星宇控股

UNIVERSAL STAR (HOLDINGS) LIMITED

星宇(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2346

2019

Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. Lyu Zhufeng
(Chairman of the Board and Chief Executive Officer)

Non-executive Director

Mr. Lu Qingxing

Independent Non-executive Directors

Mr. Fan Chun Wah, Andrew, *J.P.*
Mr. Yan Aru
Mr. Lee Ming Tak

AUDIT COMMITTEE

Mr. Fan Chun Wah, Andrew, *J.P. (Chairman)*
Mr. Lu Qingxing
Mr. Yan Aru

REMUNERATION COMMITTEE

Mr. Yan Aru *(Chairman)*
Mr. Lu Qingxing
Mr. Lee Ming Tak

NOMINATION COMMITTEE

Mr. Lyu Zhufeng *(Chairman)*
Mr. Fan Chun Wah, Andrew, *J.P.*
Mr. Yan Aru

COMPANY SECRETARY

Mr. Tse Kam Fai

AUTHORISED REPRESENTATIVES

Mr. Lyu Zhufeng
Mr. Tse Kam Fai

LEGAL ADVISERS AS TO HONG KONG LAW

King & Wood Mallesons

AUDITOR

BDO Limited
Certified Public Accountants

COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 8 Tuan Yuan Road
Dongqiao Economic Development Zone
Ningde City, Fujian Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20/F, Effectual Building
16 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

PRINCIPAL BANKER

Industrial and Commercial Bank of China Limited,
Ningde City Jiaocheng Branch

STOCK CODE

2346

WEBSITE

www.xingyu.cc

2019 was definitely a milestone for Universal Star (Holdings) Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"). The successful listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**") on 16 May 2019 (the "**Listing Date**") has enhanced the Group's corporate image, brand name and financial position which provide a solid platform for the Group to accelerate its business expansion. Leveraging on the Group's well-formulated strategies, the revenue of the Group increased by RMB21.7 million or 5.6% to RMB411.5 million and the gross profit margin of the Group increased by 0.5 percentage points to 28.1% for the year ended 31 December 2019 (the "**FY2019**").

MARKET AND BUSINESS REVIEW

The Group is a manufacturer and supplier of sintered NdFeB permanent magnetic ("**SNPM**") products in The People's Republic of China ("**PRC**"). Neodymium ("**Nd**") is a rare earth element while Neodymium, Iron and Boron ("**NdFeB**") magnetic products which contained Nd and the other rare earth elements are well-known to have strongest magnetic field with permanent status among commercially available non-rare-earth based magnetic products in the market.

Recently, the upward trend of the rare earth permanent magnetic industry is driven by the inevitable long and lasting trends of energy saving, emission reduction and industrial upgrading. It is because the adoption of SNPM products can effectively to implement of energy saving, emission reduction and industrial upgrading which also fit into the requirements of international emission regulations and the regulatory trends of China national policies.

There is no doubt that international emission regulation continues the advancements of emission reduction and one of the major process will take place between 2020 and 2021, when European Union will implement a stringent emission requirement for automobile emissions. On this front, the Group expects it will stimulate the demands for new energy vehicles so as to the demands for middle-to-high-end series of SNPM products, to a large extent.

Energy saving and emission reduction have been the national focuses in PRC. The 13th Five-year Plan for Energy Saving and Emission Reduction General Working Plan (2016) (《"十三五"節能減排綜合工作方案》(2016)) issued by the State Council of the Central Government of PRC further set out the details for energy saving and emission reduction with a sense of promoting production efficiencies. The 13th Five-year Plan for New Materials Industry (2016) (《新材料產業"十三五"發展規劃》(2016)) and the Development Guide for New Materials Industry (2017) (《新材料產業發展指南》(2017)), were endorsing SNPM products industry as one of the high-tech and green industry while the SNMP product is one of the products that also endorsed by the general national policy — "China Production 2025" for promoting industrial upgrading in various industries. The Group believes its strategy to focus on middle-to-high-end series of SNPM products would enable the Group to capture the trend in a large extent during the course of energy saving, emission reduction and industrial upgrading.

In addition, along with the trend of industrial upgrading as advocated by "China Production 2025", the Group expects a high-end downstream application — Servomotor systems, which specifically used for mechanical systems that require precise control, velocity and acceleration, will have tremendous in growth in PRC on a medium-term basis. Servomotor systems are widely used in certain industries like industrial robots and automated manufacturing. In terms of the market share of servomotor systems used in the aforesaid industries, PRC SNPM products manufacturers only account for approximately 25% of the market share (based on management's estimation), which is much lower than the market share of approximately 60% of PRC SNPM products manufacturers in terms of middle-to-high-end series of products. The middle-to-high-end series of SNPM products carried the major functions include: (i) saving energy/electricity as SNPM products do not require electricity to generate magnetism; (ii) providing permanent and stronger magnetic field (in comparing to non-rare-earth based magnetic products), and serve the needs of those industries that require high magnetic performance and longer product life cycle like new energy industries (i.e. industries involved in new energy vehicles, wind turbine generators and energy-saving elevators) and industrial robots; and (iii) smaller in size in terms of the same magnetic performance in comparing to non-rare-earth based magnetic products which especially fits into the requirements of high-end consumer electrical products like mobile devices. In FY2019, the Group's sales of middle-to-high-end series of products accounted for 72% of its total revenue, which was higher than the average PRC SNPM products manufacturers and contributed a higher gross profit margins in comparing to most of the major PRC manufacturers.

Management Discussion and Analysis

STRATEGIES AND PROSPECTS

As a leading manufacturer and supplier of SNPM products, the Group will continue to strengthen its leading position through the well-formulated strategies: (i) focusing on middle-to-high-end series of SNPM products; (ii) being R&D-oriented; (iii) expanding customers base, especially global customers, by diversified products in selected sectors; and (iv) seeking for potential upstream and downstream merger & acquisition opportunities.

The Group has been focusing on middle-to-high-end series of products, in particular, one type of high-end products — radially-oriented rings. Based on the Group's estimation, global rare earth permanent magnetic industry is dominated by PRC SNPM products manufacturers which contribute approximately 90% of global market share, however in terms of middle-to-high-end series of products, the PRC SNPM products manufacturers only contribute approximately 60% of global market share. The Group believes focusing on middle-to-high-end series products will continue to lead the business growth and contribute higher gross profit margin to the Group.

In addition, the Group fully recognises two successful factors in rare earth permanent magnetic industry, which are: (i) all orders' requirements are in a way of difference and requested the products to be semi-tailor-made; and (ii) the cost of multi rare earth materials totally accounting for approximately 90% of the raw material costs of rare earth permanent magnetic products. To this end, the Group has been focusing on R&D as to: (1) standardising and streamlining manufacturing processes to minimise production costs and maximise the production yield rate; (2) maximising products magnetic performance through technology improvements, for instance, assigning poles of the products in systematic ways; and (3) optimising the composition of rare earth materials in order to minimise raw material costs and maximise product performance. The aforesaid R&D-focused approach enables the Group to differentiate itself from other PRC SNPM products manufacturers by achieving higher yield rate and enabling the Group to focus on middle-to-high-end series of products. At present, the Group has 60 registered patents in PRC, out of which, 5 registered patents are related to several unique manufacturing technologies of its core products — radially-oriented rings. To the best knowledge of the board (the "**Board**") of directors (the "**Directors**") of the Company, there are no similar patents among other PRC SNPM products manufacturers. The aforesaid 5 registered patents enable the Group to solve various technical difficulties including uneven magnetic orientation, uneven surface magnetic performance density and so on. Apart from the Group's internal R&D capabilities, it also cooperates with various academic institutes in PRC including setting up cooperation projects and R&D workshops and, going forward, the Group will continue to explore ways to enhance its R&D function for the purpose of upholding its R&D advantage and leading position.

Currently, the Group has an annual SNPM products production capacity of 1,920 tonnes with a production utilization rate of more than 90% in FY2019. The Listing has enhanced the Group's corporate image and brand name which set the stage for the Group to expand customer base, in particular, the leading global and consumer electronic customers. After the Listing, the Group's products were qualified by a Korean giant conglomerates and the largest drone company of the world and the Group, in turn, became their suppliers. With such progresses, the Group believes sales to global customers as well as customers from consumer electronics industry will drive the growth of the Group in the coming years.

Rare earth is rare materials and SNPM products are highly relied on the feature of rare earth. The Group believes upstream developments should be a wise move to secure raw material supply and diversification of business risk mitigating the impacts as to the fluctuation of raw material cost to a certain extent. To this end, the Group has been actively exploring opportunities for vertical integration and seeking for potential upstream merger & acquisition developments since the Listing.

Recently, the Group's business has gradually been recovered. Although the impact of coronavirus disease (COVID-19) outbreak is temporary affecting the Group's business development and PRC economy as a whole, the long-term positive rare earth permanent magnetic industry drivers remain in place. In addition, the Group's well-established strategies which embraced and implemented over the past several years has begun to bear fruit with the Listing. In the course of executing the strategies, the Group strives to maximize its corporate value and share the success with its shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue in FY2019 amounted to RMB411.5 million, representing an increase of RMB21.7 million, or 5.6% compared to RMB389.7 million for the year ended 31 December 2018 (the "**FY2018**"). The increase in revenue was mainly attributable to the increase in sales of high-end SNPM products driven by the Group's well-formulated strategy. The following table sets out a breakdown of revenue by series of products and its percentage of the total revenue during the years under review:

		Year ended 31 December			
		2019		2018	
		RMB'000	**%**	*RMB'000*	%
Finished Products					
Low-end:	N series	**36,129**	**8.8**	27,328	7.0
Middle-end:	M series	**1,740**	**0.4**	855	0.2
	H series	**35,442**	**8.6**	33,252	8.5
High-end:	SH series	**162,724**	**39.6**	147,934	38.0
	UH series	**91,290**	**22.2**	79,713	20.5
	EH series	**2,952**	**0.7**	3,102	0.8
Finished Products Total		**330,277**	**80.3**	292,184	75.0
Rough Cast Products					
Low-end:	N series	**76,647**	**18.6**	83,957	21.5
Middle-end:	M series	**481**	**0.1**	1,120	0.3
	H series	**970**	**0.3**	4,218	1.1
High-end:	SH series	**2,943**	**0.7**	3,341	0.9
	UH series	**136**	**0.0**	4,737	1.2
	EH series	**–**	**–**	165	0.0
Rough Cast Products Total		**81,177**	**19.7**	97,538	25.0
Total		**411,454**	**100.0**	389,722	100.0

As shown in the table above, the increase in revenue was mainly attributable to the sale from SH and UH series of finished products which driven by the orders from high-end equipment manufacturer's customers. To the best knowledge of the Board, the aforementioned increase in orders was attributable to the growing demand of high-end motors with SNPM products, in particular, used in clean technology industries and high-end motors industries which supported and encouraged by the PRC Government, such as new energy vehicles and energy-saving elevators.

Gross profit and gross profit margin

In FY2019, the gross profit of the Group amounted to RMB115.6 million, representing an increase of RMB8.1 million, or 7.5% compared to RMB107.5 million in FY2018. While the Group's gross profit margin was 28.1% in FY2019, representing an increase of 0.5 percentage points as compared to 27.6% in FY2018. The increase in gross profit and gross profit margin were mainly attributable to the increase in products sales mix from higher margin high-end SNPM products.

Other income and other net gains

The other income and other net gains of the Group in FY2019 amounted to RMB2.8 million, representing a decrease of RMB0.3 million or 8.3% compared to RMB3.1 million in FY2018. The decrease was mainly due to decrease in rental income generated from investment properties which classified as held for sale during FY2019.

Selling and distribution expenses

Selling and distribution expenses amounted to RMB4.5 million and RMB4.4 million in FY2019 and FY2018 respectively. There is no substantial change in the amount of selling and distribution expenses. The net effects of (i) an increase of approximately RMB87,000 in transportation fees as a result of the increase in the overall sales volume of the products and (ii) a decrease of RMB89,000 in salaries and welfare expenses due to the effective cost control of the Group contribute to the stability of selling and distribution expenses. Selling and distribution expenses as a percentage of the revenue remained stable, which was approximately 1.1% in FY2019 (FY2018: approximately 1.1%).

Administrative expenses

The administrative expenses of the Group in FY2019 amounted to RMB44.8 million, representing an increase of RMB7.7 million or 20.8% compared to RMB37.1 million in FY2018. The increase was mainly due to the increase in legal and professional fees for compliance and advisory services by RMB5.2 million in FY2019 as well as increase in donation to charity and directors' emoluments by RMB0.9 million and RMB1.2 million respectively.

Finance costs

The Group recorded RMB3.4 million of finance costs in FY2019 (FY2018: RMB4.7 million). The finance costs represent interest expenses of bank and other borrowings and interest expenses of lease liabilities which is resulted from the new adoption of HKFRS 16 effective from 1 January 2019.

Profit for the year

As a result of the foregoing factors, profit for the year increased by 3.1% from RMB51.0 million in FY2018 to RMB52.6 million in FY2019.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of the shareholders' value. The Company has adopted the code provisions in the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance.

Save for the deviation of code provision A.2.1 of the CG Code as described in the paragraph headed "Chairman and Chief Executive Officer" below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the CG Code during the period under review (i.e. from the Listing Date and up to 31 December 2019) (the "**Period Under Review**").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standards as set out in the Model Code during the Period Under Review and up to the date of this report.

BOARD OF DIRECTORS

The Board is responsible for the overall leadership of the Group, gives direction and makes decisions on the Group's strategies, policies, business plans and financial budget and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. In addition, to oversee particular aspects of the Group's affairs, the Board has established three Board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**"). The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. Further details of the Board committees are set out in this report.

Board Composition

As at the date of this report, the Board consists of five Directors, comprising one executive Director, one non-executive Director and three independent non-executive Directors as set out below:

Executive Director
Mr. Lyu Zhufeng *(Chairman of the Board and Chief Executive Officer)*

Non-executive Director
Mr. Lu Qingxing

Independent Non-executive Directors
Mr. Fan Chun Wah, Andrew, *J.P.*
Mr. Yan Aru
Mr. Lee Ming Tak

Each Director has relevant experience, competence and skills appropriate to the business requirements of the Group. The biographical details of the Directors are set out on pages 42 to 44 of this report. Mr. Lyu Zhufeng is the son of Mr. Lu Qingxing. Save as disclosed above, the Board members do not have any financial, business, family or other material/relevant relationships among themselves.

The Company has received the annual confirmation from each of the independent non-executive Directors on his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all independent non-executive Directors are independent.

Corporate Governance Report

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Each of the non-executive Director and the independent non-executive Directors has entered into a letter of appointment with the Company for an initial fixed term of three years commencing from the Listing Date, which can be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other. Each of such appointments is subject to the rotation and retirement provisions in the articles of association of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. However, Mr. Lyu Zhufeng currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. Besides, with three independent non-executive Directors out of a total of five Directors in the Board, there will be sufficient independent voice within the Board to protect the interests of the Company and the shareholders as a whole. Therefore, the Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman and chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy ("**Board Diversity Policy**") which sets out the objective and approach to achieve and maintain diversity of the Board. The Company continuously seeks to achieve Board diversity through the consideration of a number of factors when selecting the candidates to the Board, including but not limited to gender, age, culture, education background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board.

The Directors have a balanced mix of knowledge and skills, including knowledge and skills in the business of rare earth permanent magnet manufacturing and retail industry, accounting, legal and post-doctoral research. They obtained degrees in various majors including communication engineering, accounting and finance, metal materials and heat treatment and laws. There are three independent non-executive Directors with different industry backgrounds, representing more than one third of the members of the Board. Furthermore, the Board comprises Directors of a wide range of age. The Company will continue to apply the principles of appointments based on merits with reference to the Board Diversity Policy as a whole.

BOARD MEETINGS

Prior to the Listing, the Board had held meetings to approve the matters of the Company, in particular, those relating to the Listing and the global offering. Between the Listing Date and 31 December 2019, the Board held two meetings.

The corporate governance functions are also performed by the Board. The corporate governance functions are to develop and review the Company's policies and practices on corporate governance to comply with the CG Code, to review and monitor the training and continuous professional development of Directors and senior management, to review and monitor the Company's policies and practices on compliance with relevant legal and regulatory requirements, to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors, and to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board intends to hold board meetings regularly at least four times a year. Notices of not less than fourteen days were given for all regular Board meetings held to provide all Directors with an opportunity to attend and propose matters to be discussed in the meeting agenda.

For other Board and Board committee meetings, reasonable notice will generally be given. The agenda and accompanying documents are generally delivered to the Directors or Board committee members seven days before the meetings (and in any event not less than three days) to ensure that they have sufficient time to review the documents and be adequately prepared for the meetings.

When Directors or Board committee members were unable to attend a meeting, they were 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 the Board meetings and Board committee meetings were recorded in sufficient detail to include the matters considered by the Board and the Board committee and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting were sent to the Directors for comments within a reasonable time after the date on which the meeting was held. Board minutes are kept by the company secretary of the Company (the "**Company Secretary**") and are open for inspection by the Directors at any reasonable time on reasonable notice by the Directors. All Board members are entitled to have access to Board papers and related materials and have unrestricted access to the advice and services of the Company Secretary, and have the liberty to seek external and independent professional advice upon reasonable request at the expense of the Company.

GENERAL MEETING

No general meeting has been held by the Company during the Period Under Review.

AUDIT COMMITTEE

The Company established the Audit Committee on 2 April 2019 in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code has been adopted. The primary roles of the Audit Committee include, but not limited to (a) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of the financial statements and annual report and accounts, half-year report and reviewing significant financial reporting judgments contained in them; (c) reviewing the financial controls, internal control and risk management systems. The Audit Committee currently comprises of two independent non-executive Directors and a non-executive Director, namely Mr. Fan Chun Wah, Andrew, *J.P.*, Mr. Yan Aru and Mr. Lu Qingxing. Mr. Fan Chun Wah, Andrew, *J.P.*, is the chairman of the Audit Committee, and he possesses the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

During the Period Under Review and up to the date of this report, the Audit Committee had reviewed the annual report and final results announcement for the year ended 31 December 2019 and the interim report and the interim results announcement for the six months ended 30 June 2019; reviewed the accounting principles and practices adopted by the Group and ensured the compliance with relevant accounting standards, the Listing Rules and other statutory requirements; reviewed the effectiveness of internal control and risk management systems; and had meetings with the auditors to discuss any significant audit issues or key findings noted during the audit of the Group's final results for the year ended 31 December 2019 and the review of the Group's unaudited interim results for the six months ended 30 June 2019.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 2 April 2019 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the CG Code has been adopted. The primary function of the Remuneration Committee include, among other things, making recommendations to the Board on the Company's policy for human resource management as well as establishing and reviewing policies and structure in relation to remuneration for the Directors and senior management. The Remuneration Committee currently comprises of two independent non-executive Directors and a non-executive Director, namely Mr. Yan Aru, Mr. Lee Ming Tak and Mr. Lu Qingxing. Mr. Yan Aru is the chairman of the Remuneration Committee.

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, responsibilities, workload, performance and time devoted to the Group. The Remuneration Committee has adopted the approach under code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on remuneration packages of the Directors and the members of senior management.

No Remuneration Committee's meeting has been held during the Period Under Review.

Up to the date of this report, the Remuneration Committee has discussed, reviewed the performance and gave recommendation to the Board on the remuneration packages for the Directors and senior management of the Company, and offered advice on the same to the Board.

During the process of consideration, no individual Director will be involved in decisions relating to his own remuneration.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 2 April 2019 in compliance with paragraph A.5.1 of the CG Code. Written terms of reference in compliance with paragraph A.5.2 of the CG Code has been adopted. The primary roles of the Nomination Committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy; (b) identifying individuals suitably qualified to become the Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; and (c) assessing the independence of the independent non-executive Directors. The Nomination Committee currently comprises of two independent non-executive Directors and an executive Director, namely Mr. Fan Chun Wah, Andrew, *J.P.*, Mr. Yan Aru and Mr. Lyu Zhufeng. Mr. Lyu Zhufeng is the chairman of the Nomination Committee.

In assessing the Board composition, the Nomination Committee will take into account various aspects set out in the Board Diversity Policy.

No Nomination Committee's meeting has been held during the Period Under Review.

Up to the date of this report, the Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and assessed the independence of independent non-executive Directors.

NOMINATION POLICY

The Nomination Committee may invite nominations of candidates from Board members for its consideration. The Nomination Committee may also put forward candidates who are not nominated by Board members. The factors in assessing the suitability of a proposed candidate for director include:

- reputation for integrity;
- accomplishments in personal careers;
- commitment in respect of available time and relevant interest;
- independence;
- diversity in all its aspects, including but not limited to race, gender, age (18 years or above), educational background, professional experience, skills and length of service;
- qualifications which include professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy; and
- such other perspectives appropriate to the Company's business.

The Nomination Committee shall make recommendations for the Board's consideration and approval.

The attendance of individual members of the Board and other Board committees meetings during the Period Under Review and up to the date of this report is set out below:

	Meetings attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Director				
Mr. Lyu Zhufeng *(Chairman)*	3/3	N/A	N/A	1/1
Non-Executive Director				
Mr. Lu Qingxing	3/3	2/2	1/1	N/A
Independent Non-Executive Directors				
Mr. Fan Chun Wah, Andrew, *J.P.*	3/3	2/2	N/A	1/1
Mr. Yan Aru	3/3	2/2	1/1	1/1
Mr. Lee Ming Tak	2/3	N/A	1/1	N/A

DIVIDEND POLICY

The Company may distribute dividends by way of cash or by other means that it considers appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval.

The Board will review dividend policy from time to time in light of various factors such as the Company's financial results, the shareholders' interests, general business conditions and strategies, the Company's capital requirements, contractual restrictions on the payment of dividends and other factors the Board may deem relevant in determining whether dividends are to be declared and paid.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

Directors must keep abreast of their collective responsibilities. All Directors are aware of their responsibilities to the shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. The Board members attended training sessions on applicable laws and regulations, including the Listing Rules, provided by the Company's legal advisers as to Hong Kong law prior to the Listing. The Company will continue to arrange for external training and updates to be provided by legal advisers engaged by the Company from time to time on the legal and regulatory requirements applicable to the Group's business operations to the Directors, senior management and relevant employees.

SENIOR MANAGEMENT EMOLUMENTS

The remuneration of the senior management of the Company for the year ended 31 December 2019, by band is set out below:

Remuneration Band	Number of individuals
Nil	–
HK$1 to HK$1,000,000	3
	3

SHAREHOLDERS' RIGHTS

Annual General Meetings and Shareholders' Right to Convene and Put Forward Proposals at General Meetings

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held every year within a period not more than fifteen months after the holding of the last preceding annual general meeting and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to article 58 of the articles of association of the Company, any one or more shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholder(s) may at any time send their enquiries and concerns to the Board in writing through the Company Secretary by post to the principal place of business in Hong Kong of the Company, or via email at the contact information as provided on the website of the Company.

The Company Secretary shall forward the shareholder(s)' enquiries and concerns to the Board and/or relevant Board committees, where appropriate, to respond to the shareholder(s)' questions.

CONSTITUTIONAL DOCUMENTS

There has been no change in the articles of association of the Company since the Listing Date and up to date version of the articles of association of the Company is available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing the effectiveness of such systems through the Audit Committee on annual basis. The Audit Committee assists the Board in fulfilling its oversight and corporate roles in the Group's financial, operational, compliance, risk management, internal controls, while senior management designs, implements and monitors the risk management and internal control systems, and provides reports to the Board and the Audit Committee on the effectiveness of these systems. However, systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss and to manage or mitigate rather than eliminate the risk of failure to achieve the Group's business objectives.

The Company has established formal risk assessment criteria for the Group. Senior management identifies risks that potentially impact the key processes of the operations on an annual basis. Risks are scored and ranked by their impact on the business and the likelihood of their occurrence. Senior management assesses the effectiveness of the existing controls and formulates risk mitigating activities. Results of the annual risk assessment are reported to the Audit Committee, including amongst other things, significant risks of the Group and the appropriate control activities to mitigate and/or transfer the identified risks objectives.

INTERNAL AUDIT FUNCTION

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed to safeguard the assets of the Company, ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations and to resolve material internal control defects.

The internal audit department is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's risk management and internal control systems, reporting regularly the review result to the Board through the Audit Committee and making recommendations to the relevant department management for necessary actions. The internal audit department presents report of risk management and internal control to the Audit Committee and the Board at least once a year, so that the Board is able to make judgement about the effectiveness of internal control and risk management.

Up to the date of this report, the Board has reviewed the effectiveness of the Group's risk management and internal control systems. The Board considers that the risk management and internal control systems are effective and adequate for the Group as a whole. The Board further considers that (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group were identified; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for during the year.

The Company has established and maintained procedures and internal controls for the handling and dissemination of inside information. The Company has adopted a code of conduct for dealing in the securities of the Company by the Directors in accordance with Appendix 10 to the Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the Listing Rules will be announced on the respective websites of the Stock Exchange and the Company in due course.

COMPANY SECRETARY

The Company engaged an external professional company secretarial services provider, Uni-1 Corporate Services Limited ("**Uni-1**"), to provide compliance and full range of company secretarial services to the Group in order to assist the Group to cope with the changing regulatory environment and to suit difference commercial needs.

Mr. Tse Kam Fai ("**Mr. Tse**"), the representative of Uni-1, was appointed as the Company Secretary with effect from 7 August 2019. His primary corporate contact person at the Company is Mr. Yip Ngai Hang, chief financial officer of the Company.

For the year ended 31 December 2019, Mr. Tse has undertaken not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the total fees in respect of audit and non-audit services provided by BDO Limited, the auditor of the Company, are set out as follows:

Services rendered	Fee paid/payable *RMB'000*
Annual audit service for the year ended 31 December 2019	924
Audit services for the Listing	4,673
Non-audit service for interim review	408
Total	6,005

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

COMMUNICATION WITH SHAREHOLDERS

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

The Company also endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Monday, 15 June 2020 to answer any questions from shareholders.

The Group's website www.xingyu.cc contains an "Investor Relations" section which offers timely access to the Company's press releases, financial reports and announcements.

The Company will continue to maintain an open and effective investor communication policy and to update investors with relevant information of the Group in a timely manner.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements of the Group and other financial disclosures required under the Listing Rules and the Company's management will provide information and explanation to the Board to enable it to make informed assessments of the financial and other decisions.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the auditor of the Company in respect of its reporting responsibilities on the Company's financial statements for the year ended 31 December 2019 is set out in the "Independent Auditor's Report" on pages 45 to 48 of this report.

The Directors have pleasure in submitting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 31 July 2017 and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 28 March 2018. Pursuant to the completion of the group reorganisation as detailed in the section headed "History and Corporate Structure" in the prospectus of the Company dated 30 April 2019 ("**Prospectus**"), the Company became the holding company of the companies now comprising the Group on 15 March 2018.

The shares of the Company (the "**Shares**") were listed on the Main Board of the Stock Exchange since 16 May 2019 (the "**Listing Date**").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are production and sales of sintered NdFeB magnetic materials, also known as neodymium magnet.

BUSINESS REVIEW

A fair review of the Group's business, a description of principal risks and uncertainties (if any), an indication of likely future development in the Group's business and details of key performance indicators are set out in the sections headed "Management Discussion and Analysis", "Environmental, Social and Governance Report", "Other Information" and "Financial Summary" of this report respectively. These discussions form part of this Directors' report. Save as disclosed in note 40 to the consolidated financial statements, there are no significant events that have an effect on the Group subsequent to the year ended 31 December 2019.

RESULTS

The results of the Group for the year ended 31 December 2019 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 49 to 103 of this report.

FINANCIAL SUMMARY

A summary of the financial results and of the assets and liabilities of the Group for the four years ended 31 December 2019 is set out on pages 107 to 108 of this report.

DIVIDENDS

The Directors does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Monday, 15 June 2020 (the "**2020 AGM**"), the register of members of the Company will be closed from Wednesday, 10 June 2020 to Monday, 15 June 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2020 AGM, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 9 June 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 15 to the consolidated financial statements.

In preparation for the Listing, the Group's property interests located in the PRC as at 28 February 2019 have been valued by an independent property valuer and the amount of such valuation of the properties is RMB89.2 million. The revaluation surplus has not been recorded in the consolidated financial statements of the Group as the Group's property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. If the revaluation surplus were recorded in the Group's consolidated financial statements, additional deprecation of approximately RMB0.5 million would be charged against the consolidated statement of profit or loss and other comprehensive income.

BORROWINGS

Particulars of the borrowings of the Group as at the end of the financial year are set out in note 27 to the consolidated financial statements.

SHARE CAPITAL

As at 31 December 2019, the Company's issued share capital was HK$50,000,000 and the number of its issued ordinary Shares was 500,000,000 of HK$0.1 each.

Details of the movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

RESERVES

Profit attributable to equity shareholders, (before dividends, if any) of RMB52,550,000 (2018: RMB50,990,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity in this report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had reserves amounted to approximately RMB95.4 million (2018: approximately RMB58.9 million) available for distribution as calculated based on the Company's share premium, exchange reserves and accumulated losses under applicable provisions of the Companies Law in the Cayman Islands. Details of the movements in the reserves of the Company are set out in note 30 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2019, the Group made charitable donations amounting to approximately RMB880,000 (2018: RMB10,000).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Shares was listed on the Main Board of the Stock Exchange since 16 May 2019. During the Period Under Review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

TAX RELIEF AND EXEMPTION

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Director

Mr. Lyu Zhufeng *(Chairman of the Board and Chief Executive Officer)*

Non-executive Director

Mr. Lu Qingxing

Independent Non-executive Directors

Mr. Fan Chun Wah, Andrew, *J.P.*	(appointed on 2 April 2019)
Mr. Yan Aru	(appointed on 2 April 2019)
Mr. Lee Ming Tak	(appointed on 2 April 2019)

Details of the Directors' biographies are set out in the section headed "Board of Directors and Senior Management" in this report.

Pursuant to article 84(1) of the Company's articles of association, Mr. Lyu Zhufeng shall retire from office by rotation at the 2020 AGM and, being eligible, offer himself for re-election.

Pursuant to article 83(3) of the Company's articles of association, Mr. Fan Chun Wah, Andrew, *J.P.*, Mr. Yan Aru and Mr. Lee Ming Tak shall retire from office as Directors at the 2020 AGM and, being eligible, offer themselves for re-election.

The executive Director has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date, which can be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for an initial fixed term of three years commencing from the Listing Date, which can be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other.

Each Directors are subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to the articles of association of the Company.

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

Directors' Report

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance (as defined in the Listing Rules) to which the Company or any of its subsidiaries is or was a party, and in which a Director or an entity connected with a Director, or the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries, is or was materially interested, either directly or indirectly, subsisted at 31 December 2019 or at any time during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed at 31 December 2019 or at any time during the year ended 31 December 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme" below, at no time during the year ended 31 December 2019 and up to the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The Directors are not aware of any business or interest of the Directors nor the Controlling Shareholders nor any of their respective close associates that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

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

Save for the above, at no time during the year ended 31 December 2019 and up to the date of this report, there was any permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) being in force for the benefit of any of the Directors (whether made by the Company or otherwise) or any of the directors of an associated company (if made by the Company).

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 12 to the consolidated financial statements. The Remuneration Committee will review and recommend the Board the remuneration and compensation packages of the Directors and senior management with reference to their respective experience, responsibilities, workload, performance, and time devoted to the Group and the overall performance of the Group.

The Directors and senior management may also be granted options under the share option scheme of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2019, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("**SFO**")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code are set out below:

Name of Director	Capacity	Long Position/ Short Position	Number of Shares/ underlying shares held/ interested in	Approximate percentage of the issued share capital of the Company
Mr. Lu Qingxing	Interest in a controlled corporation *(Note 1)*	Long Position	210,000,000	42.0%
	Interests held jointly with another person *(Note 1)*	Long Position	90,000,000	18.0%
Mr. Lyu Zhufeng	Interest in a controlled corporation *(Note 2)*	Long Position	90,000,000	18.0%
	Interests held jointly with another person *(Note 2)*	Long Position	210,000,000	42.0%

Notes:

1. Mr. Lu Qingxing owns the entire issued share capital of Star Lv Limited ("**Star Lv**"), which in turns hold 210,000,000 Shares. By virtue of the SFO, Mr. Lu Qingxing is deemed to be interested in such Shares held by Star Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv Limited ("**Wind Lv**"), entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their Shares. As such, Mr. Lu Qingxing is deemed to be interested in the 90,000,000 Shares which are held by Wind Lv (which is in turn held as to 100% by Mr. Lyu Zhufeng).

2. Mr. Lyu Zhufeng owns the entire issued share capital of Wind Lv, which in turns hold 90,000,000 Shares. By virtue of the SFO, Mr. Lyu Zhufeng is deemed to be interested in such Shares held by Wind Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their Shares. As such, Mr. Lyu Zhufeng is deemed to be interested in the 210,000,000 Shares which are held by Star Lv (which is in turn held as to 100% by Mr. Lu Qingxing).

Save as disclosed above, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2019.

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

As at 31 December 2019, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that other than the interests of the Directors and the chief executives of the Company, the following Shareholders had notified the Company of relevant interests or short position in Shares and underlying shares of Company as follows:

Name of Shareholder	Capacity	Long position/ Short position	Number of Shares/ underlying shares held/ interested in	Approximate percentage of the issued share capital of the Company
Star Lv	Beneficial Owner *(Note 1)*	Long position	210,000,000	42.0%
	Interests held jointly with another person *(Note 1)*	Long position	90,000,000	18.0%
Wind Lv	Beneficial Owner *(Note 2)*	Long position	90,000,000	18.0%
	Interests held jointly with another person *(Note 2)*	Long position	210,000,000	42.0%
Many Idea Limited ("**Many Idea**")	Beneficial Owner *(Note 3)*	Long position	30,000,00	6.0%
Mr. Liu Jianhui	Interest in a controlled corporation *(Note 3)*	Long position	30,000,00	6.0%
Ms. Yao Jingjing	Interest of Spouse *(Note 4)*	Long position	300,000,000	60.0%

Notes:

1. Star Lv is wholly-owned by Mr. Lu Qingxing. By virtue of the SFO, Mr. Lu Qingxing is deemed to be interested in such Shares held by Star Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their Shares. As such, Star Lv is deemed to be interested in the 90,000,000 Shares which are held by Wind Lv (which is in turn held as to 100% by Mr. Lyu Zhufeng).

2. Wind Lv is wholly-owned by Mr. Lyu Zhufeng. By virtue of the SFO, Mr. Lyu Zhufeng is deemed to be interested in such Shares held by Wind Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their Shares. As such, Wind Lv is deemed to be interested in the 210,000,000 Shares which are held by Star Lv (which is in turn held as to 100% by Mr. Lu Qingxing).

3. Many Idea is wholly-owned by Mr. Liu Jianhui. By virtue of the SFO, Mr. Liu Jianhui is deemed to be interested in such Shares held by Many Idea.

4. Ms. Yao Jingjing is the spouse of Mr. Lyu Zhufeng. Therefore, under the SFO, Ms. Yao Jingjing is deemed to be interested in the Shares in which Mr. Lyu Zhufeng is interested in.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the Shares or underlying shares of the Company as at 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases attributable to the Group's major customers and suppliers respectively during the year ended 31 December 2019 are as follows:

	2019	2018
As a percentage of the Group's total sale		
The largest customer	**8.1%**	7.7%
Five largest customers in aggregate	**26.1%**	24.6%
As a percentage of Group's total purchases		
The largest supplier	**30.1%**	25.6%
Five largest suppliers in aggregate	**96.2%**	93.8%

None of the Directors or any of their close associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers during the year ended 31 December 2019.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "**Share Option Scheme**") pursuant to the resolution of the then shareholders passed on 2 April 2019.

Summary of the principal terms of the Share Option Scheme are as follow:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined below) an opportunity to have a personal stake in the Company and help motivate them to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

(b) Participant of the Share Option Scheme

The Board may, at its absolute discretion, offer share options to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(i) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("**Executive**"), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group ("**Employee**");

(ii) a director or proposed director (including an independent non-executive director) of any member of the Group;

(iii) a direct or indirect shareholder of any member of the Group;

(iv) a supplier of goods or services to any member of the Group;

(v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(vi) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(vii) an associate of any of the persons referred to in paragraphs (i) to (vi) above (the person referred above are the "**Eligible Persons**").

(c) Subscription price of Shares

The subscription price in respect of any particular share option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant share option (and shall be stated in the letter containing the offer of the grant of the share option) but the subscription price shall not be less than whichever is the highest of: (i) the nominal value of a Share; (ii) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (iii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

(d) Grant of share options and acceptance of offers

An offer of the grant of a share option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of a share option may be accepted after the expiry of the effective period of the Share Option Scheme. A share option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the share option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of a share option must be accepted by the relevant Eligible Person, being a date no later than 28 days after the offer date.

(e) Maximum number of Shares available for issue

The total number of Shares available for issue under the Share Option Scheme is 50,000,000 Shares, representing 10% of the Shares in issue as at the date of this report.

(f) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of share options granted to any participant (including both exercised and outstanding share options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

(g) Time of exercise of option

Unless otherwise determined by the Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of a share option before it can be exercised.

(h) Remaining life of the Share Option Scheme

The Share Option Scheme is valid and effective for a period of 10 years from 16 May 2019, being the date on which it becomes unconditional.

No options had been granted or agreed to be granted under the Share Option Scheme since its adoption. The Company did not have any outstanding share options, warrants and instruments convertible into shares as at 31 December 2019 and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the public float as required under the Listing Rules throughout the Period Under Review and has continued to maintain such float as at the date of this report.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2019, the Group had not entered into any transactions which constitute connected transactions or continuing connected transactions under the Listing Rules (2018: Nil).

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the Group had entered into certain related party transactions but these transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules. Details of these related party transactions are disclosed in note 36 to the consolidated financial statements.

RETIREMENT AND PENSION SCHEMES

The Group participates in certain defined contribution retirement schemes which cover all the Group's eligible employees in the PRC, and a Mandatory Provident Fund scheme for the employees in Hong Kong.

AUDITOR

There has been no change in auditor since the Listing Date. The financial statements for the year ended 31 December 2019 have been audited by BDO Limited, who will retire, being eligible, offer themselves for reappointment at the 2020 AGM. A resolution will be proposed at the 2020 AGM to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Lyu Zhufeng
Chairman of the Board, Chief Executive Officer and Executive Director

Hong Kong, 23 March 2020

Environmental, Social and Governance Report

The Company is pleased to present the Environmental, Social and Governance ("**ESG**") Report ("**ESG Report**") for the year ended 31 December 2019. The Company is committed to undertaking corporate social responsibility ("**CSR**") and considers CSR as a long-term worthy commitment. The Company is also committed to incorporating the concept of sustainable development into its business operations and management processes to better achieve an all-win situation and comprehensive development for the economy, society and the environment. This report covers the financial year ended 31 December 2019 and discloses the Company's CSR approach, strategy, priorities and objectives.

This report has been reviewed and approved by the board (the "**Board**") of directors (the "**Directors**") of the Company which has the overall responsibility for reviewing and monitoring corporate governance practices and ESG strategy across the Group. The Board maintains regular communication with management with regard to the effectiveness of the Group's execution of CSR.

REPORT SCOPE

This report covers the business of the Company and its subsidiaries (collectively, the "**Group**") in the PRC, namely the production and sale of sintered NdFeB magnetic materials.

REPORTING FRAMEWORK

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") under Appendix 27 to the Listing Rules of the Stock Exchange of Hong Kong Limited and has complied with the "comply or explain"provisions of the ESG Reporting Guide.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures being taken during the financial year ended 31 December 2019 (the "**Reporting Period**").

STAKEHOLDERS ENGAGEMENT

Stakeholder engagement plays a core role in the sustainability of the Group. The Group recognises the mechanism for ongoing communications established with stakeholders to understand and respond to stakeholders' concerns. The Group has established different communication channels with key stakeholders to report regularly to stakeholders on the Group's strategic planning and performance on sustainable development, and to consult the opinions and concerns of all stakeholders, so that the Group's business practices can meet their expectations. The Group will consider the expectations of different stakeholders and, through mutual cooperation, enable the Group to continuously improve its performance and create greater value for the community.

The Group's stakeholders include employees, government and regulatory authorities, customers, suppliers or subcontractors, community, shareholders, institutions and individual investors and media. The Group will communicate with stakeholders on different topics through different communication channels. The Group's communication channels with the key stakeholders, as well as their expectations are as follows:

Stakeholder	Communication Channel	Expectations
Employees	Training activities Team building activities Regular performance assessment Company internal notices and communications	Career development Health and safety Remuneration and benefits Working environment
Government and regulatory authorities	Meetings and visits Reports and submissions made according to regulatory requirements	Compliance with the laws and regulations Fulfill tax reporting and payment obligation Business ethics
Customers	Customer activities Satisfaction questionnaire Telephone and face-to-face meetings	Safe and high-quality products Business integrity and ethics Stable relationship
Suppliers or subcontractors	Meetings On-site inspection Regular assessment Exchanges and mutual visits	Stable demand Business ethics and reputation Cooperation with mutual benefits
Community	Community activities Community investment and fundraising activities	Economic development Community contribution Environmental protection
Shareholders, institutions and individual investors	General meetings and notices Annual and interim reports, announcements and circulars Company website	Information disclosure and transparency Return on investment Corporate governance system
Media	Press release and announcements Annual and interim reports Company website	Communication with media Transparent information

MATERIALITY ASSESSMENT

Through stakeholder engagement processes based on the aforementioned channels, the Group has conducted a comprehensive materiality assessment with its stakeholder groups to identify corresponding ESG issues and assess the materiality to the Group's operations. The following outlines the procedures of the assessment:

Identification of Potential ESG Issues

Initial screening of related issues with reference to the ESG Reporting Guide and benchmarking against material ESG issues of comparable peers

Stakeholder Evaluation

Internal and external stakeholders have been invited to provide rating and comments to each ESG issue through formal and informal meetings

Prioritisation

The results from issues identification and stakeholder evaluation have been consolidated and considered to generate the ESG materiality risks

Validation

The Group's management has validated and confirmed the relevant material ESG issues, and how they link to the respective aspects and KPIs of the ESG Reporting Guide

A materiality assessment matrix is plotted to present the results:

Importance to Stakeholders \ Importance to the Group	Low	Medium	High
High		Staff Development and Training Employee Remuneration and Benefits Prevention of Bribery, Blackmail, Fraud and Money Laundering	Product Quality Inspection Customer Satisfaction Supplier Quality Management Occupational Health and Safety Health and Safety related to Products
Medium	Community Investment	Anti-corruption Mechanism Greenhouse Gas ("**GHG**") Emissions Electricity Consumption Water Consumption	Customer Information and Privacy Sewage Management Exhaust Gas Emissions Impacts on the Environment and Natural Resources
Low	Prevention of Child and Forced Labour	Waste Recycling and Reuse Waste Management Use of Packaging Materials	Advertising and Labelling of Products

A. ENVIRONMENTAL

A1. Emission

The Group adheres to the strategy of sustainable development in its operations. In terms of environmental protection, since the introduction of the ISO14001 environmental management system in 2012, the Group has been implementing the "Marvelous Quality, Permanent Magnet" policy, with the aim to reducing energy consumption and GHG emissions, as well as exploring operating methods that will create less harm to the environment. The Group values the importance of good environmental management, and strive to protect the environment so to implement the social responsibility of the Group.

During the year ended 31 December 2019 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding emissions including air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. The management of the Group always looks for ways to improve emission reduction and believes any outputs from its production processes can be reused/recycled to a certain extent as inputs in other production processes.

Air pollutants emissions

	2019 ***metric tons***	2018 *metric tons*
SO2 emission	**0.0031**	0.0027
Nitrogen oxides emission	**0.0021**	0.0016
Ammoniac nitrogen emission	**0.0043**	0.0040
Particulate matter ("**PM**")	**0.78**	0.69

GHG Emissions

The major sources of the Group's GHG emissions comes from energy consumption during production processes. The Group has actively adopted the following measures for the purpose of reducing GHG emissions during operation:

- Increasing the usage of low sulphur content fuel and unleaded fuel;
- Performing regular check and maintenance on vehicles and machineries to enhance engine performance and efficient fuel consumption;
- Installing particle trap system for vehicles and machineries;
- Actively adopting environmental protection, energy conservation and water conservation measures. The corresponding measures are described in the sections "Energy Management" and "Water Resource Management" of Aspect A2; and
- Actively adopting measures to reduce paper use in office. The corresponding measures are described in the section "Waste Management" of this section.

Through these GHG emission reduction measures, employees' awareness of reducing GHG emissions has been raised.

GHG emissions data of the Group

	2019 *metric tons*	2018 *metric tons*
CO2e (Scope 1)		
Combustion of petrol for motor vehicles	**64.82**	48.44
CO2e (Scope 2)		
Purchased electricity	**2,138.60**	2,846.78
CO2e (Scope 3)		
Business air travel	**41.63**	47.62
Total GHG	**2,245.05**	2,942.84
Intersity (metric tons/million RMB revenue)	**5.09**	7.55

Wastewater Management

The Group will discharge wastewater during daily operation process, and only a small amount of wastewater will be discharged during operation. The wastewater generated from office will directly discharge into municipal pipelines. The wastewater generated in the production processes is redirected to the wastewater treatment station through drainpipe for centralized treatment. The Group recycles some sewage from production and reuse after treatment and install flushing system with sensor in the washroom.

Waste Management

The Group adheres to the principle of waste management, and is committed to properly handling and disposing all waste generated by its business activities. All of the Group's waste management practices comply with relevant environmental laws and regulations.

Non-hazardous Waste

For non-hazardous waste, the waste generated by the Group is mainly the paper waste from office operation for administrative purposes and sales material.

The Group requires all departments and employees that generate solid wastes to take measures in collecting and storing solid wastes. Each department should clearly label the containers or designate locations used to collect solid waste. Solid recyclable wastes will be collected for centralized storing and recycling upon reaching a certain amount; while non-recyclable production and household garbage will be collected daily by qualified contractor for processing.

The Group has implemented the following measures to enhance paper efficiency, and thereby reducing carbon footprint and the impact on the environment:

- Reminding employees to take sensible measures when photocopying;
- Encouraging employees to use both sides of the paper;
- Separating paper from other wastes for recycling; and
- Placing a carton and a paper tray next to the photocopier to collect single-sided paper for recycling.

The Group also promotes reduction knowledge sharing with employees through bulletin boards, company newsletters and postings so to raise the awareness of environmental protection. Through the above waste reduction measures, employees' awareness of waste reduction has increased.

Hazardous Waste

Since the Group has tried to reduce and avoid using hazardous materials such as cleaning and polishing chemicals or production methods that will produce hazardous wastes and qualified contractors are engaged to handle hazardous waste. Therefore, the Group did not generate significant amount of hazardous wastes during the Reporting Period.

	2019		2018	
	metric tons	***Intensity (metric tons/ million RMB revenue)***	*metric tons*	*Intensity (metric tons/ million RMB revenue)*
Wastes				
Solid wastes (Hazardous)	**8.98**	**0.02**	7.70	0.02
Solid wastes (Non-hazardous)	**533.65**	**1.30**	503.98	1.29

With implementation of the measures above, the Group believes the objectives of reducing energy consumption, GHG emission, wastewater and non-hazardous and hazardous waste generation can be achieved.

A2. Use of Resources

The Group has policies in place to pursue energy conservation and improvement of resource utilisation rate vigorously.

The management of the Group always looks for ways to improve energy conservation and resource utilisation rate as the management of the Group believes improvement of energy conservation or resource utilisation rate can lead to the increase in production efficiency and in turn an increase in the gross profit margin.

Energy Management

In line with the concept of energy conservation, the Group is committed to the integrated transformation of the energy-saving system to promote low-carbon recycle and pollution reduction in environmental protection facilities with the aim to reduce unnecessary energy consumption and improve energy efficiency. During daily production operation, the Group's major energy consumption is power consumption for production of NdFeB magnetic materials. The Group has established guidelines to promote the efficient use of equipment. The relevant measures are specified as follows:

Lighting equipment

- Encouraging employees to use natural light for daily operations, and enhance the maintenance of lighting equipment; and
- Promoting and increasing the use of energy-efficient lighting fixtures e.g. energy-saving lamps and bulbs.

Production equipment

- Promoting and increasing the use of energy-saving production facilities and equipment;
- Conducting regular inspection to minimize energy consumption; and
- Requiring employees to turn off all production equipment when production ceases to prevent excessive power consumption.

Air-conditioning equipment

- Restricting use of air conditioners according to seasonal and temperature changes; and
- Requiring employees to turn off air-conditioning before leaving the office;

The Group's energy consumption intensity has decreased by approximately 28.8% from about 10.38 MWh per million RMB revenue in 2018 to about 7.39 MWh per million RMB revenue in 2019. The Group's energy consumption performances are summarized as follows:

Electricity	2019	2018
Total consumption (MWh)	**3,040**	4,047
Intensity (MWh/million RMB revenue)	**7.39**	10.38

Water Resources Management

The Group's use of water resources mainly comprises of water used for hydrogen decrepitation in production and domestic purposes. The Group does not heavily rely on the use of water resources, and the consumption of domestic water has a limited impact on the Group.

Water	2019	2018
Total consumption (Cubic metres)	**41,941**	78,132
Intensity (Cubic metres/number of staff)	**181.56**	293.73

To further reduce and reuse water resources and with the aim to promote efficient water resources management, the Group actively advocates the Group's employees to develop the concept of water conservation. The Group has formulated the following water conservation measures:

- Conducting regular inspection on water equipment, pipelines, valves, etc within the plant and office, and immediately inform the maintenance department to carry out repairs when damage or water leakage is found and reduce unnecessary water consumption;
- Posting water-saving tips at the prominent area to remind employees to build a good habit to cherish water usage; and
- Recycling of industrial water as much as possible;

Considering the production model and geographic locations of the Group's factories and offices, the Group does not have any issue relating to accessing water sources. During the Reporting Period, the Group also complied with relevant government regulations regarding sewage discharge.

Use of Packaging Materials

The Group's major products are sintered NdFeB magnetic materials. The major packaging materials are poly velvet, cartons and plastic materials. The Group is committed to reducing secondary pollution caused by excessive use of packaging materials. The condition of consumption of packaging materials and the respective intensity are as follows:

Type of packaging materials	2019		2018	
	Total consumption *tonnes*	**Intensity *(tonnes/million RMB revenue)***	Total consumption *tonnes*	Intensity *(tonnes/million RMB revenue)*
Foam boxes	**57.86**	**0.14**	11.91	0.03
Cartons	**57.45**	**0.14**	86.64	0.22
Plastic bags	**33.27**	**0.08**	29.64	0.08
Plastic pads	**10.90**	**0.03**	16.00	0.04
Other packaging materials	**11.01**	**0.03**	18.04	0.05

It is expected that the amount of packaging material per unit utilized will be maintained in a similar level in the future.

A3. The Environment and Natural Resources

As a NdFeB magnetic material manufacturer and supplier, the Group understands that the improper handling of production materials and waste could potentially lead to contamination of the surrounding environment. Therefore, the Group has adopted policies to pursue the minimisation of the Group's impact on the environment and natural resources and integrated the concept of environmental protection into its daily operations and internal management. The relevant policies include:

- Establishing internal environmental management team which monitors and supervises its production procedure to ensure strict compliance with relevant environmental laws and regulations;

- Adopting waste treatment policies to ensure all wastes are properly handled before discharge;

- Encouraging suppliers and subcontractors to adopt eco-friendly policies and measures during the procurement and production process

On the other hand, the major GHG generated from the Group's production cycle is particulate matter. The Group has laid down procedures to ensure strict compliance with relevant laws and regulations and to mitigate unnecessary GHG emission. Energy conservation and environmental sustainability is one of the Group's fundamental policies as the Group is aware of the potential threat brought about by climate change, such as extreme weather conditions which includes flooding and typhoons.

Apart from the measures and policies above, the Group has adopted other measures to optimize GHG emission and resource consumption. During the Reporting Period, the Group has implemented monthly monitoring of the usage of electricity and water. Monthly consumption reports will be produced in order to detect unusual high consumption on electricity and water, and corresponding measures will be taken.

B. SOCIAL

B1. Employment

Key performance indicators	2019 Number of employees	2019 Turnover rate (%)	2018 Number of employees	2018 Turnover rate (%)
Total number of employees	**231**	**14.3%**	266	24.4%
Total number of male employees	**138**	**13.0%**	173	21.4%
Total number of female employees	**93**	**16.1%**	93	30.1%
Total number of employees	**231**	**14.3%**	266	24.4%
Total number of full-time employees	**231**	**14.3%**	266	24.4%
Total number of part-time employees	**0**	**n/a**	0	n/a
Total number of employees	**231**	**14.3%**	266	24.4%
Within the age group of 18–35	**129**	**15.5%**	138	23.2%
Within the age group of 36–55	**92**	**13.0%**	118	24.6%
Within the age group of >55	**10**	**10%**	10	40%

The Group has policies in place covering employee compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. To the best knowledge of the Directors, during the year ended 31 December 2019 and up to the date of this report, the Directors are not aware of any non-compliance with relevant employment laws and regulations.

The Group is an equal opportunity employer and recruits employees from the open market. Its employment policy is based on individual merits, suitability to the relevant job requirements, and fairness. The Group prohibits discrimination against potential candidates in the recruitment process on account of their race, colour, religion, sex and gender identity/sexual orientation, age, marital and parental status, and/or pregnancy or medical conditions.

The Group values its employees and offers competitive packages to attract and retain qualified employees by providing competitive remuneration and pension, career advancement opportunity, and various benefits in kind. Salaries are reviewed and adjusted regularly based on technical requirements and skills level of the position, performance appraisals and the market trend.

The Group has adopted the Share Option Scheme to, among others, (i) recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) attract suitable personnel for further development of the Group.

The resting time of the Group's employees is also well respected and the employees are entitled to paid holidays pursuant to statutory requirements or otherwise under their respective employment contracts. There is a computerised attendance registration system in place to continuously monitor the working hours of the employees.

B2. Health and Safety

The Group has policies in place to ensure a safe working environment and protect employees from occupational hazards. To the best knowledge of the Directors, during the year ended 31 December 2019 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations in terms of providing a safe working environment and protecting employees from occupational hazards.

In terms of corporate operation and occupational safety and health management, the Group obtained and passed the Quality Management System Certification (IATF16949), Occupational Health and Safety Management System Certification(OHSAS18001) recognised by international organization, and has provided a healthy, safe and stable working environment. In addition, the Group also regularly reviews its working procedures. The Group provides personal protective equipment and implements appropriate administrative controls, for instance, safety work procedure manual are provided to employees. The Group also regularly identifies, evaluates and ensures minimum hazardous exposures to employees to e.g. physical demanding tasks such as heavy manual material handling and lifting. The Group also anticipates, identifies and assesses potential emergency situations and events regularly. To minimize their impact, emergency plans and response procedures such as emergency reporting, employee notifications, evacuation processes, drills and recovery plans are established and implemented.

The Group provides training to its employees as to safe working environment and safe production in order to raise their awareness and cautiousness. The Group arranges workshops for management staff to receive multi-dimensional safety know-how trainings and learn skills such as first aid, use of fire-fighting equipment and emergency escape to enhance safety awareness of basic staff. The Group's employees are also trained on a regular basis to be vigilant and ready to react to emergencies in a timely and calm manner so as to reduce any disruption that could affect its business.

Key performance indicators	2019	2018
Number of work-related fatalities	**0**	0
Rate of work-related fatalities (as a% of total employees)	**0**	0
Lost days due to work injury	**0**	0

During the Reporting Period, the Group did not record any accidents that resulted in death or serious physical injury, and no claims or compensation were paid to its employees due to such accident. The Group was not aware of any material non-compliance of laws and regulations in relation to health and safety of employees.

In addition, the Group has adopted the following measures to protect employees' occupational health and safety:

- Providing staff with pre-job safety training and on-job special safety production operation training from time to time;
- Conducting regular safety inspection on machinery and equipment;
- Implementing physical examination of employees with occupational disease hazards, requiring employees to wear protective equipment as required by relevant laws and regulations, and conducting spot checks; and
- Purchasing accident insurance to ensure occupational safety of staff.

B3. Development and Training

The Group has policies in place to ensure that comprehensive trainings are provided to employees on a regular basis. The Group fully understands the importance of provision of training to its employees and how it creates value to the Group in the long run. Considering its employees to be indispensable to the Group's business achievements, apart from safety related training as mentioned above, the Group also provides both internal and external training programs to its employees regularly with a view to enhancing their work quality and personal development.

Training for newly hired employees:

- Training and assessment is provided based on the "Training Schedule for Newly hired Employee," where employees are required to pass the assessment before working;
- Training at the workshop prior to taking up a new role;
- Training is provided during probation; and
- Training is carried out for those workers who required special operation skills in accordance with the "Operation Manual for the qualification of the Special Position Operators".

Training for existing employees:

- Training relating to product features, product requirements and manufacturing process is provided to all employees of relevant manufacturing departments before the production of new products;
- Develop and implement annual training plans with contents relating to environmental and social protection, product quality, human resources policies and regulations; and
- Training regarding the usage of special equipment and manufacturing process.

Key performance indicators	2019	2018
Total number of employees received training	**231**	255
Total number of male employees received training	**138**	165
Total number of female employees received training	**93**	90
Total number of senior management received training	**9**	8
Total number of middle management received training	**18**	19
Total number of the rest of staffs received training	**204**	205
Average training hours for male employee	**118**	130
Average training hours for female employee	**60**	67
Average training hours for senior management	**14**	13
Average training hours for middle management	**20**	22
Average training hours for the rest of staffs	**144**	162

B4. Labour Standards

The Group has policies in place to prevent child and forced labour from working within the Group. During the year ended 31 December 2019 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations in terms of hiring and having child and forced labour work within the Group.

The Group has rigorous recruitment procedures and guidelines which set out the basic requirements of each posts, including the education background, age, probation period, promotion path etc. Each job applicant would be required to fill in his/her information on a recruitment questionnaire, which would then be checked and verified by the Group's human resources department to ensure the accuracy of the information provided and to ensure the Group's compliance of relevant laws and regulations in terms of hiring child and forced labour, working permission etc. Such exercise enables the Group to hire suitable candidates in accordance with the job requirements.

B5. Supply Chain Management

The Group has policies in place to manage the environmental and social risks of the supply chain of the Group. The Group implements a set of strict procedures as to suppliers selection, subcontractors selection and timing of procurement for raw materials to effectively monitor procurement procedures, maintain cost control, increase procurement management transparency, while putting forward the requirements of environment and social risks control to suppliers.

To ensure the Group's product quality, its raw materials and products procurement policy is to select only those suppliers on an approved list who have passed the Group's quality control tests and have a satisfactory record of quality and on-time delivery. The Group also practises ethical procurement and targets to source raw materials from socially responsible suppliers. To achieve this, all personnel with supply chain management responsibilities are trained to ensure, to the extent practicable, that selected suppliers are legally compliant in respect of materials and products provided to the Group. Conformity by suppliers with the relevant industrial standards and ethical business norms in their supply of materials and products to the Group is one of the supplier selection criteria that the Group takes into account. Suppliers' fulfilment of the environment, health and safety requirements of the Group are relevant factors which will be taken into account by the Group in its supplier selection process.

Apart from continuously monitoring the quality of products and materials, the Group will also review suppliers' environmental and social responsibility-related practices annually through, for example, site inspections and interviews. The Group's management will review the procurement process and may source materials/products from alternative suppliers when a supplier has been identified by the Group to have deficient environmental and social responsibility practices and has not made any improvement upon request.

The Group will consider to terminate suppliers or subcontractors who create pollution or cause social harm, or have created significant environmental or social incidents. Through the above review, the Group can ensure the quality of the materials supplied, while also reducing the potential environmental and social risks in the supply chain.

Key performance indicators	2019	2018
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) in PRC	**12**	13
Number of suppliers (i.e. major suppliers with annual procurement amount of more than RMB1 million) overseas	**0**	0

B6. Product Responsibility

The Group has a policies regarding product responsibility in place to cover issues like product safety, advertising, labeling, privacy etc. To the best knowledge of the Directors, during the year ended 31 December 2019 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations relating to product responsibility issues. There was no product recall by the Group and the Group had not received any significant complaint against its products.

Quality Management

To ensure that the highest quality products are provided to customers, the Group has developed a stringent quality control system covering supplier selection, material testing, production process control, product factory inspection, after-sales service, product quality tracking and other processes.

In addition, the Group has established and implemented a number of systems and mechanisms to ensure products of the Group are meeting relevant requirements, including the quality inspection mechanism of first inspection, self-inspection; line inspection, cross inspection and final inspection; the abnormal reporting and correction system. The Group has a professional team which is responsible for quality management through strict product quality training assessment in order to enhance employee's responsibility on product quality and safety, as well as the awareness on quality control.

The Group has also established a product tracing system to enable retrieval of details about the responsible production workers of its products and the relevant batch of raw materials. This facilitates identification of production issues when there are defective products. The system also ensures successful recall and effective disposal of unqualified products.

Customer Service

The Group has in place a customer complaints handling and control procedure to deal with customer complaints and product return matters, so as to fulfill customers' requirements on product quality and services, and enable communication with customers and problem handling in a timely and effective manner. In the meantime, by addressing specific customer complaints, the Group constantly refines its internal management and customer service model, and endeavors to provide customers with quality products and services.

Customer Data Protection

The Group recognizes the importance of customer data protection. The Group requires its staff to comply with the Group's internal rules and regulations on information protection and handle and store customer-related information with prudence and care. The Group has also implemented various computer controls to protect customer information in its computer systems. Such internal control measures are reviewed on a regular basis to ensure their effectiveness. The Group has established a data backup procedure and a regular test and inspection program for backup data. The Group also signs confidentiality and non-competition agreements with employees.

Protection of intellectual property rights

The participation of all employees is required in order to effectively protect the intangible assets of the Group. The Group actively carries out relevant training and presentations to raise employees' awareness of intellectual property protection, and the Group will introduce the existing intellectual property rights and management methods in the induction training for new employees. To safeguard the confidentiality of products under development and related product information, The Group has policies in place to give clear guidelines for handling different intellectual property rights and patented proprietary information, such as design and production technologies for either developed or developing projects.

Advertising and Labelling

Due to the business nature of the Group, the Group only conducts limited publicity activities. Therefore, the business operations of the Group do not involve advertising and label related matters.

B7. Anti-corruption

The Group has a policies in place to prohibit wrongdoing involving of bribery, extortion, fraud and money laundering. To the best knowledge of the Directors, during the year ended 31 December 2019 and up to the date of this report, the Directors are not aware of any non-compliance with relevant laws and regulations regarding anti-corruption and prevention of bribery, extortion, fraud and money laundering.

The Group's management coordinates and directs anti-corruption work, including conducting training on anti-corruption laws and regulations and business ethics for employees, evaluating corruption risks, formulate code of conduct and setting up corresponding control procedures. The Group implements a code of conduct that requires all Directors and employees of the Group to adhere a high standard of integrity, avoiding situations with conflicts of interest, assets misappropriation and making appropriate declarations/reporting to the Directors when appropriate. In particular, employees are not allowed to receive any benefits, gifts or any improper advantage during business contacts with suppliers, subcontractors and customers.

The Group has established a confidential whistle-blowing system whereby employees, customers, suppliers, subcontractors and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Group, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Group's internal audit department is responsible for overseeing the conduct of investigations and making recommendations in response to the complaints and reports.

B8. Community Investment

The Group has policies in place as to community engagement where the Group has been working closely with the local government in providing assistance to the local community. The Group proactively participate in community service activities and encourage its employees to dedicate their time and skills to supporting the community.

In 2019, the Group donated a total of approximately RMB880,000 (2018: approximately RMB10,000).

INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas	Aspects	KPI & Disclosure	Description	Section
A. Environmental	A1: Emissions	General Disclosure	Information on air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Emission
		A1.1	The types of emissions and respective emissions data	Emission
		A1.2	Total greenhouse gas emissions and intensity	GHG emissions data of the Group
		A1.3	Total hazardous waste produced and intensity	Hazardous Waste
		A1.4	Total non-hazardous waste produced and intensity	Non-hazardous Waste
		A1.5	Description of measures to mitigate emissions and results achieved	Emission
		A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Hazardous Waste
	A2: Use of Resources	General Disclosure	Policies on the effective use of resources, including energy, water and other raw materials	Use of Resources
		A2.1	Total direct and/or indirect energy consumption by type and intensity	Energy Management
		A2.2	Total water consumption and intensity	Water Resources Management
		A2.3	Description of energy use efficiency initiatives and results achieved	Energy Management
		A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water Resources Management
		A2.5	Total packaging material used for finished products and with reference to per unit produced	Use of Packaging Materials

Subject Areas	Aspects	KPI & Disclosure	Description	Section
	A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing significant impact on the environment and natural resources	The Environment and Natural Resources
		A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	The Environment and Natural Resources
B. Social	B1: Employment	General Disclosure	Information on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Employment
		B1.1	Total workforce by gender, employment type, age group and geographical region	Employment
		B1.2	Employee turnover rate by gender, age group and geographical region	Employment
	B2: Health and Safety	General Disclosure	Information on providing a safe working environment and protecting employees from occupational hazards: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Health and Safety
		B2.1	Number and rate of work-related fatalities	Health and Safety
		B2.2	Lost days due to work injury	Health and Safety
		B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety
	B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Development and Training
		B3.1	The percentage of employees trained by gender and employee category	Development and Training
		B3.2	The average training hours completed per employee by gender and employee category	Development and Training

Subject Areas	Aspects	KPI & Disclosure	Description	Section
	B4: Labour Standards	General Disclosure	Information on prevention of child and forced labour: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Labour Standards
		B4.1	Description of measures to review employment practices to avoid child and forced labour	Labour Standards
		B4.2	Description of steps taken to eliminate such practices when discovered	Labour Standards
	B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain	Supply Chain Management
		B5.1	Number of suppliers by geographical region	Supply Chain Management
		B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply Chain Management
	B6: Product Responsibility	General Disclosure	Information on health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Product Responsibility
		B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Product Responsibility
		B6.2	Number of products and service related complaints received and how they are dealt with	Product Responsibility
		B6.3	Description of practices relating to observing and protecting intellectual property rights	Protection of intellectual property rights
		B6.4	Description of quality assurance process and recall procedures	Quality Management
		B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Customer Data Protection

Subject Areas	Aspects	KPI & Disclosure	Description	Section
	B7: Anti-corruption	General Disclosure	Information on prevention of bribery, extortion, fraud and money laundering: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	Anti-corruption
	B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the Group operates and to ensure its activities take into consideration the communities' interests	Community Investment

Board of Directors and Senior Management

Biographies of each member of the board of directors and senior management team of the Company are set out below:

EXECUTIVE DIRECTOR

Mr. Lyu Zhufeng ("**Mr. Lyu**"), aged 35, was appointed as the director of the Company on 31 July 2017 and is the executive Director, chairman and chief executive officer of the Company. Mr. Lyu is also the chairman of the Nomination Committee of the Company. Mr. Lyu is primarily responsible for the overall operations, strategic management, business development, and formulating the Group's business operations plans. He graduated from Xiamen University (廈門大學) in July 2006 with a bachelor degree in Communication Engineering (通信工程).

Mr. Lyu has over 11 years of experience in the rare earth permanent magnet manufacturing and retail industry. In the earlier period of his career, Mr. Lyu worked as a technician at Xiamen Overseas Chinese Electronics Co., Ltd. (廈門華僑電子股份有限公司) from July 2006 to July 2008, a company then principally engaged in the manufacturing of electronic products and the shares of which are listed on the Shanghai Stock Exchange (stock code: 600870). He was appointed as the assistant general manager of Mindong Hongyu Metallurgical Spare Parts Co., Ltd. (閩東宏宇冶金備件有限公司), a company established in the PRC principally engaged in the processing and sales of metallurgical machinery parts, non-ferrous metal structure, and the sales of metallurgical raw materials, building materials and automobile parts, from July 2008 to August 2009. Mr. Lyu joined the Group as the general manager in August 2009 and was appointed as the vice chairman of Ningde Xingyu Technology Co., Ltd. (寧德市星宇科技有限公司), a wholly-owned subsidiary of the Company, in March 2013.

Mr. Lyu is the son of Mr. Lu Qingxing, the non-executive Director. He is also a director of Wind Lv Limited, a company has disclosable interests in the shares of the Company under the provisions 2 and 3 of Part XV of the SFO.

NON-EXECUTIVE DIRECTOR

Mr. Lu Qingxing ("**Mr. Lu**"), aged 60, is a founder of the Group. He was appointed as the non-executive Director on 2 March 2018. Mr. Lu is also a member of the Audit Committee and Remuneration Committee. Mr. Lu is primarily responsible for participating in strategic planning and advising in significant decision-making of the Group. He graduated from Shouning Nanyang Middle School (壽寧縣南陽中學) in July 1978.

Mr. Lu has accumulated more than 22 years of experience in enterprise management and has been acting as the chairman of Ningde Xingyu Technology Co., Ltd. (寧德市星宇科技有限公司), a wholly-owned subsidiaries of the Company, when it was first established in 2002. He was the general manager of Mindong Hongyu Metallurgical Spare Parts Co., Ltd. (閩東宏宇冶金備件有限公司) from December 1996 to August 2008, a company established in the PRC principally engaged in the processing and sales of metallurgical machinery parts, non-ferrous metal structure, and the sales of metallurgical raw materials, building materials and automobile parts.

Mr. Lu is the father of Mr. Lyu Zhufeng, the executive Director, chairman and chief executive officer of the Company. He is also a director of Star Lv Limited, a company has disclosable interests in the shares of the Company under the provisions 2 and 3 of Part XV of the SFO.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fan Chun Wah Andrew *J.P.* ("**Mr. Fan**"), aged 41, was appointed as an independent non-executive Director on 2 April 2019. Mr. Fan is a chairman of the Audit Committee and a member of the Nomination Committee. Mr. Fan is a practicing certified public accountant in Hong Kong with over 14 years of experience. He holds a Bachelor Degree of Business Administration (Accounting and Finance) from The University of Hong Kong and a Bachelor Degree in Laws from the University of London. Mr. Fan is a member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a committee member of the tenth to twelfth Chinese People's Political Consultative Conference of the Zhejiang Province, the fourth and fifth Chinese People's Political Consultative Conference of Shenzhen and the Tenth Vice Chairman of Zhejiang Province United Young Association.

Mr. Fan is currently an independent non-executive director of Fulum Group Holdings Limited (stock code: 1443), Culturecom Holdings Limited (stock code: 343), Sinomax Group Limited (stock code: 1418), Chuang's China Investments Limited (stock code: 0298), Space Group Holdings Limited (stock code: 2448) and Nameson Holdings Limited (stock code: 1982), all of which are companies listed on the Main Board of the Stock Exchange. Mr. Fan is also currently an independent non-executive director of Omnibridge Holdings Limited (stock code: 8462) and CNC Holdings Limited (stock code: 8356), the shares of both companies are listed on GEM of the Stock Exchange. Mr. Fan had been an independent non-executive director of LT Commercial Real Estate Limited (now known as Lerthai Group Limited) (stock code: 0112) from March 2013 to December 2016 and Hong Kong Resources Holdings Limited (stock code: 2882) from July 2015 to May 2017, the shares of both companies are listed on the Main Board of the Stock Exchange, and Sanbase Corporation Limited (stock code: 8501) from December 2017 to January 2020 and On Real International Holdings Limited (stock code: 8245) from September 2015 to August 2016, the shares of which are listed on GEM of the Stock Exchange.

Mr. Yan Aru ("**Mr. Yan**"), aged 48, was appointed as an independent non-executive Director on 2 April 2019. He is also the chairman of the Remuneration Committee, and a member of the Audit Committee and Nomination Committee. Mr. Yan graduated with a bachelor degree in Metal Materials and Heat Treatment (金屬材料與熱處理) from Shanxi Institute of Machinery (陝西機械學院) (currently known as Xi'an University of Technology (西安理工大學)) in July 1993. He then obtained a doctoral degree in Metal Materials and Heat Treatment (金屬材料及熱處理) from Xi'an Jiaotong University (西安交通大學) in June 1998. Subsequent to his obtaining of the doctoral degree, Mr. Yan worked as a postdoctoral researcher in condensed matter physics of the Institute of Physics of The Chinese Academy of Sciences (中國科學院物理研究所凝聚態物理學科) from August 1998 to July 2000. He then worked as a visiting scholar at Dresden Institute for Solid State and Materials Research of Germany (德國德累斯頓固體與材料研究所) from September 2000 to July 2005. Since August 2006, Mr. Yan has been serving in the rare-earth magnetic function materials laboratory (稀土磁性功能材料實驗室) at the Ningbo Institution of Materials Technology and Engineering of the Chinese Academy of Science (中國科學院寧波材料技術與工程研究所).

Mr. Yan has been appointed as an independent director of Shenghe Resources Holding Co., Ltd (盛和資源控股股份有限公司), a company which shares are listed on Shanghai Stock Exchange (stock code: 600392) since 27 April 2016.

Mr. Lee Ming Tak ("**Mr. Lee**"), aged 47, was appointed as an independent non-executive Director on 2 April 2019. He is also a member of the Remuneration Committee. Mr. Lee graduated from University of California, United States with the degree of bachelor of Arts with a major in History in June 1996 and University of London with a bachelor degree in Laws through a distance learning programme in August 2005. He then obtained a postgraduate certificate in Laws from the University of Hong Kong in June 2006. Mr. Lee has over nine years of professional experience in legal practice in Hong Kong. Mr. Lee worked as a trainee solicitor in Laracy & Co. (now known as Hill Dickinson Hong Kong) from June 2009 to June 2011 and was an associate in Laracy & Co. from April 2012 to June 2016. He was qualified as a solicitor in Hong Kong in February 2012 and has been a partner of Lee & Yik Lawyers since July 2016.

SENIOR MANAGEMENT

Mr. Wang Yuping ("**Mr. Wang**"), aged 57, is the chief engineer of the Group since 2017. Mr. Wang is mainly responsible for patent research and development projects of the Group and the improvement of production processes and technologies. Mr. Wang has more than 30 years of experience in the research and development of sintered NdFeB magnetic material and the improvement of production processes. Mr. Wang served as the chief engineer at Ningbo Ketian Magnet Co., Ltd (寧波科田磁業有限公司) from 2006 to 2017. From 2003 to 2006, he was the chief engineer and general manager of Baotou Yunsheng Magnetic Materials Co., Ltd. (包頭韻升強磁材料有限公司). From 1997 to 2003, he served as the chief engineer of Ningbo Yunsheng Strong Magnetic Material Co., Ltd. (寧波韻升強磁材料有限公司) and is responsible for the company's product, technology development, quality system control and the formulation and implementation of key research and development projects. Mr. Wang was granted the qualification of professor level senior engineer by the Department of Human Resources and Social Security of Zhejiang Province (浙江省人力資源和社會保障廳) in December 2016. Mr. Wang graduated from the Department of Physics and Materials, Lanzhou University with a bachelor of science degree in 1987.

Mr. YIP Ngai Hang ("**Mr. Yip**"), aged 42, is the chief financial officer of the Group. Mr. Yip is primarily responsible for the overall financial management of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999. Mr. Yip is a member of the Hong Kong Institute of Certified Public Accountants and the member of the Association of Chartered Certified Accountants of the United Kingdom and has over 20 years of experience in the field of accounting, auditing and company secretarial services. He joined the Group in October 2019.

Mr. Liu Long ("**Mr. Liu**"), aged 33, is the manager of quality control department of the Group and is primarily responsible for the overall management of production quality control of the Group. Mr. Liu joined the quality control department of the Group in January 2011, and was promoted to the deputy head of the quality control department in January 2012, to the head of the same department in January 2015, and was re-designated as the manager of quality control department in January 2018. Mr. Liu received a bachelor degree in metallurgical engineering (冶金工程) from Jiangxi University of Science and Technology (江西理工大學) in July 2011. Mr. Liu was qualified as a junior assistant engineer of metallurgical engineering (冶金工程) in September 2016. Mr. Liu has more than eight years of experience in quality control in the Group.

COMPANY SECRETARY

Mr. Tse Kam Fai ("**Mr. Tse**"), aged 56, was appointed as the Company Secretary on 7 August 2019. Mr. Tse is a fellow member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) and The Hong Kong Institute of Chartered Secretaries. He is also a member of The Hong Kong Institute of Directors. Mr. Tse is currently the company secretary of several companies listed on the Main Board and the GEM of the Stock Exchange. He is also an executive director of a local professional firm providing regulatory compliance, corporate governance and corporate secretarial services to listed and unlisted corporations. Mr. Tse has more than 25 years' experience in handling listed company secretarial and compliance related matters.

TO THE MEMBERS OF UNIVERSAL STAR (HOLDINGS) LIMITED

(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Universal Star (Holdings) Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 49 to 103, which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 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 judgment, 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.

IMPAIRMENT ASSESSMENT OF TRADE RECEIVABLES

Refer to summary of significant accounting policies in Note 4, critical accounting estimates and judgements in Note 5 and disclosure of trade receivables in Note 20 to the consolidated financial statements.

As at 31 December 2019, the Group had net trade receivables amounting to approximately RMB89,114,000, after making loss allowance of approximately RMB1,174,000. It represented approximately 19.3% of the total assets of the Group and is considered quantitatively significant to the Group.

The Group's loss allowance is measured at an amount equal to lifetime expected credit loss ("**ECL**") based on management's estimated loss rates for each category of trade receivables. The estimated loss rates take into account the aging of the trade receivables, overdue balances, information regarding the ability and intent of the debtor to pay historical data on default rates.

We have identified impairment assessment of trade receivables as a key audit matter due to considerable amount of judgement and estimates being required in conducting impairment assessment as mentioned in the forgoing paragraph.

IMPAIRMENT ASSESSMENT OF TRADE RECEIVABLES *(Continued)*

Our response

- Our procedures in relation to management's impairment assessment on trade receivables included the following:
- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the calculation of the ECL;
- assessing the trade receivables ageing report by group based on shared credit risk characteristics and the days past due by comparing the details of individual items with underlying invoices on a sample basis;
- comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances as at 31 December 2019 with bank statements and relevant underlying documentation on a sample basis; and
- obtaining an understanding of the basis of management's approach to measuring ECLs of trade receivable balances and assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rate are appropriately adjusted based on current economic conditions and forward-looking information.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

- 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.

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

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants

Wan Che Bun
Practising Certificate no. P05804

Hong Kong, 23 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	6	**411,454**	389,722
Cost of sales		**(295,889)**	(282,267)
Gross profit		**115,565**	107,455
Other income and other net gains	7	**2,845**	3,102
Selling and distribution expenses		**(4,479)**	(4,403)
Administrative expenses		**(44,790)**	(37,066)
Expected credit loss on financial assets		**(349)**	(184)
Finance costs	8	**(3,407)**	(4,728)
Profit before income tax expense	9	**65,385**	64,176
Income tax expense	10	**(12,835)**	(13,186)
Profit for the year		**52,550**	50,990
Other comprehensive income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of operation outside the People's Republic of China ("**PRC**")		**955**	(298)
Items that will not be reclassified subsequently to profit or loss:			
Equity investment at fair value through other comprehensive income:			
— Net movement in fair value reserve		**–**	2,597
— Transferred from deferred tax liabilities		**–**	3,352
Other comprehensive income for the year	11	**955**	5,651
Total comprehensive income for the year		**53,505**	56,641
Earnings per share			
Basic and diluted	14	**RMB11.6 fen**	RMB13.6 fen

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**118,085**	117,316
Investment properties	16	**–**	15,119
Prepaid land lease payments	17	**–**	13,009
Prepayments	18	**17,223**	628
		135,308	146,072
Current assets			
Inventories	19	**38,617**	35,379
Trade receivables	20	**89,114**	81,369
Deposits, prepayments and other receivables	21	**934**	4,648
Tax recoverable		**–**	5,343
Cash and cash equivalents	22	**180,046**	56,071
		308,711	182,810
Non-current assets classified as held for sale	23	**16,519**	–
		325,230	182,810
Current liabilities			
Trade payables	24	**23,091**	31,612
Accruals and other payables	25	**46,233**	11,828
Lease liabilities	26	**216**	–
Income tax payable		**1,875**	–
Borrowings	27	**26,000**	73,888
		97,415	117,328
Net current assets		**227,815**	65,482
Total assets less current liabilities		**363,123**	211,554
Non-current liabilities			
Deferred tax liabilities	28	**8,906**	5,725
		8,906	5,725
Net assets		**354,217**	205,829
EQUITY			
Share capital and reserves			
Share capital	29	**43,024**	–*
Reserves	30	**311,193**	205,829
Total equity		**354,217**	205,829

* The amount is less than RMB1,000

The consolidated financial statements on pages 49 to 103 were approved and authorised for issue by the Board of Directors on 23 March 2020 and are signed on its behalf by:

Lyu Zhufeng
Director

Lu Qingxing
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

		Reserves							
	Share capital	**Share premium***	**Other reserves***	**Statutory reserves***	**Fair value reserves***	**Exchange reserves***	**Retained profits***	**Total reserves**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note a)	*(Note b)*	*(Note c)*	*(Note d)*			
At 1 January 2018	–**	–	220	13,886	25,146	279	46,525	86,056	86,056
Profit for the year	–	–	–	–	–	–	50,990	50,990	50,990
Other comprehensive income for the year	–	–	–	–	5,949	(298)	–	5,651	5,651
Total comprehensive income for the year	–	–	–	–	5,949	(298)	50,990	56,641	56,641
Appropriation to statutory reserves	–	–	–	8,852	–	–	(8,852)	–	–
Issue of shares	–**	63,132	–	–	–	–	–	63,132	63,132
Transfer within equity upon disposal of equity investment at FVOCI	–	–	–	–	(31,095)	–	31,095	–	–
At 31 December 2018 as originally presented	–**	63,132	220	22,738	–	(19)	119,758	205,829	205,829
Initial application of HKFRS 16 *(note 2(a)(i))*	–	–	–	–	–	–	(25)	(25)	(25)
Restated balances at 1 January 2019	**–****	**63,132**	**220**	**22,738**	**–**	**(19)**	**119,733**	**205,804**	**205,804**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**52,550**	**52,550**	**52,550**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**955**	**–**	**955**	**955**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**955**	**52,550**	**53,505**	**53,505**
Appropriation to statutory reserves	**–**	**–**	**–**	**7,157**	**–**	**–**	**(7,157)**	**–**	**–**
Shares issued pursuant to the capitalisation *(note 29(e))*	**32,086**	**(32,086)**	**–**	**–**	**–**	**–**	**–**	**(32,086)**	**–**
Shares issued pursuant to the public offering and placing *(note 29(f))*	**10,938**	**98,667**	**–**	**–**	**–**	**–**	**–**	**98,667**	**109,605**
Transactions cost attributable to the public offering and placing *(note29(f))*	**–**	**(14,697)**	**–**	**–**	**–**	**–**	**–**	**(14,697)**	**(14,697)**
At 31 December 2019	**43,024**	**115,016**	**220**	**29,895**	**–**	**936**	**165,126**	**311,193**	**354,217**

* The total of these amounts as at the reporting dates represents "Reserves" in the consolidated statement of financial position.

** The amount is less than RMB1,000.

Notes:

(a) Other reserves represented the aggregate of the paid up capital.

(b) Statutory reserves represented the amount transferred from net profit for the year of the subsidiaries established in the PRC (based on the subsidiaries PRC statutory financial statements) in accordance with the relevant PRC laws until the statutory reserves reach 50% of the registered capital of the subsidiaries. The statutory reserves cannot be reduced except either in setting off the accumulated losses or increasing capital.

(c) Fair value reserves represented the cumulative net change in the fair value of financial assets at fair value through other comprehensive income held at the end of each reporting period.

(d) Exchange reserves comprises all relevant translation differences arising from the translation of the financial statements of operations with functional currency other than RMB.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
Cash flows from operating activities			
Profit before income tax expense		**65,385**	64,176
Adjustments for:			
Depreciation of property, plant and equipment		**11,441**	9,816
Depreciation of investment properties		**888**	1,147
Expected credit loss on financial assets		**349**	184
Amortisation of prepaid land lease payments		**–**	298
Bank interest income		**(342)**	(95)
Finance costs		**3,407**	4,728
Gain on disposal of property, plant and equipment		**–**	(12)
Operating profit before working capital changes		**81,128**	80,242
Increase in inventories		**(3,238)**	(2,433)
Increase in trade receivables		**(8,094)**	(18,062)
Decrease/(increase) in deposits, prepayments and other receivables		**3,761**	(1,676)
(Decrease)/increase in trade payables		**(8,521)**	4,420
Decrease in accruals and other payables		**(5,157)**	(9,894)
Cash generated from operations		**59,879**	52,597
Income tax paid		**(2,436)**	(31,413)
Net cash generated from operating activities		**57,443**	21,184
Cash flows from investing activities			
Purchase of property, plant and equipment		**(434)**	(3,179)
Prepayments for property, plant and equipment		**(16,642)**	(510)
Proceeds from disposal of property, plant and equipment		**–**	25
Temporary receipts from non-current assets classified as held for sale		**40,000**	–
Proceeds from disposal of financial assets			
at fair value through other comprehensive income		**–**	59,512
Interest income received		**342**	95
Net cash generated from investing activities		**23,266**	55,943
Cash flows from financing activities			
Proceeds from borrowings		**42,800**	110,929
Repayment of borrowings		**(90,664)**	(125,450)
Payment of lease liabilities		**(896)**	–
Advance from shareholders		**–**	438
Repayment to shareholders		**(438)**	(113,790)
Interest paid for borrowings		**(3,375)**	(4,692)
Proceeds from issuance of shares		**–**	63,132
Shares issued pursuant to the public offering and placing		**109,605**	–
Transaction costs attributable to the public offering and placing		**(14,697)**	–
Net cash generated from/(used in) financing activities		**42,335**	(69,433)
Net increase in cash and cash equivalents		**123,044**	7,694
Cash and cash equivalents at beginning of the year		**56,071**	48,377
Effect of foreign exchange rate changes		**931**	–
Cash and cash equivalents at end of the year	22	**180,046**	56,071

1. GENERAL INFORMATION

Universal Star (Holdings) Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies Laws Chapter 22 of the Cayman Islands. The Company was listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 May 2019. The address of Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal place of business is located at the People's Republic of China (the "**PRC**").

The principal activity of the Company is investment holding. The principal activities of the Group are production and sales of sintered NdFeB magnetic materials, also known as neodymium magnet.

At the date of this report, in the opinion of the directors of the Company (the "**Directors**"), the Company's immediate and ultimate holding company is Star Lv Limited, a company incorporated in the British Virgin Islands ("**BVI**") with limited liability.

The consolidated financial statements for the year ended 31 December 2019 were approved for issue by the board of directors on 23 March 2020.

2. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

The Group has applied for the first time the following new and revised standards and interpretation ("**new and revised HKFRSs**") issued by the HKICPA which are effective for the Group's financial year beginning on or after 1 January 2019.

HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
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 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

2. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(i) Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16")

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("**HKAS 17**"), 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. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	1 January 2019 *RMB'000*
Statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	14,061
Lease liabilities (current)	1,076
Net reduction in retained profits	(25)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities	1 January 2019 *RMB'000*
Operating lease commitment as of 31 December 2018	1,301
Less: short term leases for which lease terms end within 31 December 2019	(99)
Less: leases of low-value assets	(66)
Less: future interest expenses	(60)
Total lease liabilities as of 1 January 2019	1,076
The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019	6.0%

2. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(iii) Accounting as a lessee *(Continued)*

Lease liabilities

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(iv) Accounting as a lessor

The Group has leased out its investment properties to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these consolidated financial statements.

2. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

(vi) Amounts recognised in the statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets presented in property, plant and equipment, investment properties and lease liabilities and the movements during the year are set out below:

	Right-of-use assets *RMB'000*	Lease liabilities *RMB'000*
As at 1 January 2019	14,061	1,076
Depreciation expense	(1,078)	–
Interest expense	–	32
Payments	–	(896)
Classified as held for sale	(760)	–
Exchange differences	3	4
As at 31 December 2019	**12,226**	**216**

2. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(b) New standards, interpretations and amendments not yet effective

The Group has not early applied the following new and revised HKFRSs and interpretations that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Except as described below, the directors do not anticipate that the application of the new and revised HKFRSs will have material impact on the Group's financial statements and/or the disclosures to the Group's consolidated financial statements.

Amendments to HKFRS 3 — Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 — Definition of Material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

3. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the financial statements is the historical cost basis. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company and certain of its subsidiaries is Hong Kong dollars ("**HK$**"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in RMB, unless otherwise stated.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and other factors, actual results may ultimately different from those estimates. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("**the Group**"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Company and other parties who hold voting rights;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes as described below, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their costs net of estimated residual values over their estimated useful lives on straight-line method. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	3–5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment property over its estimated useful life and after taking into account its estimated residual value, using the straight-line method. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

The useful lives are 20 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(f) A. Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at depreciated cost.

The Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) A. Leasing (accounting policies applied from 1 January 2019) *(Continued)*

Accounting as a lessor

The Group has leased out its investment property to a number of tenants. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

B. Leasing (accounting policies applied until 31 December 2018)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(g) Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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 market place.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial Instruments *(Continued)*

(i) Financial assets *(Continued)*

Debt instruments

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

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("**FVTPL**"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial Instruments *(Continued)*

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("**ECL**") on trade and other receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial Instruments *(Continued)*

(iii) Financial liabilities *(Continued)*

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 acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and 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

Financial liabilities at amortised cost including trade payables, other payables and borrowings, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial Instruments *(Continued)*

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(h) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer, net of expected goods of returns, discounts and sales related taxes. Revenue is recognised when performance obligation is satisfied.

(i) Sale of goods

The Group is principally engaged in the manufacture and sale of sintered NdFeB magnetic materials (finished products and rough cast products).

Customers obtain control of the sintered NdFeB magnetic materials when the goods are delivered to customers. Revenue is thus recognised upon when the customers accepted the sintered NdFeB magnetic materials. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the Group no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods in question. There is only one performance obligation of the contracts with customers which is the goods are delivered to customers and this performance obligation is satisfied at a point of time. Invoices are generally payable within 90 days to 120 days.

Incremental cost of obtaining a contract is capitalized if the Group expects to recover those cost, unless the amortization period for such costs would be one year or less. Costs that will be incurred regardless of whether the contract is obtained are expensed as they are incurred.

The Group presents a contract liability or a contract asset in its consolidated statement of financial position when either party to the contract has performed. The Group performs by transferring goods or services to the customer, and the customer performs by paying consideration to the Group. Any unconditional rights to consideration are presented separately as "Trade receivables".

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Revenue recognition *(Continued)*

(i) Sale of goods *(Continued)*

Goods sold by the Group include warranties which require the Group to either replace or mend a defective product during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with HKFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets. Based on historical data, the Group does not recognise the provision of contract consideration for this warranty.

(ii) Other income

Interest income from financial assets is accrued on a time basis, by reference on the principal outstanding and at the applicable interest rate.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(l) Research and development costs

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

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

(m) Foreign currency translation

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Foreign currency translation *(Continued)*

The functional currencies of the Company and certain subsidiaries are currencies other than the RMB. The assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of each reporting period, and their income and expense items are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of an operation with functional currency other than RMB, the component of other comprehensive income relating to that particular operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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 profits will be available to allow all or part of the asset benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

(o) Employee benefits

(i) Defined contribution retirement plan

Pursuant to the relevant regulations of the PRC government, the Group participates in a central pension scheme operated by the local municipal government (the "**Scheme**"), whereby the subsidiary of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. No forfeited contribution is available to reduce the contribution payable in future years.

(ii) Short-term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of other assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment/investment property under cost model;
- interests in leasehold land held for own use under operating leases; and
- investments in subsidiaries.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Government grant

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are deducted in reporting the related expense or recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted the grant in calculating the carrying amount of the asset that is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense. An unconditional government grant is recognised in profit or loss as other revenue when the grant becomes receivable.

(r) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

For the purposes of assessing segment performance and allocating resources between segments, the directors assess segment profit or loss by gross profit or loss as measured in HKFRS financial statements.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined by reference to the country where the majority of the Company's subsidiaries operate.

(s) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 the employees of 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 key management personnel of the entity (or of a parent of the entity).

(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 Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Our key sources of estimation uncertainty are as follows:

(i) Depreciation and amortisation

The Group depreciates the property, plant and equipment and investment properties and amortises prepaid land lease payments in accordance with the accounting policies stated in Notes 4(c), 4(d) and 4(e) respectively. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets. The management reassesses the estimated useful lives at the end of reporting period.

(ii) Impairment of trade and other receivables

The impairment allowances for trade and other receivables are based on assumptions about risk of default and expected credit loss rates. The Group adjusts judgement in making these assumption and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at the end of reporting period.

(iii) Estimates of current tax and deferred tax

Significant judgment is required in determining the amount of the provision for tax and the timing of payment of the related tax. Where the final tax outcomes are different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination is made.

(iv) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. 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 of cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(v) Fair value measurement

The fair value measurement of the Group's financial assets at fair value utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "**fair value hierarchy**"):

— Level 1: Quoted prices in active markets for identical items (unadjusted);

— Level 2: Observable direct or indirect inputs other than Level 1 inputs;

— Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

6. REVENUE AND SEGMENT REPORTING

The executive Directors of the Company have been identified as the chief operating decision-makers of the Group ("**CODM**") who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the production and sales of sintered NdFeB magnetic materials. The CODM assess performance of the operation based on a measure of operating results and consider the operation in a single operating segment. Information reported to the CODM for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment — production and sales of sintered NdFeB magnetic materials (finished products and rough cast products).

(i) Information about major customers

No individual external customers accounted for 10% or more of the Group's revenue for each of the years ended 31 December 2019 and 2018.

(ii) Geographical information

All external revenue of the Group during the year was attributable to customers established in the PRC, the place of domicile of the Group's operating entities.

The Group's non-current assets are all located in the PRC.

6. REVENUE AND SEGMENT REPORTING *(Continued)*

(iii) Disaggregation of revenue

All the Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by primary geographical markets, major products and timing of revenue recognition.

	2019 RMB'000	2018 RMB'000
Primary geographical markets		
The PRC	**411,454**	383,230
Asia (exclusive of the PRC)	**–**	5,271
Europe	**–**	1,221
	411,454	389,722
Major products		
Finished products	**330,277**	292,184
Rough cast products	**81,177**	97,538
	411,454	389,722
Timing of revenue recognition		
Product transferred at a point in time	**411,454**	389,722

7. OTHER INCOME AND OTHER NET GAINS

	2019 RMB'000	2018 RMB'000
Bank interest income	**342**	95
Exchange losses, net	**(305)**	(28)
Government grants *(Note)*	**972**	889
Rental income generated from investment properties	**1,644**	2,128
Gain on disposal of property, plant and equipment	**–**	12
Others	**192**	6
	2,845	3,102

Note: Government grants mainly comprised of subsidy related to the Group's innovation projects and award for industrial development. There are no unfulfilled conditions or contingencies attaching to these grants.

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest charge on borrowings	**3,375**	4,728
Interest on lease liabilities	**32**	–
	3,407	4,728

9. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging the following:

	2019	2018
	RMB'000	*RMB'000*
Auditors' remuneration	**1,332**	20
Amortisation of prepaid land lease payments	**–**	298
Cost of inventories recognised as expenses	**295,889**	282,267
Research and development expenditure	**13,971**	14,594
Expected credit loss on financial assets *(Note 39 (b))*	**349**	184
Depreciation charge:		
— Owned property, plant and equipment	**10,390**	9,816
— Right-of-use-assets included within *(note i)*:		
— Land and buildings	**1,051**	–
— Investment properties	**27**	–
Depreciation of investment properties	**861**	1,147
Operating lease charges in respect of:		
— Rented premises	**–**	706
— Motor vehicles	**–**	19
Short-term leases expenses	**179**	–
Low-value assets leases expenses	**10**	–
Direct operating expenses arising from investment properties that generated rental income	**48**	–
Listing expenses	**7,523**	7,939
Staff costs (including Directors' emoluments — Note 12):		
— Salaries, wages and other benefits	**19,752**	16,618
— Retirement scheme contribution	**2,101**	2,310
	21,853	18,928

Note:

(i) The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. See note 2(a).

10. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax		
Tax for the current year	**10,991**	9,974
Overprovision in prior year	**(1,337)**	–
Deferred tax *(Note 28)*		
Charged to profit or loss for the year	**3,181**	3,212
	12,835	13,186

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

Under the PRC Corporate Income Tax Law (the "**CIT Law**"), which became effective on 1 January 2008, the Group's PRC entities are subject to income tax at a rate of 25%, unless otherwise specified. One of the Group's subsidiaries, Ningde Xingyu Technology Co., Ltd. ("**Xingyu Technology**") is eligible to a preferential income tax rate of 15% as a High New Technology Enterprise from 2018 to 2020 and was thus entitled to a preferential tax rate of 15% from 2018 to 2020.

The income tax expense for the year can be reconciled to the profit before income tax expense per the consolidated statements of profit or loss and other comprehensive income as follows:

	2019	2018
	RMB'000	*RMB'000*
Profit before income tax expense	**65,385**	64,176
Tax calculated at the rates applicable to profits in the tax jurisdictions concerned	**16,346**	16,044
Tax rate differentials	**1,391**	93
Tax effect of expenses not deductible for tax purposes	**2,833**	1,191
Tax effect of income not taxable for tax purpose	**(28)**	–
Effect attributable to the additional tax deduction at preferential tax rate	**(9,551)**	(7,354)
Deferred tax on undistributed earnings of PRC subsidiaries	**3,181**	3,212
Overprovision in prior year	**(1,337)**	–
	12,835	13,186

In addition to the amount charged to the other comprehensive income, deferred tax of RMB458,000 relating to the change in fair value and disposal gains of the financial assets for the year ended 31 December 2018, which has been charged to other comprehensive income.

11. OTHER COMPREHENSIVE INCOME

	Before-tax amount RMB'000	Tax effect RMB'000	Net-of-tax amount RMB'000
Year ended 31 December 2019			
Exchange differences on translation of operations outside the PRC	**955**	**–**	**955**
Other comprehensive income	**955**	**–**	**955**

	Before-tax amount RMB'000	Tax effect RMB'000	Net-of-tax amount RMB'000
Year ended 31 December 2018			
Equity investment at fair value through other comprehensive income:			
— net movement in fair value reserve	3,055	(458)	2,597
— transferred from deferred tax liabilities	3,352	–	3,352
Exchange differences on translation of operations outside the PRC	(298)	–	(298)
Other comprehensive income	6,109	(458)	5,651

12. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

	Fees RMB'000	Salaries, allowance and benefits-in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2019					
Executive director					
Mr. Lyu Zhufeng	**395**	**626**	**84**	**33**	**1,138**
Non-executive director					
Mr. Lu Qingxing	**236**	**127**	**14**	**16**	**393**
Independent non-executive directors					
Mr. Fan Chun Wah, Andrew, J.P. (appointed on 2 April 2019)	**197**	**–**	**17**	**–**	**214**
Mr. Yan Aru (appointed on 2 April 2019)	**79**	**–**	**–**	**–**	**79**
Mr. Lee Ming Tak (appointed on 2 April 2019)	**103**	**–**	**8**	**–**	**111**
	1,010	**753**	**123**	**49**	**1,935**

12. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' emoluments *(Continued)*

	Fees	Salaries, allowance and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018					
Executive director					
Mr. Lyu Zhufeng	–	542	41	35	618
Non-executive director					
Mr. Lu Qingxing					
(appointed on 2 March 2018)	–	56	4	8	68
	–	598	45	43	686

(b) The five highest paid individuals

The five highest paid individuals of the Group during the years are analysed as follows:

	2019	2018
	Number of individuals	*Number of individuals*
Directors	**2**	1
Non-directors, the highest paid individual	**3**	4
	5	5

Details of the emoluments of the above non-directors, the highest paid individual during the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
	RMB'000	*RMB'000*
Salaries and other emoluments	**1,040**	1,164
Discretionary bonuses	**104**	52
Retirement scheme contribution	**70**	121
	1,214	1,337

12. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) The five highest paid individuals *(Continued)*

The number of the highest paid non-directors fell within the following emolument band:

	2019 Number of individuals	2018 Number of individuals
Nil to HK$1,000,000	**3**	4

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any of the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years ended 31 December 2019 and 2018.

13. DIVIDENDS

No dividend was paid or proposed by the directors of the Company during the year of 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2019	2018
Earnings		
Earnings for the purposes of basic earnings per share (RMB'000)	**52,550**	50,990
Number of share		
Weighted average number of ordinary shares *(note)*	**453,767,123**	374,999,998

Note:

For the year ended 31 December 2019, the calculation of basic earnings per share is based on the profit attributable to the owners of the Company of RMB52,550,000 and the weighted average number of 453,767,123 ordinary shares.

For the year ended 31 December 2018, the calculation of the basic earnings per share is based on the profit attributable to owners of the Company of RMB50,990,000 and on the basis of 374,999,998 shares of the Company in issue, which represents the number of shares of the Company after the capitalisation issue (note 29(e)) as if these shares issued had been issued on 1 January 2018.

Diluted earnings per share are same as the basic earnings per share as there is no dilutive potential ordinary shares in existence during the years ended 31 December 2019 and 2018.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Total *RMB'000*
COST					
At 1 January 2018	89,167	58,388	4,823	1,153	153,531
Additions	4,799	1,439	–	489	6,727
Disposals	–	(8)	(255)	(5)	(268)
Transferred to investment properties	(5,985)	–	–	–	(5,985)
At 31 December 2018 as originally presented	87,981	59,819	4,568	1,637	154,005
Initial application of HKFRS 16	16,643	–	–	–	16,643
Restated balance as at 1 January 2019	**104,624**	**59,819**	**4,568**	**1,637**	**170,648**
Additions	**53**	**52**	**–**	**329**	**434**
Transferred to investment properties	**(1,116)**	**–**	**–**	**–**	**(1,116)**
Classified as held for sale	**(2,758)**	**–**	**–**	**–**	**(2,758)**
Exchange adjustment	**21**	**–**	**–**	**–**	**21**
At 31 December 2019	**100,824**	**59,871**	**4,568**	**1,966**	**167,229**
ACCUMULATED DEPRECIATION					
At 1 January 2018	8,697	15,707	3,923	643	28,970
Depreciation	4,334	5,174	178	130	9,816
Disposals	–	(8)	(242)	(5)	(255)
Transferred to investment properties	(1,842)	–	–	–	(1,842)
At 31 December 2018 as originally presented	11,189	20,873	3,859	768	36,689
Initial application of HKFRS 16	2,583	–	–	–	2,583
Restated balance as at 1 January 2019	**13,772**	**20,873**	**3,859**	**768**	**39,272**
Depreciation	**5,845**	**5,296**	**159**	**141**	**11,441**
Transferred to investment properties	**(329)**	**–**	**–**	**–**	**(329)**
Classified as held for sale	**(1,257)**	**–**	**–**	**–**	**(1,257)**
Exchange adjustment	**17**	**–**	**–**	**–**	**17**
At 31 December 2019	**18,048**	**26,169**	**4,018**	**909**	**49,144**
NET BOOK VALUE					
At 31 December 2019	**82,776**	**33,702**	**550**	**1,057**	**118,085**
At 31 December 2018	76,792	38,946	709	869	117,316

Note:

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual values.

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Buildings and structures which are held for own use is situated in the PRC. At 31 December 2019 and 2018, land and buildings with carrying amounts of RMB81,892,000 and RMB67,819,000, respectively were pledged as collateral for the Group's bank borrowings (see Note 27).

Right-of-Use assets	**Land and buildings** ***RMB'000***
At 1 January 2019	**14,061**
Depreciation	**(1,051)**
Transferred to investment properties	**(787)**
Foreign exchange movement	**3**
At 31 December 2019	**12,226**

16. INVESTMENT PROPERTIES

	2019 ***RMB'000***	2018 *RMB'000*
COST		
At 1 January	**24,211**	18,226
Additions		
— Transferred from property, plant and equipment *(Note 15)*	**1,116**	5,985
Classified as held for sale	**(25,327)**	–
At 31 December	**–**	24,211
ACCUMULATED DEPRECIATION		
At 1 January	**9,092**	6,103
Depreciation	**888**	1,147
Transferred from property, plant and equipment *(Note 15)*	**329**	1,842
Classified as held for sale	**(10,309)**	–
At 31 December	**–**	9,092
NET BOOK VALUE		
At 31 December	**–**	15,119
FAIR VALUES		
At 31 December	**–**	31,070

At 31 December 2018, investment properties with carrying amount of RMB15,119,000 respectively were pledged as collateral for the Group's bank borrowings (see Note 27).

The fair value of the Group's investment property at 31 December 2018 has been arrived at on the basis of valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent professionally qualified valuers not connected with the Group.

16. INVESTMENT PROPERTIES *(Continued)*

The valuations were arrived at using the income approach by capitalising the net rental income of the properties derived from the existing tenancy agreements with due allowance for the reversionary income potential of the lease, or where appropriate by direct comparison method by making reference to comparable sales evidence as available in the relevant market. There were no changes to the valuation techniques during the period. The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

The fair values of the investment properties are grouped into level 3 of fair value measurement.

Right-of-Use assets	**Investment properties** *RMB'000*
At 1 January 2019	–
Transferred from property, plant and equipment *(Note 15)*	787
Depreciation	(27)
Classified as held for sale	(760)
At 31 December 2019	–

17. PREPAID LAND LEASE PAYMENTS

	2019 *RMB'000*	2018 *RMB'000*
Net book value		
At 31 December as originally presented	**13,009**	13,307
Initial application of HKFRS 16 *(note 2(a))*	**(13,009)**	–
Restated balance as at 1 January	**–**	13,307
Amortisation	**–**	(298)
At 31 December	**–**	13,009

At 31 December 2018, land use rights with an aggregate carrying amount of RMB13,009,000 was pledged as collateral for the Group's bank borrowings (see Note 27).

18. PREPAYMENTS

	2019 *RMB'000*	2018 *RMB'000*
Prepayment for property, plant and equipment	**17,152**	510
Prepaid expenses	**71**	118
	17,223	628

19. INVENTORIES

	2019 *RMB'000*	2018 *RMB'000*
Raw materials	**27,978**	30,134
Work-in-progress	**4,773**	5,245
Finished goods	**5,866**	–
	38,617	35,379

20. TRADE RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables	**90,288**	82,194
Less: allowance for impairment of trade receivables	**(1,174)**	(825)
	89,114	81,369

All of the trade receivables are expected to be recovered within one year.

The Group allows credit periods ranging from 90 to 120 days to its customers. Before accepting any new customer, the Group assesses the potential customer's credit quality. Credit term granted to customers is reviewed regularly.

The ageing analysis of trade receivables at the end of each reporting period, net of impairment losses, based on invoice date is as follows:

	2019 *RMB'000*	2018 *RMB'000*
0–30 days	**35,964**	44,032
31–60 days	**41,143**	32,368
61–90 days	**11,019**	4,960
Over 90 days	**988**	9
	89,114	81,369

The Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the ageing.

Movements on the provision for impairment of trade receivables are shown in Note 39(b). As at 31 December 2019 and 2018, additional provision of RMB349,000 and RMB182,000 was made against the gross amount of trade receivables respectively.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Deposits	**310**	279
Prepayments	**294**	4,197
Other receivables	**334**	176
Less: allowance for impairment of other receivables	**(4)**	(4)
	934	4,648

The above balances are expected to be recovered or recognised as expense within one year.

Movements on the provision for impairment of deposits and other receivables are shown in Note 39(b). As at 31 December 2019 and 2018, additional provision of RMB Nil and RMB2,000 was made against the gross amount of deposits and other receivables respectively.

22. CASH AND CASH EQUIVALENTS

	2019	2018
	RMB'000	*RMB'000*
Cash at bank	**180,028**	56,047
Cash on hand	**18**	24
	180,046	56,071

Certain of the cash and bank balances denominated in RMB placed with banks in the PRC. RMB is not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies only through banks that are authorised to conduct foreign exchange business.

23. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2019, Xingyu Technology, an indirect wholly owned subsidiary of the Group, and Dongqiao Economic and Technological Development District Land Reserve Center entered into a prepayment agreement, pursuant to which Dongqiao Economic and Technological Development District Land Reserve Center will acquire a parcel of land, 3 industrial buildings, a research and development building and various structures which is held by Xingyu Technology (the "**Disposal**"). For details of the Disposal, please refer to the announcement of the Company dated 10 October 2019.

As at 31 December 2019, prepayment of RMB40,000,000 had been received by the Group and included in both cash and cash equivalents and temporary receipts. As a result of the Disposal, property, plant and equipment and investment properties had been presented as assets classified as held for sale in the consolidated statement of financial position as at 31 December 2019 in accordance with HKFRS 5.

The following major classes of assets have been classified as held for sale in the consolidated statement of financial position.

	2019
	RMB'000
Property, plant and equipment	**1,501**
Investment properties	**15,018**
	16,519

24. TRADE PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**23,091**	31,612

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally range from 30 days to 60 days. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at the end of each years is as follows:

	2019 RMB'000	2018 RMB'000
0–30 days	**23,091**	31,612
	23,091	31,612

The trade payables are short-term and hence the carrying values of the Group's trade payables are considered to be a reasonable approximation of fair value.

25. ACCRUALS AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Salaries payables	**1,831**	1,298
Accruals and other payables	**2,298**	7,813
Amount due to shareholder *(note)*	**–**	438
Financial liabilities measured at amortised cost	**4,129**	9,549
Temporary receipts *(note 23)*	**40,000**	–
Other tax payables	**2,104**	2,279
	46,233	11,828

Note: The amount due to shareholder was not trade related, and the balance was unsecured, interest-free and repayable on demand.

26. LEASE

HKFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a)(v). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 4(f).

Nature of leasing activities

The group leases a number of properties for the purpose of factory and office.

31 December 2019	Lease contracts *Number*	Fixed payments *RMB'000*	Variable payments *RMB'000*
Property leases with fixed payments	**2**	**920**	**–**

Right-of-Use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019 ***RMB'000***	1 January 2019 *RMB'000*
Ownership interests in prepaid land, carried at fair value with remaining lease term of:		
— Between 10 and 50 years	**11,958**	13,010
Other properties leased for own use, carried at depreciated cost	**268**	1,051

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

	Buildings *RMB'000*
At 31 December 2018 as originally presented	–
Initial application of HKFRS 16	1,076
Restated balance as at 1 January 2019	**1,076**
Interest expense	**32**
Lease payments	**(896)**
Foreign exchange movements	**4**
At 31 December 2019	**216**

26. LEASE *(Continued)*

Right-of-Use Assets *(Continued)*

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**216**	**218**	813	848
After 1 year but within 2 years	**–**	**–**	263	288
After 2 years but within 5 years	**–**	**–**	–	–
After 5 years	**–**	**–**	–	–
	–	**–**	263	288
	216	**218**	1,076	1,136
Less: total future interest expenses		**(2)**		(60)
Present value of lease liabilities		**216**		1,076

Note:

The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. See note 2(a) for further details about transition.

The present value of future lease payments are analysed as:

	31 December 2019	1 January 2019
	RMB'000	*RMB'000*
Current liabilities	**216**	813
Non-current liabilities	**–**	263
	216	1,076

	2019
	RMB'000
Short term leases expenses	**179**
Low value leases expenses	**10**

27. BORROWINGS

	2019	2018
	RMB'000	*RMB'000*
Bank borrowings:		
— Secured (ii), (iii) & (v)	**26,000**	64,250
	26,000	64,250
Other borrowing:		
— Unsecured (iv) & (v)	**–**	9,638
	26,000	73,888

Total bank and other borrowings were scheduled to repay as follows:

	2019	2018
	RMB'000	*RMB'000*
On demand or within 1 year	**26,000**	73,888
	26,000	73,888

(i) The bank borrowings with variable interest rates was ranging from 5.16% to 5.87% per annum for both the years ended 31 December 2019 and 2018.

The other borrowing with fixed interest rates was 10.0% per annum for the years ended 31 December 2019 and 2018.

(ii) The secured bank borrowings are secured by the assets of the Group, the carrying amounts of the assets are as follows:

	2019	2018
	RMB'000	*RMB'000*
Land and buildings *(Note 15)*	**81,892**	67,819
Investment properties *(Note 16)*	**–**	15,119
Prepaid land lease payments *(Note 17)*	**–**	13,009
	81,892	95,947

(iii) As at 31 December 2019 and 2018, guarantees were provided by the controlling shareholders and the family members of the controlling shareholders for the bank borrowings.

(iv) As at 31 December 2018, guarantees were provided by the controlling shareholders for the unsecured other borrowing.

(v) All the bank borrowings were denominated in RMB and other borrowing was denominated in HK dollars.

(vi) A summary of facilities granted by banks and the amounts utilised by the Group at 31 December 2019 and 2018 set out below:

	2019	2018
	RMB'000	*RMB'000*
Amounts granted	**26,000**	64,250
Amounts utilised	**26,000**	64,250

The securities of the banking facilities were the same as mentioned in (ii).

28. DEFERRED TAX LIABILITIES

Details of the deferred tax liabilities recognised and movements during the current and prior years:

	Withholding tax on undistributed earnings *RMB'000* *(Note)*	Change in fair value on financial assets at fair value through other comprehensive income *RMB'000*	Total *RMB'000*
At 1 January 2018	2,513	8,381	10,894
Charged to profit or loss for the year	3,212	–	3,212
Credited to other comprehensive income for the year	–	(2,894)	(2,894)
Transferred to income tax payable	–	(5,487)	(5,487)
At 31 December 2018 and 1 January 2019	5,725	–	5,725
Charged to profit or loss for the year	3,181	–	3,181
At 31 December 2019	**8,906**	**–**	**8,906**

Note:

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

The aggregate amount of temporary differences associated with deferred tax liabilities have not been recognised for the undistributed profits of the Group's PRC subsidiaries were RMB125,889,000 and RMB80,931,000 as at 31 December 2019 and 2018 respectively. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of temporary differences and it is probable that such differences will not reverse in the foreseeable future.

29. SHARE CAPITAL

The Company

		2019		2018	
		Number of shares	**Nominal value**	Number of shares	Nominal value
	Notes		***RMB'000***		*RMB'000*
Authorised:					
Initial authorised share capital upon incorporation of HK$0.1 each	(a)	**3,800,000**	**323**	3,800,000	323
Increase in share capital upon capitalisation of HK$0.1 each	(d)	**996,200,000**	**85,237**	–	–
		1,000,000,000	**85,560**	3,800,000	323
Issued and fully paid share of HK$0.1 each					
At 1 January		**100**	**–***	70	–*
Allotment of shares	(b)	**–**	**–**	10	–*
Allotment of shares	(c)	**–**	**–**	20	–*
Issue of ordinary shares upon capitalisation	(e)	**374,999,900**	**32,086**	–	–
Issue of ordinary shares upon global offering and placing	(f)	**125,000,000**	**10,938**	–	–
At 31 December		**500,000,000**	**43,024**	100	–*

* The amount is less than RMB1,000

Notes:

(a) The Company was incorporated on 31 July 2017 with an initial authorised share capital of HK$380,000 divided into 3,800,000 shares of a par value of HK$0.1 each. On the date of incorporation, 70 ordinary shares of HK$0.1 were allotted and issued by the Company.

(b) On 12 January 2018, 10 ordinary shares of HK$0.1 were allotted and issued by the Company.

(c) On 17 January 2018, 20 ordinary shares of HK$0.1 were allotted and issued by the Company.

(d) Pursuant to written resolutions passed on 2 April 2019, the authorised share capital of the Company was increased from HK$380,000 divided into 3,800,000 ordinary shares of par value HK$0.1 each to HK$100,000,000 divided into 1,000,000,000 ordinary shares of par value HK$0.1 each, by the creation of 996,200,000 ordinary shares of par value HK$0.1 each.

(e) Pursuant to written resolutions passed on 2 April 2019, conditional on the share premium account of the Company having been credited as a result of the allotment and issue of the offer shares pursuant to the global offering, the Directors were authorised to allot and issue a total of 374,999,900 shares credited as fully paid at par by way of capitalisation of the sum of HK$37,499,990 (equivalent to RMB32,086,000) standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to the resolution shall rank pari passu in all respects with the existing issued shares.

(f) On 16 May 2019, 125,000,000 ordinary shares of HK$0.1 each of the Company were issued at a price of HK$1 by way of global offering. On the same date, the Company's ordinary shares were listed on the Stock Exchange. The proceeds of HK$12,500,000 (equivalent to RMB10,938,000) representing the par value of the ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$112,500,000 (equivalent to RMB98,667,000), before issuing expenses of approximately RMB14,697,000, were credited to share premium account.

30. RESERVES

The Company

	Share premium *RMB'000*	Exchange reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2018	–	–	–	–
Loss for the year	–	–	(9,162)	(9,162)
Other comprehensive income for the year	–	4,939	–	4,939
Total comprehensive income for the year	–	4,939	(9,162)	(4,223)
Issue of shares	63,132	–	–	63,132
At 31 December 2018 and at 1 January 2019	**63,132**	**4,939**	**(9,162)**	**58,909**
Loss for the year	**–**	**–**	**(18,716)**	**(18,716)**
Other comprehensive income for the year	**–**	**3,289**	**–**	**3,289**
Total comprehensive income for the year	**–**	**3,289**	**(18,716)**	**(15,427)**
Shares issued pursuant to the capitalisation *(note 29(e))*	**(32,086)**	**–**	**–**	**(32,086)**
Shares issued pursuant to the public offering and placing *(note 29(f))*	**98,667**	**–**	**–**	**98,667**
Transactions cost attributable to the public offering and placing *(note 29(f))*	**(14,697)**	**–**	**–**	**(14,697)**
At 31 December 2019	**115,016**	**8,228**	**(27,878)**	**95,366**

31. OPERATING LEASE COMMITMENT AND ARRANGEMENT

The Group as lessee

As at 31 December 2019 and 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018
	RMB'000
— Within one year	1,014
— In the second to fifth year, inclusive	287
— After five years	–
	1,301

The Group leases a premise and motor vehicles under operating lease. The leases run for an initial period of 1 to 3 years. The leases do not include any contingent rental.

The Group as lessor

The Group leases out certain investment properties under operating leases. The leases run for an initial period of 1 year. None of these leases include contingent rental. As at 31 December 2019 and 2018, the total future minimum lease payments receivable under operating leases in respect of investment properties are as follows:

	2019	2018
	RMB'000	*RMB'000*
— Within one year	**275**	459
— In the second to fifth year, inclusive	**–**	–
— After five years	**–**	–
	275	459

32. CAPITAL COMMITMENTS

As at 31 December 2019 and 2018, capital commitments not provided for in the financial statements were as follows:

	2019	2018
	RMB'000	*RMB'000*
Capital expenditure of the Group contracted for but not provided in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	**3,019**	4,279

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in Group's liabilities arising from financing activities.

	Amounts due to shareholders *RMB'000*	Borrowings *RMB'000*	Lease liabilities *RMB'000*
At 1 January 2018	113,790	88,000	–
Cash flows:			
— Proceeds from borrowings	–	110,929	–
— Repayment of borrowings	–	(125,450)	–
— Interest paid for borrowings	–	(4,692)	–
— Advance from shareholders	438	–	–
— Repayment to shareholders	(113,790)	–	–
Non-cash flows:			
— Interest expenses	–	4,728	–
— Exchange adjustments	–	373	–
At 31 December 2018 as originally presented	438	73,888	–
Initial application of HKFRS 16	–	–	1,076
Restated balance as at 1 January 2019	**438**	**73,888**	**1,076**
Cash flows:			
— Proceeds from borrowings	**–**	**42,800**	**–**
— Repayment of borrowings	**–**	**(90,664)**	**–**
— Interest paid for borrowings	**–**	**(3,375)**	**–**
— Repayment to shareholder	**(438)**	**–**	**–**
— Payment of lease liabilities	**–**	**–**	**(896)**
Non-cash flows:			
— Interest expenses	**–**	**3,375**	**32**
— Exchange adjustments	**–**	**(24)**	**4**
At 31 December 2019	**–**	**26,000**	**216**

34. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	**2019** **RMB'000**	2018 *RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		**–***	–*
Current asset			
Deposits, prepayments and other receivables		**190**	–
Amounts due from subsidiaries		**138,765**	69,007
Cash and cash equivalents		**852**	145
		139,807	69,152
Current liability			
Amount due to a subsidiary		**–**	–*
Accruals and other payables		**1,417**	605
Borrowings	27	**–**	9,638
		1,417	10,243
Net current asset		**138,390**	58,909
Net assets		**138,390**	58,909
EQUITY			
Capital and reserves			
Share capital	29	**43,024**	–*
Reserves	30	**95,366**	58,909
Total equity		**138,390**	58,909

* The amount is less than RMB1,000.

On behalf of the directors:

Lyu Zhufeng
Director

Lu Qingxing
Director

35. INTEREST IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Percentage of ownership interests/ voting rights/ profit share	Issued and fully paid share capital/ registered capital	Principal activities
Universal Star (BVI) Limited	BVI	100% (direct)	US dollars ("**US$**")1	Investment holding
Universal Star Hong Kong Holdings Limited	Hong Kong	100% (indirect)	HK dollars ("**HK$**")1	Investment holding
Ningde City Star Profit Enterprise Management Co., Ltd. (寧德市星之利企業管理有限公司), formerly known as Xiamen Star Profit Information Consulting Co., Ltd. (廈門星之利信息諮詢有限公司) *(Note (i) & (ii))*	PRC	100% (indirect)	RMB112,800,000	Investment holding
Ningde Xingyu Technology Co., Ltd. (寧德市星宇科技有限公司) *(Note (i) & (iii))*	PRC	100% (indirect)	RMB162,800,000	Design, development, production and sale of sintered NdFeB magnetic materials
Ningbo Star Magnet Supply Chain Management Co., Ltd (寧波星磁供應鏈管理有限公司) *(Note (i) & (iii))*	PRC	100% (indirect)	RMB30,000,000	Sale of sintered NdFeB magnetic materials

Note:

(i) The English names of all subsidiaries established in the PRC are translated for identification purpose only.

(ii) These entities are established in the PRC in the form of wholly foreign-owned enterprise.

(iii) These entities are established in the PRC in the form of domestic limited liability company.

None of the subsidiaries had issued any debt securities at the end of the year.

36. MATERIAL RELATED PARTY TRANSACTIONS

The key management personnel are the Directors and the five highest paid individuals of the Company. The details of the emoluments paid to them are set out in note 12.

Except as disclosed above, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

37. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits, respectively.

The directors of the Company review the capital structure on a continuous basis taking into account the loss of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy-back as well as the issue of new debts or redemption of existing debt, if necessary. The gearing ratios as at the end of the reporting periods were as follows:

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**23,091**	31,612
Accruals and other payables	**46,233**	11,828
Lease liabilities	**216**	–
Borrowings	**26,000**	73,888
Less: Cash and cash equivalents	**(180,046)**	(56,071)
Net debt	**(84,506)**	61,257
Equity	**354,217**	205,829
Capital and net debt	**269,711**	267,086
Gearing ratio	**(31.3%)**	22.9%

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts and fair values of the Group's financial instruments are as follows:

	2019	2018
	RMB'000	*RMB'000*
Financial assets		
Amortised costs:		
Trade receivables	**89,114**	81,369
Deposits and other receivables	**640**	451
Tax recoverable	**–**	5,343
Cash and cash equivalents	**180,046**	56,071
Financial liabilities		
Amortised costs:		
Trade payables	**23,091**	31,612
Accruals and other payables	**4,129**	9,549
Borrowings	**26,000**	73,888
Lease liabilities	**216**	–

39. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade receivables, deposits and other receivables, cash and cash equivalents, trade payables, accruals and other payables, lease liabilities and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include interest rate risk, currency risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and borrowings. The Group is also exposed to fair value interest rate risk which relates primarily to the borrowings. The Group does not have an interest rate hedging policy. However, the directors of the Company monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates quoted by the People's Bank of China arising from the Group's bank borrowings.

At 31 December 2019 and 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB221,000 and RMB482,000 respectively. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(b) Credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. In addition, the directors of the Company review the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group is significantly reduced.

The directors of the Company consider that the credit risk on liquid funds is low as counterparties are banks with good reputation.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk *(Continued)*

The credit risk of the Group is concentrated on trade receivables from the Group's five largest customers at 31 December 2019 and 2018 amounted to RMB20,824,000 and RMB21,582,000 respectively, and accounted for 23% and 26% of the Group's gross trade receivables. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Actual or expected significant changes in the operating results of individual property owner or the borrower
- Significant increases in credit risk on the other financial instruments of the individual property owner or the same borrower
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

The Group applies the simplified and general approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables and 12-month expected credit losses for other receivables (excluding prepayments).

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

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.

39. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

As at 31 December 2019 and 2018, the loss allowance provision for the remaining balances was determined as follows. The expected credit losses below also incorporated forward looking information.

Trade receivables	Current	Past due for less than 3 months	Past due for over 3 months	Total
At 31 December 2019				
Expected credit loss rate	**1.28%**	**2.69%**	**–**	
Gross carrying amount (RMB'000)	**89,273**	**1,015**	**–**	**90,288**
Loss allowance provision (RMB'000)	**1,147**	**27**	**–**	**1,174**
At 31 December 2018				
Expected credit loss rate	1%	–	30%	
Gross carrying amount (RMB'000)	82,182	–	12	82,194
Loss allowance provision (RMB'000)	822	–	3	825

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

(i) Increase in the loss allowance of RMB325,000 (2018: RMB181,000) as a result of a net increase in the gross carrying amount after the settlement of trade receivables and origination of new trade receivables; and

(ii) Increase in the loss allowance of RMB24,000 (2018: RMB1,000) as a result of an increase in trade receivables which were past due for less than 3 months while decrease in trade receivables which were past due for over 3 months.

As at 31 December 2019 and 2018, the loss allowance provision for trade and other receivables (excluding prepayments) reconciles to the opening loss allowance for that provision as follows:

	Trade receivables *RMB'000*	Deposits and other receivables *RMB'000*	Total *RMB'000*
At 1 January 2019	**825**	**4**	**829**
Provision for loss allowance recognised in profit or loss	**349**	**–**	**349**
At 31 December 2019	**1,174**	**4**	**1,178**
At 1 January 2018	643	2	645
Provision for loss allowance recognised in profit or loss	182	2	184
At 31 December 2018	825	4	829

As at 31 December 2019 and 2018, the gross carrying amount of trade receivables and other receivables (excluding prepayments) was RMB90,932,000 and RMB82,649,000 respectively and thus the maximum exposure to loss was RMB89,754,000 and RMB81,820,000 respectively.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Carrying amount	Total contractual undiscounted cash flows	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019					
Trade payables	**23,091**	**23,091**	**23,091**	**–**	**–**
Accruals and other payables	**4,129**	**4,129**	**4,129**	**–**	**–**
Lease liabilities	**216**	**218**	**218**	**–**	**–**
Borrowings	**26,000**	**26,909**	**26,909**	**–**	**–**
	53,436	**54,347**	**54,347**	**–**	**–**
As at 31 December 2018					
Trade payables	31,612	31,612	31,612	–	–
Accruals and other payables	9,549	9,549	9,549	–	–
Borrowings	73,888	77,074	77,074	–	–
	115,049	118,235	118,235	–	–

(d) Currency risk

The Group mainly operated in the PRC with most of the transactions settled in RMB and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

40. EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of Coronavirus Disease 2019 ("**COVID-19**") in January 2020, the prevention and control of the COVID-19 has been implemented across PRC. The COVID-19 has certain impacts on the business operation and overall economy in some areas or industries. Up to the date of this report, the financial effect cannot be estimated. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group.

Other Information

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB180.0 million (31 December 2018: approximately RMB56.1 million). The increase was primarily due to the net proceeds from the Listing in May 2019 and the temporary receipts from the non-current assets classified as held for sale.

For the year ended 31 December 2019, the Company's net cash generated from operating activities amounted to approximately RMB57.4 million, while the net cash generated in operating activities amounted to approximately RMB21.2 million in the previous year. The increase in net cash generated from operating activities was mainly due to changes in working capital and payment of approximately RMB9.1 million for the income tax arising from the disposal of equity investment at fair value through other comprehensive income for the year ended 31 December 2018.

For the year ended 31 December 2019, the Company's net cash generated from investing activities amounted to approximately RMB23.3 million, while the net cash generated from investing activities amounted to approximately RMB55.9 million in the previous year. The decrease in net cash generated from investing activities was mainly due to one-off proceeds received from disposal of equity investment at fair value through other comprehensive income amounted to approximately RMB59.5 million for the year ended 31 December 2018.

For the year ended 31 December 2019, the Company's net cash generated from financing activities amounted to approximately RMB42.3 million, while there was net cash used in financing activities amounted to approximately RMB69.4 million in the previous year. The increase in net cash generated from financing activities was mainly due to net proceeds from the Listing in May 2019.

Current ratio (excluding non-current assets classified as held for sale) increased from 1.6 as at 31 December 2018 to 3.2 as at 31 December 2019, mainly due to increase in cash and cash equivalents and decrease in borrowings. Gearing ratio decreased from 36.1% as at 31 December 2018 to 7.3% as at 31 December 2019, mainly due to increase in share capital as a result of the Listing and repayment of bank and other borrowings. The gearing ratio is calculated based on total debt divided by total equity at the end of the respective years. Net debt to equity ratio is not applicable as at 31 December 2019 (31 December 2018: 8.9%) due to the fact that cash and cash equivalents are larger than borrowings. Net debt is calculated as total borrowings and amounts due to shareholders less cash and cash equivalents.

Working capital

The inventory turnover days maintained a similar level during the year under review (2019: 45.6 days; 2018: 44.2 days).

The trade receivables turnover days maintained a moderate level in both 2019 and 2018 (2019: 75.6 days; 2018: 67.8 days) as the Group allows credit periods ranging from 90 to 120 days to its customers.

The trade payables turnover days maintained a similar level in both 2019 and 2018 (2019: 33.7 days; 2018: 38.0 days).

The Directors believe that the Group is in a healthy financial position to expand its business and achieve its business objectives.

TREASURY POLICIES

The Group adopts a prudent financial management approach for its treasury policies. The Group strives to reduce its exposure to credit risks by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements from time to time.

FOREIGN EXCHANGE EXPOSURE

The functional currencies of the Group's operations, assets and liabilities are mostly denominated in RMB. Therefore, the Group was not exposed to any significant foreign exchange risk, except for its Hong Kong Dollar ("**HK$**") denominated bank balances and net proceeds from the listing that are denominated in HK$. The Group currently does not have a foreign currency hedging policy. The Group did not engage in any derivatives agreements and did not commit to any financial instruments to hedge its foreign exchange exposure throughout the year ended 31 December 2019. The management will closely monitor foreign currency exposure and will consider hedging significant foreign currency exposure should such need arises.

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

PLEDGE OF ASSETS

For details of pledge of assets, please refer to note 27 to the consolidated financial statements.

CAPITAL COMMITMENTS

The Group's capital commitments as at 31 December 2019 were approximately RMB3,019,000, which were related to the purchase of property, plant and equipment related to its production facilities (31 December 2018: approximately RMB4,279,000).

Save as disclosed above and in note 32 to the consolidated financial statements, there were no other significant capital commitments.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Disposal of properties

On 10 October 2019, Ningde Xingyu Technology Co., Ltd. (a wholly owned subsidiary of the Company and a company established in the PRC with limited liability) entered into the prepayment agreement with Dongqiao Economic and Technological Development District Land Reserve Center in relation to the disposal of a parcel of land, 3 industrial buildings, a research and development building and various structures located in Dongqiao Economic Development District in Ningde City of Fujian Province (the "**Properties**"). The disposal constitutes a discloseable transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). For details of the disposal, please refer to the announcement of the Company dated 10 October 2019. Pursuant to an examination report dated 19 March 2020 which was received by the Company on or around 26 March 2020, the final examination procedures of the Properties have been completed. It is expected that the Group will receive the remaining balance of the disposal consideration and the local government subsidy for vacating and moving out of the disposed Properties, by the end of May 2020. The exact amount of the subsidy is yet to be determined or confirmed as at the date of this report.

Other Information

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group has 202 employees (31 December 2018: 201 employees). The employees of the Group are remunerated in accordance with their education background, position, experience and performance. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. Performance of individual employee is also reviewed periodically to determine adjustments to employee salaries. Apart from the provident fund scheme (operated in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses are also awarded to employees according to the assessment of individual performance.

The emoluments of the Directors are determined by the Board after recommendation from the remuneration committee of the Company, having considered factors including the Group's financial performance, educational background, qualifications, experience and performance of the Directors, etc.

Use of Proceeds from the Listing

The shares of the Company were listed on the Main Board of the Stock Exchange on 16 May 2019 (the "**Listing Date**"). Based on the offer price of HK$1.00 per offer share, the net proceeds from the global offering received by the Company, after deducting the underwriting fees and commissions and other estimated offering expenses in relation to the global offering borne by the Company, were approximately HK$80.9 million. The Company will continue to apply the net proceeds in accordance with the manner disclosed in the prospectus of the Company dated 30 April 2019 ("**Prospectus**"). For more details of the listing, please refer to the Prospectus.

As at 31 December 2019, approximately HK$44.6 million of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong and the PRC. The balance of the unutilised proceeds is expected to be utilised in the coming three years. Set out below is a summary of the utilisation of the net proceeds:

		Original plan allocation of net proceeds	**Actual utilised amount as at 31 December 2019**	**Unutilised amount as at 31 December 2019**
	%	*HK$ million*	*HK$ million*	*HK$ million*
For the expansion of production capacity and the enhancement of operational efficiency	48.3	39.1	11.7	27.4
For modifying and optimising production process and technology, and implementing key research and development projects	17.4	14.1	5.2	8.9
For repayment of part of the borrowings	31.3	25.3	25.3	–
For working capital and general corporate purposes	3.0	2.4	2.4	–
	100.0	80.9	44.6	36.3

Financial Summary

FOR THE YEAR ENDED 31 DECEMBER 2019

RESULTS

	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**411,454**	389,722	307,599	239,212
Cost of sales	**(295,889)**	(282,267)	(227,178)	(179,902)
Gross profit	**115,565**	107,455	80,421	59,310
Other income and other net gain	**2,845**	3,102	1,783	947
Selling and distribution expenses	**(4,479)**	(4,403)	(3,952)	(3,583)
Administrative expenses	**(44,790)**	(37,066)	(21,478)	(14,689)
Expected credit loss on financial assets	**(349)**	(184)	(15)	(200)
Finance costs	**(3,407)**	(4,728)	(6,316)	(3,175)
Profit before income tax expense	**65,385**	64,176	50,443	38,610
Income tax expense	**(12,835)**	(13,186)	(11,727)	(8,288)
Profit for the year	**52,550**	50,990	38,716	30,322
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to profit or loss:				
Exchange difference on translation of operation outside the People's Republic of China ("**PRC**")	**955**	(298)	279	–
Items that will not be reclassified subsequently to profit or loss:				
Equity investment at fair value through other comprehensive income:				
— Net movement in fair value reserve	**–**	2,597	13,208	1,236
— Transferred from deferred tax liabilities	**–**	3,352	–	–
Other comprehensive income for the year	**955**	5,651	13,487	1,236
Total comprehensive income for the year	**53,505**	56,641	52,203	31,558

ASSETS, LIABILITIES AND EQUITY

	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total Assets	**460,538**	328,882	372,596	351,459
Total Liabilities	**106,321**	123,053	286,540	257,606
Total Equity	**354,217**	205,829	86,056	93,853

Financial Summary *(Continued)*

AS AT 31 DECEMBER 2019

KEY FINANCIAL RATIOS

	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ROA *(Note 1)*	**11.4%**	15.5%	10.4%	8.6%
ROE *(Note 2)*	**14.8%**	24.8%	45.0%	32.3%
Current ratio *(Note 3)*	**3.2x**	1.6x	0.8x	0.7x
Quick ratio *(Note 4)*	**2.8x**	1.3x	0.7x	0.5x
Gearing ratio *(Note 5)*	**7.3%**	36.1%	234.5%	231.4%
Net debt to equity ratio *(Note 6)*	**n/a**	8.9%	178.3%	184.2%
Interest coverage *(Note 7)*	**20.0x**	14.7x	9.0x	6.7x

Notes:

(1) Calculated using profit for the year divided by total assets.

(2) Calculated using profit for the year divided by total equity.

(3) Calculated using current assets (excluding non-current assets classified as held for sale) as at the end of the respective year divided by current liabilities as at the end of the respective period.

(4) Calculated using the balance of current assets less inventories as at the end of the respective year divided by current liabilities as at the end of the respective year.

(5) Calculated based on the liabilities divided by the total equity as at the end of the respective year.

(6) Calculated by the net debt (borrowings and amounts due to shareholders) net of cash and cash equivalents divided by the total equity as at the end of the respective year.

(7) Calculated by the profit before finance costs and income tax divided by the interest for the respective year.