differences in other jurisdictions	**(8,383)**	(6,196)
Preferential income tax rates applicable to certain subsidiaries	**2,066**	(3,772)
Additional deduction allowance for research and development costs	**(20,924)**	(18,074)
Loss attributable to an associate	**243**	–
Expenses not deductible for tax	**1,066**	2,330
Income not subject to tax	**(1,261)**	(5)
Tax losses not recognised	**4,616**	644
Tax charge at the Group's effective rate	**9,469**	20,660

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposal final – HK3.8 cents (2018: HK5.5 cents) per ordinary share	**35,891**	50,090

The proposed final dividend of HK$39,367,000 (equivalent to RMB35,891,000) for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,035,975,000 (2018: 881,321,000) in issue during the year.

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

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

	2019 **RMB'000**	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**118,714**	162,274

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year	**1,035,975,000**	881,321,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**4,500,567**	–
	1,040,475,567	881,321,000

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2019						
At 1 January 2019 (restated):						
Cost	2,831	6,178	31,491	14,663	7,013	62,176
Accumulated depreciation	(2,196)	(1,927)	(10,508)	(7,408)	(3,707)	(25,746)
Net carrying amount	635	4,251	20,983	7,255	3,306	36,430
At 31 December 2018, net of accumulated depreciation	635	4,251	20,983	7,255	3,898	37,022
Effect of adoption of HKFRS16	–	–	–	–	(592)	(592)
At 1 January 2019 (restated)	635	4,251	20,983	7,255	3,306	36,430
Addition	54,150	7,600	31,165	14,085	2,543	109,543
Disposals	–	–	(4)	–	(197)	(201)
Depreciation provided during the year	(563)	(4,155)	(8,037)	(5,092)	(1,306)	(19,153)
Foreign exchange movement	–	1	–	1	3	5
At 31 December 2019, net of accumulated depreciation	54,222	7,697	44,107	16,249	4,349	126,624
At 31 December 2019:						
Cost	56,981	13,778	60,129	28,749	8,793	168,430
Accumulated Depreciation	(2,759)	(6,081)	(16,022)	(12,500)	(4,444)	(41,806)
Net carrying amount	54,222	7,697	44,107	16,249	4,349	126,624

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

None of the Group's fixed assets held under finance leases included in the total amounts of motor vehicles at 31 December 2019 (2018: RMB590,000).

At 31 December 2019, certain of the Group's buildings with a net carrying amount of approximately RMB500,000 (2018: Nil) were pledged to secure bank loan facilities granted to the Group (note 25).

14. LEASE

The Group as a lessee

The Group has lease contracts for buildings and motor vehicles used in its operations. Leases of buildings generally have lease terms between 1 and 5 years, while motor vehicles have lease terms of 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Motor vehicles RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2019	592	21,574	22,166
Additions	–	22,112	22,112
Depreciation charge	(392)	(14,273)	(14,665)
Foreign exchange movement	–	(54)	(54)
As at 31 December 2019	200	29,359	29,559

(b) Lease liabilities

The carrying amounts of the Group's lease liabilities and the movements during the year are as follows:

	2019 RMB'000
Carrying amount at 1 January	21,949
New leases	22,112
Accretion of interest recognised during the year	1,195
Payments	(15,136)
Foreign exchange movement	65
Carrying amount at 31 December	30,185
Analysed into:	
Current portion	14,173
Non-current portion	16,012

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

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

	2019 RMB'000
Interest on lease liabilities	1,195
Depreciation charge of right-of-use assets	14,665
Lease payments not included in the measurement of lease liabilities	7,363
Total amount recognised in profit or loss	23,223

(d) 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 35, respectively, to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2019				
Cost at 1 January 2019, net of accumulated amortisation	**9,949**	**4,008**	**–**	**13,957**
Additions – internal development	**–**	**–**	**34,933**	**34,933**
Additions	**–**	**8,249**	**–**	**8,249**
Amortisation provided during the year	**(3,782)**	**(2,187)**	**–**	**(5,969)**
At 31 December 2019	**6,167**	**10,070**	**34,933**	**51,170**
At 31 December 2019:				
Cost	**21,409**	**13,522**	**34,933**	**69,864**
Accumulated amortisation	**(15,242)**	**(3,452)**	**–**	**(18,694)**
Net carrying amount	**6,167**	**10,070**	**34,933**	**51,170**
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation	13,731	1,158	–	14,889
Additions	–	3,006	–	3,006
Acquisition of a subsidiary	–	424	–	424
Amortisation provided during the year	(3,782)	(580)	–	(4,362)
At 31 December 2018	9,949	4,008	–	13,957
At 31 December 2018:				
Cost	21,409	5,273	–	26,682
Accumulated amortisation	(11,460)	(1,265)	–	(12,725)
Net carrying amount	9,949	4,008	–	13,957

None of the Group's patents was pledged to secure bank loan facilities granted to the Group as at 31 December 2019 (2018: RMB2,292,000) (note 25).

16. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Share of net assets	**9,026**	–

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Shanghai Whaleye Technology Co., Ltd ("Shanghai Whaleye")	Ordinary shares	PRC/ Mainland China	20%	R&D, production and sales of hightech millimeter-wave radar related products

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

The following table illustrates the aggregate financial information of the Group's associate:

	2019 RMB'000	2018 RMB'000
Share of the associate's loss for the year	**974**	–
Share of the associate's total comprehensive loss	**974**	–
Carrying amount of the Group's investment in the associate	**9,026**	–

17. INVENTORIES

	2019 RMB'000	2018 RMB'000
Semiconductor devices and electronic components	**617,074**	464,234

18. TRADE AND NOTES RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**563,045**	564,744
Notes receivable	**227,058**	160,065
	790,103	724,809
Impairment	**(3,047)**	(1,414)
	787,056	723,395

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

Included in the Group's trade and notes receivables are amounts due from the Group's related parties of RMB35,374,000 as at 31 December 2019 (2018: RMB21,796,000), which are repayable on credit terms similar to those offered to the other customers of the Group.

None of the Group's trade receivables was pledged to secure the bank loan and bank facilities granted to the Group as at 31 December 2019 (2018: RMB13,621,000) (note 25).

As at 31 December 2019, the Group has pledged notes receivable of RMB100,000,000 (2018: Nil) to secure notes payable of RMB70,212,000 (2018: Nil) (note 22).

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

	2019 RMB'000	2018 RMB'000
Less than 3 months	**491,720**	501,426
3 to 6 months	**28,275**	56,149
6 to 12 months	**14,588**	4,079
1 to 2 years	**24,810**	1,550
2 to 3 years	**605**	126
	559,998	563,330

18. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
At the beginning of year	**1,414**	1,492
Impairment losses recognised (note 6)	**1,923**	–
Impairment losses reversed (note 6)	**–**	(78)
Amount written off as uncollectible	**(290)**	–
At end of year	**3,047**	1,414

The increase (2018: decrease) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Increase in the loss allowance of RMB1,923,000 as an increase in trade receivables which were past due for over 6 months and higher ECL rate (2018: decrease in the loss allowance of RMB78,000 as a decrease in trade receivables which were past due for over 1 year); and

(ii) Decrease in the loss allowance of RMB290,000 (2018: Nil) as a result of the write-off of certain trade receivables.

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

18. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

As at 31 December 2019

	Past due: Less than 1 year	1 to 2 years	2 to 3 years	More than 3 years	Total
Expected credit loss rate	**0.11%**	**6.95%**	**34.44%**	**100.00%**	**0.54%**
Gross carrying amount (RMB'000)	**535,164**	**26,664**	**922**	**295**	**563,045**
Expected credit losses (RMB'000)	**581**	**1,854**	**317**	**295**	**3,047**

As at 31 December 2018

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

18. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

As at 31 December 2019, notes receivable of RMB227,058,000 (2018: RMB160,065,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under HKFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2019.

At 31 December 2019, the Group endorsed certain notes receivable accepted by banks in Mainland China (the "**Endorsed Notes**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB102,222,000 (2018: RMB103,085,000) (the "**Endorsement**"). In addition, at 31 December 2019, the Group discounted certain notes receivable accepted by certain banks in Mainland China (the "**Discounted Notes**") with a carrying amount in aggregate of RMB478,556,000 (2018: RMB308,988,000). In accordance with the Law of Negotiable Instruments in the Mainland China, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**").

In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain Endorsed Notes and Discounted Notes accepted by large and reputable banks with amounts of RMB93,809,000 (2018: RMB87,267,000) and RMB441,246,000 (2018: RMB293,641,000) as at 31 December 2019 (the "**Derecognised Notes**"). Accordingly, the Group has derecognised the full carrying amounts of these Derecognised Notes and the associated trade payables settled by the Endorsed Notes.

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

At 31 December 2019, the Group continued to recognise the full carrying amounts of the remaining Endorsed Notes and the associated trade payables settled with an amount of RMB8,413,000 (2018: RMB15,818,000), and to recognise the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB37,310,000 (2018: RMB15,347,000) as short-term loans because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

During the year ended 31 December 2019, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement and the discount have been made evenly during the year.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**74,472**	27,909
Prepayment to a related party	**–**	1,072
Prepaid expenses	**4,566**	2,570
Due from related parties	**–**	1,132
Interest receivables	**414**	1,131
Other tax recoverable	**2,989**	226
Deposits and other receivables	**16,564**	29,406
	99,005	63,446

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

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2019 was close to zero (2018: close to zero).

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Unlisted investments, at fair value	**500**	–

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

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**255,085**	274,343
Non-pledged time deposits with original maturity of less than three months when acquired	**242,246**	351,375
Pledged time deposits	**33,896**	31,031
	531,227	656,749
Less: Pledged time deposits		
– Pledged for bank borrowings (note 25)	**(31,896)**	(31,031)
– Pledged for letter of guarantee	**(2,000)**	–
Cash and cash equivalents	**497,331**	625,718

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB118,413,000 (2018: RMB43,621,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods from 1 to 6 months and earn interest at the fixed time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Deposits amounting to RMB31,896,000 have been pledged to secure bank loans as at 31 December 2019 (2018: RMB31,031,000) (note 25).

22. TRADE AND NOTES PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**99,823**	171,502
Notes payables	**70,212**	–
	170,035	171,502

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

	2019 RMB'000	2018 RMB'000
Less than 3 months	**96,988**	156,952
3 to 6 months	**2,428**	11,753
6 to 12 months	**306**	2,719
1 to 2 years	**74**	65
Over 2 years	**27**	13
	99,823	171,502

Included in the trade payables are trade payables of RMB802,000 (2018: RMB349,000) due to a related party which are repayable within 30 days, which represents credit terms similar to those offered by the related parties to their major customers.

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

As at 31 December 2019, the Group's notes payable were secured by the Group's notes receivable with a carrying amount of RMB100,000,000 (2018: Nil) (note 18).

23. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Other payables	(a)	**250,260**	169,308
Taxes payable other than corporate income tax		**39,223**	54,653
Payroll and welfare payable		**50,646**	43,351
Contract liabilities	(b)	**14,128**	7,300
Payables for purchase of property, plant, equipment and other intangible assets		**950**	493
Due to a related party	(c)	**5,000**	–
		360,207	275,105

Notes:

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

(b) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers			
Sale of goods	**7,376**	3,678	1,072
Consulting services	**6,752**	3,622	4,858
	14,128	7,300	5,930

Contract liabilities include short-term advances received to deliver products and consulting services. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in amounts of new customers in relation to the sale of products and rendering of consulting service.

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Forward currency contracts	**262**	191

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging forward currency contracts amounting to RMB71,000 (2018: 185,000) were charged to the statement of profit or loss during the year.

25. INTEREST-BEARING BANK AND OTHER LOANS

	2019		
	Effective interest rate (%)	**Maturity**	**RMB'000**
Current			
Bank loans – secured	**4.36-5.13**	**2020**	**386,650**
Bank loans – unsecured	**4.57**	**2020**	**30,000**
Discounted notes receivable	**2.92-3.10**	**2020**	**37,310**
			453,960

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

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

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year or on demand	**453,960**	374,727

Notes:

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

(i) none of the Group's trade receivables was pledged to secure the bank loan facilities granted to the Group as at 31 December 2019 (2018: RMB13,621,000) (note 18);

(ii) none of the Group's patents was pledged to secure bank loan facilities granted to the Group as at 31 December 2019 (2018: RMB2,292,000) (note 15);

(iii) the pledges over certain of the Group's time deposits amounting to RMB31,896,000 as at 31 December 2019 (2018: RMB31,031,000) (note 21); and

(iv) the pledges over certain of the Group's building amounting to RMB500,000 as at 31 December 2019 (2018: Nil) (note 13).

In addition, none of Group's bank loans are guaranteed by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming at 31 December 2019. Mr. Chan Cheung Ngai and Mr. Luk Wing Ming have guaranteed certain of the Group's bank loans up to RMB239,114,000 at 31 December 2018.

(b) At the end of the reporting period, the borrowings of the Group denominated in RMB, US$ and HK$ amounted to RMB132,310,000 (2018: RMB35,347,000), RMB321,650,000 (2018: RMB337,510,000) and nil (2018: RMB1,870,000), respectively.

26. FINANCE LEASE PAYABLES

The Group has certain finance leases for motor vehicles. These leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019 and had reached the maturity dates before the end of 2019.

At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments RMB'000	**Present value of minimum lease payments** RMB'000
Amounts payable:		
Within one year	382	375
Total minimum finance lease payments	382	375
Future finance charges	(7)	
Total net finance payables	375	
Current liabilities (note 25)	(375)	

27. DEFERRED TAX

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

Deferred tax liabilities

	Right-of-use assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2018	–	251	251
Acquisition of a subsidiary	–	20	20
Deferred tax credited to the statement of profit or loss during the year (note 10)	–	(15)	(15)
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019	–	256	256
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	3,358	(156)	3,202
Gross deferred tax liabilities at 31 December 2019	3,358	100	3,458

27. DEFERRED TAX (CONTINUED)

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

Deferred tax assets

	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Amortisation in excess of related amortisation allowance RMB'000	Losses available for offsetting against future taxable profits RMB'000	Unrealised profit attributable to the intra-group transactions RMB'000	Impairment of inventories RMB'000	Equity-settle stock option RMB'000	Lease liabilities RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2018	226	574	410	1,785	2,557	1,804	–	–	7,356
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(16)	(145)	246	2,036	(35)	419	–	–	2,505
Gross deferred tax assets at 31 December 2018 and 1 January 2019	210	429	656	3,821	2,522	2,223	–	–	9,861
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	249	(90)	247	3,506	(746)	1,082	1,706	3,424	9,378
Gross deferred tax assets at 31 December 2019	**459**	**339**	**903**	**7,327**	**1,776**	**3,305**	**1,706**	**3,424**	**19,239**

27. DEFERRED TAX (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**15,781**	9,605

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

	2019 RMB'000	2018 RMB'000
Tax losses	**23,034**	4,268

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

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

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, these subsidiaries' fund will be retained in Mainland China for the expansion of these subsidiaries' operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled RMB306,308,000 as at 31 December 2019 (2018: RMB274,681,000).

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

28. GOVERNMENT GRANTS

	2019 RMB'000	2018 RMB'000
At 1 January	**2,863**	3,829
Grants received during the year	**650**	790
Recognised as income during the year	**(1,255)**	(1,756)
At 31 December	**2,258**	2,863
Current	**1,456**	456
Non-current	**802**	2,407

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

29. SHARE CAPITAL

Shares

	2019 HK$'000	2018 HK$'000
Authorised:		
2,400,000,000 (2018: 2,400,000,000) ordinary shares of HK$0.01 each	**24,000**	24,000
Issued and fully paid:		
1,035,975,000 (2018: 1,035,975,000) ordinary shares of HK$0.01 each	**8,816**	8,816

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

	Notes	**Number of shares in issue**	**Share capital** RMB'000
At 1 January 2018	(a)	200	–
Capitalisation issue of shares	(b)	749,999,800	6,376
Issuance of shares on 12 July 2018	(c)	250,000,000	2,126
Over-allotment on 1 August 2018	(d)	35,975,000	314
At 31 December 2018, 1 January 2019 and 31 December 2019		1,035,975,000	8,816

Notes:

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

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

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

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

30. SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 22 June 2018 (the "**Scheme**") for the purpose of recognise and acknowledge the contributions of certain eligible participants had or may have made to the Group whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years from the date of its adoption.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors or proposed director (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; any direct or indirect shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at 12 July 2018 (the date on which the ordinary shares of the Company were listed on the Main Board of the Stock Exchange), i.e. 100,000,000 shares of the Company representing approximately 9.65% of the issued share capital of the Company as at the date of this report. Subject to the issue of a circular by the Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the board of directors may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the shareholders of the Company in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the board of directors.

Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

30. SHARE OPTION SCHEME (CONTINUED)

The maximum number of shares issuable upon the exercise of options granted under the Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) to each eligible participant within any 12-month period, is limited to 1% of the shares in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company; and

(ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise period of the share options granted is determinable by the directors, which period may commence on the date of the offer of the share options, and end on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Scheme shall pay HK$1.00 to the Company by way of consideration for the grant.

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

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

30. SHARE OPTION SCHEME (CONTINUED)

On 21 January 2019, the Company granted share options to the eligible participants to subscribe for a total of 30,678,600 ordinary shares under the Scheme. The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK$ Per share	**Number of options** '000
At 1 January 2019	–	–
Granted during the year	2.662	30,678
Cancelled during the year	2.662	(1,396)
At 31 December 2019	2.662	29,282

No share options were exercised during the year.

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

2019

Number of options '000	**Exercise price** HK$ per share	**Exercise period**
7,320	2.662	1-1–20 to 31-12-25
7,320	2.662	1-1–21 to 31-12-25
7,321	2.662	1-1–22 to 31-12-25
7,321	2.662	1-1–23 to 31-12-25
29,282		

The fair value of the share options granted during the year was HK$31,153,000 (HK$1.06 each), of which the Group recognised a share option expense of HK$16,077,000 (RMB13,891,000) during the year ended 31 December 2019.

30. SHARE OPTION SCHEME (CONTINUED)

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

	2019
Dividend yield (%)	**1.60**
Expected volatility (%)	**45.96**
Risk-free interest rate (%)	**2.01**

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

At the date of approval of these financial statements, the Company had 29,282,000 share options outstanding under the Scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 62 and 63 of the financial statements.

Statutory surplus reserves

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

Capital reserve

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

Exchange fluctuation reserve

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

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB22,112,000 and RMB22,112,000, respectively, in respect of lease arrangements for buildings (2018:Nil).

(b) Changes in liabilities arising from financing activities

2019

	Bank and other loans RMB'000	Finance lease payables/due to Lease Liabilities RMB'000
At 31 December 2018	**374,352**	**375**
Effect of adoption of HKFRS16	**–**	**21,574**
At 1 January 2019 (restated)	**374,352**	**21,949**
Changes from financing cash flows	**73,835**	**(13,941)**
New leases	**–**	**22,112**
Interest expense	**–**	**1,195**
Interest paid classified as operating cash flows	**–**	**(1,195)**
Foreign exchange movements	**5,773**	**65**
At 31 December 2019	**453,960**	**30,185**

2018

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

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 RMB'000
Within operating activities	**1,195**
Within financing activities	**13,941**
	15,136

33. CONTINGENT LIABILITIES

At the end of each of the reporting periods, at 31 December 2019 and 2018 the Group did not have any significant contingent liabilities.

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other loans are included in note 25 to the financial statements.

35. COMMITMENTS

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

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:		
Patents, plant and machinery	**2,790**	12,313

35. COMMITMENTS (CONTINUED)

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

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

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

	2018 RMB'000
Within one year	10,558
In the second to fifth years, inclusive	10,848
	21,406

36. RELATED PARTY TRANSACTIONS

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

Name	Relationship
Mr. Chan Cheung Ngai	Director, the ultimate shareholder
Mr. Luk Wing Ming	Director, the ultimate shareholder
Shanghai Maibang Electronics Technology Company Limited ("**Shanghai Maibang**")	An entity jointly controlled by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming
UTE	An entity jointly controlled by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming
Heroic Mind Limited	An entity controlled by Mr. Chan Cheung Ngai
Treasure Map Ventures Limited	An entity controlled by Mr. Luk Wing Ming
Moshi Automatic Technology (Shanghai) Co., Ltd. ("**Moshi Automatic**")	An associate of the entity jointly controlled by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming
Shanghai Lvliang Technology Co., Ltd ("**Shanghai Lvliang**")	An entity jointly controlled by Heroic Mind Limited and Treasure Map Ventures Limited
Shanghai Whaleye	An associate of Intron China

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Notes	2019 RMB'000	2018 RMB'000
Sales of products to:			
UTE	(i)	**44,259**	42,411
Moshi Automatic	(i)	**–**	376
		44,259	42,787
Provision of services to:			
Moshi Automatic	(i)	**–**	10
Purchases of goods and services from:			
Moshi Automatic	(ii)	**3,718**	1,596
UTE	(ii)	**28**	–
		3,746	1,596
Repayments of loans from related parties:			
Heroic Mind Limited		**–**	129
Treasure Map Ventures Limited		**–**	128
Shanghai Lvliang		**–**	300
Shanghai Maibang		**–**	2,197
		–	2,754

Notes:

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

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

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties:

(i) Details of the Group's trade balances with its related parties as at the end of the reporting period are disclosed in notes 18 and 22 to the financial statements.

(ii) The Group had an outstanding balance due to Shanghai Whaleye of RMB5,000,000 (2018:Nil) as at the end of the reporting period. This balance is unsecured, interest-free and has no fixed terms of repayment.

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

	2019 HK$'000	2018 HK$'000
Short term employee benefits	**18,891**	13,965
Performance related bonuses	**2,723**	6,402
Equity-settled share option expense	**2,677**	–
Pension scheme contributions	**343**	300
Total compensation paid to key management personnel	**24,634**	20,667

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

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

		Financial Assets at Fair value through other comprehensive income	Financial Assets at Fair value through profits or loss	
	Financial assets at amortised cost RMB'000	Debt investment RMB'000	Mandatorily designated as such RMB'000	Total RMB'000
Trade and notes receivables	559,998	227,058	–	787,056
Financial assets included in prepayments, other receivables and other assets	16,978	–	–	16,978
Financial assets at fair value through profit or loss	–	–	500	500
Pledged deposits	33,896	–	–	33,896
Cash and cash equivalents	497,331	–	–	497,331
	1,108,203	227,058	500	1,335,761

37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

2019

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
Trade and notes payables	170,035	–	170,035
Financial liabilities included in other payables and accruals	256,210	–	256,210
Interest-bearing bank and other loans	453,960	–	453,960
Lease liabilities	30,185	–	30,185
Derivative financial instruments	–	262	262
	910,390	262	910,652

37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

2018

Financial assets

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

Financial liabilities

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

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All the carrying amounts of the Group's financial instruments approximate to their fair values.

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

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with banks. Derivative financial instruments, such as forward currency contracts, are measured using valuation technique similar to forward pricing model, using present value calculation. The model incorporates various market observable inputs including foreign exchange spot, forward rates and discount factor. The carrying amounts of forward currency contracts are the same as their fair values.

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income under HKFRS 9 as at 31 December 2019 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within one year, thus their fair values approximate to their carrying values.

Fair value hierarchy

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

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable	–	227,058	–	227,058
Financial assets at fair value through profit or loss	–	500	–	500
Total	–	227,558	–	227,558

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable	–	160,065	–	160,065

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

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

Liabilities measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	262	–	262

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	191	–	191

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2019		
RMB	**50**	**(117)**
RMB	**(50)**	**117**
US$	**50**	**(92)**
US$	**(50)**	**92**
2018		
RMB	50	(34)
RMB	(50)	34
US$	50	(305)
US$	(50)	305
HK$	50	(7)
HK$	(50)	7

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

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

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000
2019		
If the RMB weakens against the HK$	**5**	**87**
If the RMB strengthens against the HK$	**(5)**	**(87)**
If the RMB weakens against the US$	**5**	**(12,818)**
If the RMB strengthens against the US$	**(5)**	**12,818**
If the RMB weakens against the CHF	**5**	**93**
If the RMB strengthens against the CHF	**(5)**	**(93)**
If the RMB weakens against the EUR	**5**	**(324)**
If the RMB strengthens against the EUR	**(5)**	**324**
2018		
If the RMB weakens against the HK$	5	(279)
If the RMB strengthens against the HK$	(5)	279
If the RMB weakens against the US$	5	17,091
If the RMB strengthens against the US$	(5)	(17,091)
If the RMB weakens against the CHF	5	165
If the RMB strengthens against the CHF	(5)	(165)
If the RMB weakens against the EUR	5	(1)
If the RMB strengthens against the EUR	(5)	1

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019					
Trade receivables*	–	–	–	559,998	559,998
Notes receivables**	227,058	–	–	–	227,058
Financial assets included in prepayments, other receivables and other assets					
– Normal**	16,978	–	–	–	16,978
Pledged deposits					
– Not yet past due	33,896	–	–	–	33,896
Cash and cash equivalents					
– Not yet past due	497,331	–	–	–	497,331
	775,263	–	–	559,998	1,335,261

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
As at 31 December 2018					
Trade receivables*	–	–	–	563,330	563,330
Notes receivables**	160,065	–	–	–	160,065
Financial assets included in prepayments, other receivables and other assets					
– Normal**	31,669	–	–	–	31,669
Pledged deposits					
– Not yet past due	31,031	–	–	–	31,031
Cash and cash equivalents					
– Not yet past due	625,718	–	–	–	625,718
	848,483	–	–	563,330	1,411,813

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements.

** The credit quality of notes receivable and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing bank and other loans.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2019

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and notes payables	31,087	98,241	40,707	–	170,035
Financial liabilities included in other payables and accruals	256,210	–	–	–	256,210
Interest-bearing bank and other loans	324,885	90,681	40,437	–	456,003
Lease liabilities	–	3,730	10,443	16,012	30,185
Derivative financial instruments	–	262	–	–	262
	612,182	192,914	91,587	16,012	912,695

2018

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	24,656	81,035	65,811	–	171,502
Financial liabilities included in other payables and accruals	169,801	–	–	–	169,801
Interest-bearing bank and other loans	239,948	115,523	20,668	–	376,139
Derivative financial instruments	–	191	–	–	191
	434,405	196,749	86,479	–	717,633

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other loans, trade and notes payables, other payables and accruals, less cash and cash equivalents and pledged deposits. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2019 HK$'000	2018 HK$'000
Interest-bearing bank and other loans	**453,960**	374,727
Trade and notes payables	**170,035**	171,502
Other payables and accruals	**360,207**	275,105
Less: Cash and cash equivalents	**(497,331)**	(625,718)
Pledged deposits	**(33,896)**	(31,031)
Net debt	**452,975**	164,585
Equity attributable to owners of the parent	**1,239,848**	1,142,738
Capital and net debt	**1,692,823**	1,307,723
Gearing ratio	**27%**	13%

40. EVENTS AFTER THE REPORTING PERIOD

At present, the Group expects the COVID-19 outbreak to have limited impact on its business. However, it is difficult to estimate the full impact in the coming months given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Due from a subsidiary	**402,014**	–
Investments in subsidiaries	**12,566**	245
Total non-current assets	**414,580**	245
CURRENT ASSETS		
Due from a subsidiary	**6,375**	165,188
Prepayments, other receivables and other assets	**450**	1,131
Cash and cash equivalents	**256,253**	531,616
Total current assets	**263,078**	697,935
CURRENT LIABILITIES		
Due to a subsidiary	**–**	(1,974)
Other payables and accruals	**(253)**	–
Tax payable	**(1,009)**	–
Total current liabilities	**(1,262)**	(1,974)
NET CURRENT ASSETS	**261,816**	695,961
TOTAL ASSETS LESS CURRENT LIABILITIES	**676,396**	696,206
NET ASSETS	**676,396**	696,206
EQUITY		
Share capital	**8,816**	8,816
Reserves (note)	**667,580**	687,390
TOTAL EQUITY	**676,396**	696,206

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium RMB'000	Share Option reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	–	–	18	(134)	(116)
Loss for the year	–	–	–	(1,809)	(1,809)
Exchange differences on translation of the Company	–	–	17,332	–	17,332
Total comprehensive income for the year	–	–	17,332	(1,809)	15,523
Issuance of shares for initial public offering	704,905	–	–	–	704,905
Capitalisation of issue of share premium	(6,376)	–	–	–	(6,376)
Share issue expenses	(26,546)	–	–	–	(26,546)
At 31 December 2018 and 1 January 2019	671,983	–	17,350	(1,943)	687,390
Profit for the year	–	–	–	1,649	1,649
Exchange differences on translation of the Company	–	–	14,740	–	14,740
Total comprehensive income for the year	–	–	14,740	1,649	16,389
Equity-settled share option arrangements	–	13,891	–	–	13,891
Dividends declared and paid	–	–	–	(50,090)	(50,090)
At 31 December 2019	671,983	13,891	32,090	(50,384)	667,580

42. APPROVAL OF THE FINANCIAL STATEMENTS

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