LONKING 龙工

LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 3339

2019
Annual Report

*For Identification Purpose Only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr. Li San Yim *(Chairman* and *Chief Executive Officer)*
Mr. Chen Chao
Mr. Luo Jianru
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

Non-executive directors

Ms. Ngai Ngan Ying

Independent non-executive directors

Dr. Qian Shizheng
Mr. Wu Jian Ming
Mr. Chen Zhen

AUDIT COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Mr. Chen Zhen
Ms. Ngai Ngan Ying

REMUNERATION COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Ms. Ngai Ngan Ying

NOMINATION COMMITTEE

Mr. Chen Zhen *(Chairman)*
Ms. Ngai Ngan Ying

EXECUTIVE COMMITTEE

Mr. Li San Yim *(Chairman and Chief Executive Officer)*
Mr. Chen Chao
Mr. Luo Jianru
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

COMPANY SECRETARY

Mr. Chu Shun

HEAD OFFICE

No. 26 Mingyi Road, Xinqiao,
Songjiang Industrial,
Shanghai (201612), PRC

REGISTERED OFFICE

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

INVESTOR RELATIONS

Ms. Lv Zhen Zhen
LZZ@lonking.cn
Tel: 86-21-3760 2000 (5676)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1802, 18th Floor
West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.lonking.cn

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Fl., Royal Bank House,
24 Shedden Road,
PO Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SOLICITORS

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street Central, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountant
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

PRINCIPAL BANKERS

Bank of China
Longyan Branch
Bank of China Tower
No. 1 Longchuan Bei Road Longyan City
Fujian, PRC

China Construction Bank
Shanghai Songjiang Branch
No. 89 Zhongshan Zhong P.O. Road
Songjiang District
Shanghai, PRC

Financial Highlights

The table below sets forth the consolidated financial summary of Lonking Holdings Ltd (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group").

Current period	2019 RMB'000	2018 RMB'000	Change (+/–)
Turnover	**11,743,824**	11,868,316	-1.05%
Operating profits:	**2,005,480**	1,365,923	+46.82%
EBITDA	**2,354,852**	1,718,857	+37.00%
Profit attributable to equity parent	**1,643,405**	1,143,867	+43.67%
Per share data	**RMB**	RMB	
Basic earnings per share(1)#	**0.38**	0.27	+40.74%
Net assets per share(2)#	**2.12**	1.92	+10.42%
Key performance indicators	**%**	%	
Profitability			
Overall gross margin	**23.93**	22.96	+0.97%
Net profit margin	**14.00**	9.64	+4.36%
EBITDA margin(3)	**20.05**	14.48	+5.57%
Return on equity(4)	**18.11**	13.94	+4.17%
Liquidity and solvency			
Current ratio(5)	**2.28**	2.29	-0.44%
Interest coverage ratio(6)	**50.00**	29.25	+70.94%
Gearing ratio(7)	**61.04**	71.46	-10.42%
Management efficiency	**days**	days	
Inventory turnover days(8)	**120**	106	+14 days
Trade and bills payables turnover days(9)	**146**	136	+10 days
Trade and bills receivable turnover days(10)	**74**	69	+5 days

Financial Highlights

Calculated based on the 4,280,100,000 shares outstanding as at 31 December 2019 (31 December 2018: 4,280,100,000).

1 Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.

2 Shareholders' equity divided by the WANOS as at the end of each period.

3 Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.

4 Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.

5 Current assets divided by current liabilities as at the end of each period.

6 Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.

7 Total liabilities divided by the total equity as at the end of each period.

8 Average inventories divided by cost of sales and multiplied by 365 days.

9 Average trade and bills payables divided by cost of sales and multiplied by 365 days.

10 Average trade and bills receivables divided by turnover and multiplied by 365 days.

Chairman's Statement

Dear shareholders and investors,

On behalf of the Board, I am pleased to present the Chairman's Statement of Lonking Holdings Limited ("China Lonking" or "Lonking") for the year ended 31 December 2019.

In 2019, the China economy has maintained a healthy and stable development, and the construction machinery industry has maintained the momentum of strong development, whereas the competition has become more intense. The overall development of Lonking has experienced ups and downs in 2019. On the one hand, the Company's key financial indicators and development quality remain better among its peers. On the other hand, the Company's sales revenue underperformed the industry due to reasons such as the risk control.

I. Key results and financial performance

1. Operating revenue remained stable. Operating revenue amounted to RMB11.74 billion; the domestic market share of the loaders continued to remain at the top spot of the industry. The overall growth of sales for excavators, forklifts, road machinery and all the other leading products kept pace with the growth in the industry. Competition in the industry was intensified significantly, and various radical models have emerged. Lonking is required to maintain its strategic commitment to cope with the competition.

2. Profitability continued to be strong. The net profit increased by 43.71% to RMB1.644 billion in 2019, as a result of good cost control and sound financial position of the Company.

3. Excellent asset and liability structure. Gearing ratio of the Company at the end of the period led the industry, standing at 38%, which was the lowest since its listing.

4. Sufficient cash and cash flows. Net cash flows from operating activities amounted to RMB1.57 billion; total cash and financial assets as at the end of the period was RMB5.51 billion.

5. Total dividend distribution hit a record high. A dividend of HK$0.25 per share was proposed as at the end of the period, and the total dividend distribution exceed HK$1 billion, setting a record high of the Company.

Chairman's Statement

II. Highlights of the Company's operation in 2019

1. Solid position in the market. In 2019, the main lines of products of Lonking continued to maintain a good competitiveness. Loaders continued to rank top in the industry in both domestic production and sales volume; sales of excavators remained its growth yet underperformed the industry; more than 51,000 forklifts were produced and sold and this further recognized our status in the top 3 of the market. In 2019, products of Lonking received high recognition and reputation from a wide range of users.

2. Highly valued product research and development. In 2019, the Company vigorously introduced technical experts and technicians, invested more in research and development, and comprehensively integrated the four major products of Lonking, especially loaders, excavators and forklifts, by initiating, promoting, researching, producing and testing the new series of products. The Company further enhanced the technical research of the core key components, promoting a better development for projects such as axles, gear boxes, cylinders, gears, castings, and high-end hydraulic pumps and valves.

3. Comprehensively elevated the quality of products. In 2019, the Company intensified efforts in promotion of activities for the year of comprehensive quality management, strengthened the establishment of quality team, intensified the quality function reformation by initiating to set up gatekeepers to control throughout the whole process to eliminate all the issues on product quality. This also enhanced the work on the user system, instruction guidelines, and 4M Management, strengthening our management and control of the quality of products from suppliers.

4. Strictly controlled operational risks. The Company continuously innovated and improved its management system and strengthened its risk control to be truly "Back to Basics for Being Resilient". With the fierce competition in the market, Lonking continued to stand firm and did not participate in the "risk-for-market" competition to ensure the high quality of the Company's operations. In 2019, the Company held sufficient cash and the operating cash flow continued to remain strong; the trade receivables and inventory turnover days maintained at a good level; the Company's asset quality was further improved, and the corporate operational efficiency and quality have been historically the best.

5. Vigorously introduced more talents. The Company seized various opportunities, highlighted the introduction of domestic and overseas talents in all fields, further strengthened management, further strengthened the investment in research and development, and endeavored to create its core competitiveness by focusing on product and product quality.

Chairman's Statement

6. In 2019, the Company highly valued environmental safety, ensured there is no severe safety accidents and no breaching of laws and regulations on environmental protection. The Company highly values building corporate culture and actively strives to create a Lonking family atmosphere. We continuously decrease labour work of our employees and implemented measures to care for our employees. This elevated the staff stability and satisfaction indices, allowing Lonkingers to truly have the senses of pride, belonging and attainment.

Dear investors, the Board of Lonking has outlined the work agenda for 2020, which sets out the ambitions target of over 20% increase in the Group's revenue in 2020 against 2019. Despite the impact of the novel coronavirus disease (COVID-19) both domestically and internationally, we firmly believe that in the midst of the crisis, we should grasp the opportunities amid the positive current situation for the construction machinery industry, and vigorously implement the marketing strategy of "Back to Basics for Being Resilient" and secure the opportunity from market boom to ensure each business segment to outperform the industry. We firmly believe, led by the Board, all the Lonkingers will be determined to forge ahead, keep exploring without changing their goals, and strive to exceed the 2020 target set by the Board.

Since its listing, China Lonking has strived to maintain transparency and improve standards of corporate governance. We have maintained good communication with our investors. We are willing and hope to keep a closer tie with more investors, and strengthen interaction with them to promote sound development of the Company.

We are honored to have a professional Board, an experienced and diligent management team, and industrious and intelligent employees. I wish to take this opportunity to express my sincere gratitude to all directors and employees for their assiduous efforts. We will make our utmost efforts to attain sustainable growth and enhance our profitability and exert all our efforts to create the greatest value for our customers and bring the best returns to our shareholders.

LONKING HOLDINGS LIMITED
Li San Yim
Chairman of the Board

26 March 2020

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

In 2019, global economic growth has slowed, and China's GDP has increased by 6.1% year-on-year. Although the domestic economy has maintained steady progress, the growth rate was still under greater downward pressure. Based on the rapid growth during the past two years, the construction machinery industry in which the Group operates has experienced a relatively stable development momentum and has entered a relatively stable development stage. In view of more fierce market competition emerging, the Group continued to improve and enhance various management work, and the development quality of each business segment was further developed and improved. Under the premise of ensuring controllable marketing risks and improvement in asset quality, the Group opened up the domestic and overseas markets. The competitiveness and influence of our four major categories of products in the market were enhanced to varying degrees, and the market position was further consolidated. During the reporting period, the Group's total operating revenue decreased by RMB124 million to RMB11,744 million from RMB11,868 million in the same period of 2018, representing a year-on-year decline of 1.05%. The proportion of operating revenue of loader operating income basically remained stable at 51% as compared with the same period last year, while the proportion of operating revenue of excavators and fork lifts slightly increased. The proportion of operating revenue of excavators increased by 0.28% and that of fork lifts increased to 20.21% from 19.45% in 2018. During the reporting period, the consolidated gross profit margin of the Group was 23.93%, increased by 0.97 percentage point from 22.96% in the same period of 2018. The Group had recorded net profit of RMB1,644 million for the year, increased by RMB500 million as compared with RMB1,144 million for the same period last year. The increase in net profit was mainly due to the Group's improved management efficiency through scientific management and technology investment, which effectively controlled manufacturing costs and expenses. At the same time, the investment income of financial assets of the Group during the reporting period has been significantly improved.

The proportion of local sales to the Group's total sales was roughly the same as last year, without major changes. The northern regions of the PRC remained as the Company's principal marketing regions. Revenue from northern regions dropped slightly 4.2% to approximately RMB2,997 million (2018: approximately RMB3,127 million), representing 26% of our total turnover. Revenue from eastern regions of the PRC raised slightly 5.4% to RMB2,091 million (2018: approximately RMB1,984 million), accounting for approximately 18% of our total turnover. Revenue from southwestern region of the PRC decreased 14.8% to RMB1,318 million (2018: approximately RMB1,546 million), accounting for approximately 11% of our total turnover. In respect of our overseas market, during the year, the Group's sales revenue recorded a slight drop of 5.4% to approximately RMB617 million (2018: approximately RMB652 million).

Management Discussion and Analysis

ANALYSIS OF PRODUCTS

Wheel Loaders

The revenue generated from wheel loader amounted to approximately RMB6,026 million, representing approximately 51.3% of total Group's turnover, representing a decrease of 2.1% from last year (2018: RMB6,154 million, approximately 51.9% of total Group's turnover).

ZL50 series continued to be the main revenue source of the Group with turnover for the year reaching RMB5,039 million, a decrease of 4.6% compared with that of last year. ZL30 series continued to be the second largest revenue source of the Group with turnover reaching RMB425 million, a decrease of approximately 3.0% compared with that of last year. ZL40 series accounted for a small proportion in the overall sales with turnover reaching RMB29 million, representing only approximately 0.5% of the total turnover. ZL60 series recorded approximately RMB330 million in sales, representing 5.5% of the total turnover. The turnover from mini wheel loader amounted to RMB203 million, a decrease of 9.4% compared with that of last year.

Wheel Loaders remain to be the main sales products of the Group and have become increasingly established and take up a higher market share, although the percentage of its sales to total sales shows a sign of decline.

Excavators

The revenue generated from excavators amounted to approximately RMB2,122 million, representing for approximately 18.1% of the Group's total turnover (2018: RMB2,111 million, representing approximately 17.8% of the Group's total turnover. With the overall recovery of the construction machinery industry, the sales of excavator, a cutting-edge product on which the Group has been focused in recent years, are expected to grow at a rate far above that of other products, and show a fast-growing momentum.

Fork Lifts and Road Rollers

Revenue generated from fork lifts represented 20% of our total turnover for the year of 2019 (2018: 19%). During the year, turnover from fork lifts increased by 2.8% to approximately RMB2,374 million (2018: RMB2,308 million). Since fork lifts has become a new source of growth in the Group's profits in recent years, the Group has been committed to the development of various fork lift products, which are well received by customers.

Revenue from road rollers reached RMB113 million, representing a decrease of 28.7% compared with that of last year (2018: approximately RMB159 million).

Components

The sales generated from components amounted to approximately RMB885 million for the year ended 31 December 2019, a decrease of 1.6% compared with the corresponding period last year (2018: RMB899 million), accounting for approximately 8% of the total turnover of the Group.

Finance Lease Interest

Turnover from interest income of finance lease represented approximately only 0.02% of the Group's total turnover in the year of 2019.

FINANCIAL REVIEW

Cash and Bank Balance

The cash position of the Group was strong during the year. As at 31 December 2019, the Group had bank balance and cash of approximately RMB2,502 million (31 December 2018: approximately RMB2,565 million).

Compared with last year, cash and bank balances decreased by approximately RMB63 million, which is generated as a result of net cash inflow of around RMB1,571 million from operating activities, the net cash outflow of RMB670 million from investing activities and the net cash outflow of RMB964 million from financing activities.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 31 December 2019 was approximately RMB9,077 million, a 10.6% increase from approximately RMB8,207 million as at 31 December 2018. The current ratio of the Group at 31 December 2019 was 2.28 (2018: 2.29).

The directors believed that the Group will be in a strong and healthy position and has sufficient resources in support of its working capital requirement and meet its foreseeable capital expenditure.

Management Discussion and Analysis

Capital Structure

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities.

As at 31 December 2019, the gross gearing ratio (defined as total liabilities over total assets) was approximately 37.90% (31 December 2018: 41.68%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB247 million (2018: approximately RMB297 million) in line with a series of strategic transformation and production transformation by the Group.

The capital expenditures were financed by the internal resources and general borrowings of the Group.

Capital Commitment

As at 31 December 2019, the Group had contracted but not included in the financial statements expenditures of approximately RMB22 million in respect of acquisition of property, plant and equipment (31 December 2018: approximately RMB40 million).

Other Gains and Losses

During the year, other gains and losses have increased significantly by approximately RMB566 million compared to the same period last year. This was mainly due to the significant increase in the fair value of financial wealth management products in 2019 compared to the period of 2018, resulting in a significant increase in other gains; And due to the decline in foreign currency liabilities, the foreign exchange gains and losses have decreased significantly compared to last year.

Management Discussion and Analysis

Impairment Losses on financial assets, net

During the year, impairment losses on financial assets increased by approximately RMB57 million compared with the same period last year. It was mainly due to the expected slowdown in the construction machinery industry in the next few years, which will increase the risk of bad debts of accounts receivable and other receivables. The Group's provision for bad debts increased compared with the previous year.

Long-term receivables

As of the end of the year, long-term receivables increased by approximately 88 million yuan compared to the end of last year, which was mainly due to the increase in more-than-one-year installment sales, which resulted in a larger increase in long-term receivables.

Financial assets at fair value through profit or loss

As of the end of the year, the Group increased its subscription investment by approximately RMB500 million. Subscription investments and financial wealth management products are measured at fair value, classified into non-current assets and current assets by their nature, and their fair value changes are included in the current profit and loss.

Inventories

As of the end of the year, the inventory had increased by approximately RMB148 million compared to the end of last year. This is mainly due to the expected increase in sales early next year, the early preparation of raw materials at the end of 2019 and the expansion of production will lead to an increase in work in progress.

Management Discussion and Analysis

PROSPECT

The year of 2020 is the decisive year for building a comprehensive well-off society in China as well as the final year of the 13th Five-Year Plan. Despite having been affected by the novel coronavirus epidemic since the beginning of the year which has resulted in the plummeted demand and reduced production of most domestic industries, the negative impact will gradually diminish as the epidemic in China has been preliminarily brought under control. China will fully concentrate on the work in "Six Stables" including maintain stable investment and stable expectations. Recently, large-scale investment plans are being intensively launched in various places. China has adjusted the investment sectors and started new infrastructure construction. On the basis of improving traditional infrastructure of railway, highway and rail transit, China has vigorously developed new infrastructure such as 5G, artificial intelligence, industrial Internet, smart cities, education and medical care. The construction machinery industry will usher in a new wave of development opportunities. The Group will seize a favorable opportunity for industrial development, take a forward-looking view based on a clear picture of the present, adopt a new mindset, work hard, as well as initiate to take responsibility to focus fully on the construction machinery industry and preserve our principal businesses, turning our four host products (loaders, excavators, fork lifts and road rollers) and core components stronger and excellent. We will continue to elevate the position of products in the market, attach importance to market planning, refine market segmentation management, rationally adopt flexible marketing strategies, and open up domestic and international markets. As new products carefully created by the Group are gradually introduced to domestic and overseas markets, the market share of loaders continued to remain at the top spot of the industry. The sales growth of the excavators has been striving to achieve a relatively large magnitude, raising the market share and brand influence of excavators. The position of forklifts was further reinforced in the industry, while the market share of road machinery also continued to grow. The Group will enhance information construction, actively promote digital and intelligent transformation and application, place more emphasis on product development and comprehensively improve product quality, as well as develop the Company's core competitiveness centred on "products" and "quality". The Company will introduce more technical experts and technical talents, invest more research and development funds, comprehensively sort out the four major categories of products as well as carry out project establishment, promotion, research and development, trial production and testing for each new generation of products. We will strengthen the technical development of key components, put more effort in the research and development of the products, intensify efforts in promotion of activities for the year of comprehensive quality management, continuously deepen and tap the potential of internal quality control, improve the full-cycle management and control of the products quality of the suppliers as well as upgrade the quality of various products comprehensively. While grasping the products and markets, the Company will continue to innovate the management system, establish the comprehensive management system, apply "science" in practice to achieve "enhancement" through "changes", and practice and promote our core culture and idea of "Lonking family", to work side by side with all Lonking members for a win-win sharing situation and build a warm home and entrepreneurial paradise together.

Profiles of Directors and Senior Management

Mr. Li San Yim, aged 69, is the Chairman of the Board and one of the founders of the Group. He has extensive experience in corporate management and is responsible for formulating the Group's management philosophy and business strategies. Mr. Li was appointed as a deputy of the 11th National People's Congress, member of the Executive Committee of the All-China Federation of Industry and Commerce (中華全國工商業聯合會執行委員), vice-chairman of the Fujian Province Federation of Industry and Commerce (福建省工商業聯合會副會長). Mr. Li has also been accredited as one of the "Outstanding Enterprise Founders under Chinese Socialism" (優秀中國特色社會主義事業建設者) and a National Labour Model (全國勞動模範). Mr. Li holds an EMBA at Fudan University in Shanghai.

Mr. Li is the husband of Ms. Ngai Ngan Ying, being a non-executive director. Save as disclosed above, Mr. Li has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Mr. Li's interest in the shares within the meaning of Part XV of the Securities and futures Ordinances (Cap 571) (the "SFO") is set out on pages 21 to 22 of this annual report.

Mr. Chen Chao, aged 45, is an executive Director and the executive vice-president of the Group. Mr. Chen joined the Group in July 1997, in charge of supply chain management. Mr. Chen holds an EMBA degree from Fudan University in Shanghai. Mr. Chen has over thirteen years of experience in product development and quality control, and has previously served as a deputy chief of the product development department at Shanghai Longgong Machinery, manager of the research and development centre and deputy general manager of Shanghai Longgong Machinery. Mr. Chen was appointed as a member of the 5th Standing Council by the Machinery Design Society of the Chinese Mechanical Engineering Society. In addition, he has also been appointed as a qualified technology and quality expert (技術質量專家) by the Technology and Quality Standing Committee (技術質量委員會) of Mechanical Engineering Technology and Quality Message Site (全國工程機械行業技術質量信息網).

Save as disclosed above, Mr. Chen has not held directorships in any other listed public companies in the last three years. Mr. Chen is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chen's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 21 of this annual report.

Mr. Luo Jianru, aged 73, is a Vice-President of the Group. Mr. Luo joined the Group in September 1998. Mr. Luo received a "second class" Jiangxi Province Science and Technology Award (江西省科學技術進步二等獎) in 1986 and a "third class" award from China Aviation Industry Company (中國航空工業總公司三等獎) in 1997 in recognition of his contribution to the development of science and technology. He is the deputy chairman of the executive committee of the Association of Industry and Commerce of Songjiang District, Shanghai (上海市松江區工商業聯合會副會長) and a member of the People's Political Consultative Conference of Songjiang District, Shanghai (上海市松江區政協委員). Mr. Luo is a graduate of Hefei University of Technology (合肥工業大學) and has over 25 years of experience in corporate management and the infrastructure machinery industry. Mr. Luo has held various senior positions including the deputy general manager of Fujian Longyan Construction Machinery (Group) Limited, general manager of Longgong (Shanghai) Axle & Transmission Co., Limited and deputy general manager of the Group.

Profiles of Directors and Senior Management

Save as disclosed above, Mr. Luo has not held directorships in any other listed public companies in the last three years. Mr. Luo is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Luo's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 21 of this annual report.

Mr. Zheng Ke Wen, aged 45, join the Group in September 1996. He was named as the "Outstanding Entrepreneur of Fujian Province" (福建省優秀企業家) in 2007-2008 and "Technical Innovation Expert" (技術創新能手) of Shanghai, and awarded a "second class" Fujian Province Science and Technology Award (福建省科學技術進步二等獎) and "Collective Representative of Model Worker of Shanghai" (上海市勞模集體代表). He was the committee member of third Youth Federation of Song Jiang District of Shanghai (上海市松江區第三屆青年聯合會委員). Mr. Zheng obtained an EMBA degree from Xiamen University. Mr. Zheng has over 18 years of experience in corporate management and sales and marketing. He has been the director of the chief control room, vice general manager and general manager of Longgong Shanghai Machinery Co. Ltd., general manager of Longgong (Shanghai) Axle & Transmission Co., Ltd., general manager of Longgong (Shanghai) Excavator Manufacturing Co. Ltd., and general manager of excavator business segment of Lonking. He is currently the vice President as well as the general manager of excavator business segment of the Company.

Save as disclosed above, Mr. Zheng has not held directorships in any other listed public companies in the last three years. Mr. Zheng is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Zheng's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 21 of this annual report.

Mr. Yin Kun Lun, aged 52 is an executive Director and the chief financial officer of the Group. Mr. Yin obtained a Bachelor's degree from Jilin University Management School in 1990 and graduated from Washington University-Fudan University EMBA Program and obtained a MBA degree from Washington University in 2010, and is a qualified Certified Public Accountant in the PRC. He was the auditing director of a factory under China Petroleum Jilin Chemical Group, the chief financial officer of BASF JCIC NPG Company Ltd and Putzmeister Machinery (Shanghai) Company Ltd. as well as the chief financial officer of Mahle Technology (China) Holding Ltd. Mr. Yin has over 25 years of experiences in corporate finance and investment management.

Save as disclosed above, Mr. Yin has not held directorships in any other listed public companies in the last three years. Mr. Yin is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Yin does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 64, is the Vice-Chairman of the Group and was appointed as a non-executive director of the Group in May 2004. Ms. Ngai is also one of the founders of the Group. Ms. Ngai is a standing committee member of the People's Political Consultative Conference of Xinluo District, Fujian Province (龍岩市新羅區政協常務委員). Ms. Ngai is the wife of Mr. Li San Yim, being a director.

Save as disclosed above, Ms. Ngai has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Ms. Ngai's interest in the shares within the meaning of Part XV of the SFO is set out on pages 21 to 22 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Qian Shizheng, aged 68, was appointed as an independent non-executive director in February 2005. Dr. Qian serves as a vice president of Shanghai Industrial Investment (Holdings) Co. Ltd. and a director of Shanghai Industrial Urban Development Group Co. Ltd. He graduated from Fudan University with a doctorate degree in management and has taught at Fudan University as associate director and professor in the faculty of Accountancy. Dr. Qian was an executive director of Shanghai Industrial Holdings Limited (stock code: 363). Mr. Qian also serves as a vice-chairman of Haitong Securities Co., Ltd (海通證券股份有限公司), and an independent director of Zoomlion Heavy Industrial Science and Technology Co., Ltd, (中聯重科股份有限公司) which are listed on Shenzhen Stock Exchange and Hong Kong Stock Exchange (stock code: 1157). He has over 26 years of experience in the finance and accounting fields.

Save as disclosed above, Dr. Qian has not held directorships in any other listed public companies in the last three years. Dr. Qian is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

Mr. Wu Jian Ming, aged 66, was appointed as an independent non-executive director of the Company in August 2013. He graduated from Central Party School of the Communist Party of China and is an economist. Mr. Wu has been a delegate of the 12th session of the People's Congress of Shanghai Municipality and was awarded the title of Model Worker of Shanghai. Over the past 30 years, Mr. Wu has held various positions in different divisions in Songjiang government in Shanghai, including the mayor of Cangqiao Town (倉橋鄉) in Songjiang County, the secretary of Chinese Communist Party Committee of Maogang Town (泖港鎮), the secretary of Chinese Communist Party Committee of Xinqiao Town (新橋鎮), the director of Construction and Transportation Management Committee in Songjiang District, the director of Administrative Committee of Songjiang Industry Park, a secretary and director of Administrative Committee of Export Processing Zone, and a chairman and general manager of Songjiang Economic and Technological Development Corporation (松江經濟技術發展總公司).

Saved as disclosed above, Mr. Wu has not held directorships in any other listed public companies in the last three years. Mr. Wu is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Wu does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Chen Zhen, aged 45, was appointed as an independent non-executive director of the Company in October 2014. He graduated from the East China University of Political Science and Law in July 1997 with a Bachelor of Laws degree. He is a practising lawyer in China. Mr. Chen worked at Jin Mao P.R.C. Lawyers in Shanghai from 1997 to 1998 as assistant to lawyer and lawyer respectively. He has also worked at Llinks Law Offices since 1999 as lawyer and partner and is currently partner of Llinks Law Offices. He is a member of the Securities Business Research Committee of the Shanghai Bar Association. He currently also serves as an independent director of Asia Cuanon Technology (Shanghai) Co., Ltd., NibiruTech Co., Ltd. in Chengdu, and Shanghai Flyco Electrical Appliance Co., Ltd.

Save as disclosed above, Mr. Chen has not held directorships in any other listed public companies in the last three years. Mr. Chen is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chen does not have any interests in the shares of the Company within the meaning of the Part XV of the SFO.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

The board of directors (the "Board") has reviewed results of the Group for the year ended 31 December 2019 and discussed the financial key performance indicators and outlook of the Group. Details of the review and analysis are set out in the Management Discussion and Analysis on page 8 of the annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of Profit or loss on page 57 of the annual report.

A final dividend of HKD0.20 (Equivalent to RMB0.17) per share as a result of the operation of 2018 amounting to HKD856 million (Equivalent to RMB731 million) was paid to the shareholders during the year. There were no any interim dividend paid out during the year.

The Board has proposed a final dividend of HKD0.25 per ordinary share for the year ended 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

The Group expended RMB247 million on property, plant and equipment during the year.

Details of the movement during the year in property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last five financial years is set out on page 152 of the annual report. This summary does not form part of the audited consolidated financial statements.

Directors' Report

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in the reserves of the Group during the year are set out on page 61 of the annual report.

The Company's reserves available for distribution to shareholders comprise the share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately RMB6,522 million as at 31 December 2019 (2018: RMB5,733 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Article of Association, dividends shall be distributed out of the accumulated profits or other reserves, including the share premium account, of the Company.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Li San Yim *(Chairman and Chief Executive Officer)*	(appointed on 11 May 2004)
Chen Chao	(appointed on 17 February 2005)
Luo Jianru	(appointed on 17 February 2005)
Zheng Ke Wen	(appointed on 25 May 2012)
Yin Kunlun	(appointed on 25 May 2012)

Non-executive directors:

Ngai Ngan Ying	(appointed on 11 May 2004)

Directors' Report

Independent non-executive directors:

Qian Shizheng	(appointed on 17 February 2005)
Wu Jian Ming	(appointed on 27 August 2013)
Chen Zhen	(appointed on 15 October 2014)

Pursuant to the Articles of Association, at each annual general meeting one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. Each of Mr. Li San Yim, Mr. Chen Chao, Mr. Luo Jianru, Mr. Zheng Ke Wen, Mr. Yin Kun Lun, Ms. Ngai Ngan Ying, Dr. Qian Shizheng, Mr. Wu Jian Ming and Mr. Chen Zhen shall retire at the annual general meeting and all offer themselves for re-election at the annual general meeting.

The biographical details of the directors are set out on pages 14 to 17 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2019, the interests of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Directors' Report

(1) Long positions in shares and underlying shares of the Company

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Li San Yim and Ngai Ngan Ying *(Note 1 and 2)*	Beneficial owner	2,398,273,188	56.03%
Chen Chao	Beneficial owner	1,596,000	0.04%
Luo Jianru	Beneficial owner	2,302,000	0.05%
Zheng Ke Wen	Beneficial owner	429,900	0.01%
		2,402,601,088	56.13%

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest.

Note 2: These shares were held under the name of Ms. Ngai Ngan Ying, who is the spouse of Mr. Li San Yim and a non-executive director of the Company. Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife and deemed to be interested in the same block of Shares.

(2) Long positions in shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Company Limited

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Register share capital	Percentage of the issued share capital of the Company
Li San Yim	Corporate *(Note)*	480,000	0.11%
Ngai Ngan Ying	Corporate *(Note)*	480,000	0.11%

Note: The 0.11% interest of Longgong (Shanghai) Machinery Company Limited is held by Shanghai Longgong Machinery Limited, which is owned by Mr. Li and Mrs. Li as to 39.5% and 60.5% respectively.

Save as disclosed above as at 31 December 2019, none of the directors, chief executives of the Company or any of their associates, had registered any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded and kept in the register by the Company in accordance with the Section 352 of the SFO, or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, no Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

SUBSTANTIAL SHAREHOLDERS

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 disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HKD0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
Citigroup Inc.	Investment Manager	214,496,331	5.01%

Saved as disclosed above, as at 31 December 2019, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as recorded and kept under Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities during the period.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Division on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Directors' Report

The five highest paid employees of the Group were all directors of the Company and details of their remuneration are included in note 8 to the consolidated financial statements.

At 31 December 2019, the Group employed approximately 7,644 employees.

ENVIRONMENTAL POLICY

We are committed to protect and improve the environment, prevent and reduce pollution. We operate in strict compliance with applicable national and local environmental regulations and strive to minimize the noise, waste water, gases and other industrial waste generated during our production processes. We require our production facilities to obtain necessary permission and approvals from the relevant government environmental regulator.

We are also continuously improving our existing products and developing new products in terms of environmental performance such as energy-efficient and noise-reduced features.

Details of the environmental performances of the Group are set out on page 41 to 51 of environmental, social and governance report in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 14% (2018: 15%) of the Group's total turnover for the year and the largest customer accounted for approximately 3% (2018: 3%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 36% (2018: 33%) of the Group's total purchases for the year and the largest supplier accounted for approximately 15% (2018: 13%) of the total purchases.

Save as disclosed above, none of the directors of the Company, an associate of the directors or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) have interest in any of the Group's five largest suppliers or customers.

RELATIONSHIPS WITH STAKEHOLDERS

The Company's key stakeholders are shareholders, suppliers, customers, employees and financial institutions. We are committed to maintain a good relationship with our business partners including suppliers, customers and financial institutions through good communication, exchanging ideas and sharing business update when appropriate. We are also committed to provide competitive remuneration package to attract and motive our employees.

Directors' Report

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 1 to the consolidated financial statements.

CONNECTED TRANSACTIONS

On 30 June 2017, the Company entered into a Master Purchase Agreement (the "Jinlong Master Purchase Agreement") with LongYan City Jinlong Machinery Company Limited ("Jinlong"), a company incorporated in the PRC with limited liability and owned as to approximately 82.67% by Mr. Ngai Ngan Qin, a brother of Ms. Ngai Ngan Ying, the non-executive director of the Company, pursuant to which the Group agreed to purchase the Parts from Jinlong from time to time for a term commencing from 1 January 2017 and ending on 31 December 2019. On 30 December 2019, the Company and Jinlong entered into a Renewed Master Purchase Agreement, pursuant to which, the Company agreed to purchase or would procure its subsidiaries to purchase the Parts from Jinlong from time to time for a term commenced from 1 January 2020 and ending on 31 December 2022.

On 19 January 2018, the Company and Herkules (Shanghai) Automation Equipment Co. Ltd. ("Herkules"), a company established under the laws of the PRC with limited liability and wholly-owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive Director, chairman and controlling shareholder of the Company, entered into a Renewed Master Purchase Agreement (the "Renewed Herkules Master Purchase Agreement"), pursuant to which, the Company agreed to purchase or would procure its subsidiaries to purchase the Automation Robot Products from Herkules from time to time for a term commencing from 1 January 2018 and ending on 31 December 2020.

The transaction contemplated under each of the Jinlong Master Purchase Agreement, and the Renewed Herkules Master Purchase Agreement, constitutes connected transactions for the Company under Rule 14A.76(2) of the Listing Rules and are exempt from the independent shareholders' approval requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios (other than the profit ratio) in respect of the related amount is less than 5% on an annual basis. For the year ended 2019, the Company purchased the parts approximately RMB48 million from Jinlong under the Jinlong Master Purchase Agreement, the Automation Robot Products approximately RMB38 million under the Renewed Herkules Master Purchase Agreement.

Directors' Report

Details of the related party transactions of the Company during the year are set out in Note 36 to the consolidated financial statements. All the related party transactions disclosed in the annual financial statements in accordance with HKAS 24 "Related Party Disclosure" fall under the definition of connected transactions or continuing connected transactions in Chapter 14A of the Main Board Rules. In the opinion of the directors, the Company had during the year ended 31 December 2019 complied with all the disclosure requirements in accordance with Chapter 14A of the Main Board Rules. The independent non-executive directors confirm that the Transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole. Company has engaged its external auditor to review the Group's continuing connected transactions with Jinlong and Herkules in accordance with Hong Kong Standard on Assurance Engagements 3000(Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The board of directors confirm that the auditor has issued an unqualified letter containing its conclusions in respect of the non-exempted continuing connected transactions mentioned above pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no major acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2019.

POST BALANCE SHEET EVENTS

The company did not have any significant post balance sheet events.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPLIANCE WITH LAWS AND REGULATIONS

There was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

DIVIDEND POLICY

The board of directors has adopted a dividend policy, under which, any distribution of dividends shall be in accordance with the applicable laws, regulations and the relevant provisions of Articles of Association. As long as the Group is profitable and any dividends paid to company shareholders will not have a significant impact on the Group's business and operations. The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

(i) the financial performance and condition of the Group,

(ii) reasonable expected investment return from the shareholders,

(iii) business conditions and strategies,

(iv) future development of the business including the capital requirements and expenditure plans,

(v) any restrictions on the payment of dividends and any other factors that the Board may consider relevant.

The board continues to review the dividend policy from time to time.

PRINCIPAL RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospect may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. Major risks are summarized below.

(i) Market Risk

After more than a decade of high speed development, construction machinery industry has stepped into a relatively stable period. As result, market demand for our products including wheel loaders, road rollers, excavators, forklifts and other infrastructure machinery may continues decline. Our financial condition, results of operations and prospects will be adversely affected if we cannot guarantee that the demand for our products will continue or increase in the future.

In addition, the construction machinery industry in which the Group operates is highly competitive. We face competition in the market from international and domestic construction machinery manufacturers, many of which entered the market before us and currently have larger market shares than us. The demand in the market for your products may decline if we do not respond timely to our competitors.

(ii) Financial Risk

We are subject to financial risks which may adversely affect our business, financial condition and results of operations. Details of which are set out in Note 40 to the consolidated financial statements.

(iii) Operational Risk

We reply on a limited number of suppliers for certain raw materials and key parts and components. There can be no assurance that these suppliers will continue to supply raw materials and components to us on existing or similar terms, or at all. If the supply of any of our core raw materials, parts and components is interrupted or the terms of supply change, our financial condition and results of operation may be adversely affected.

We also depend on sales agents to sell our products because we sell substantially all of our products through sales agents, which comprise our direct customer base. If we fail to maintain relationship with our existing sales agents, attract additional sales or effectively manage our sales agents, our business will be adversely affected. Further, we intend to expand our sales and service network in China and overseas to expand our geographical coverage and increase our domestic and international market penetration. If we cannot be able to successfully expand our sales, service and distribution network, our business will be adversely affected.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2019.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Ernst & Young as the auditor of the Company.

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 26 March 2020

Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES

To become a company which enjoys the continuously growing trust of its shareholders and all other stakeholders by maximizing its corporate value, the Company is working to improve its management efficiency, advocate corporate ethics and ensure sound management on a Group-wide basis. To further improve the transparency of the management to shareholders and investors, the Company will disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings in the PRC and Hong Kong to explain its business results and operations. The Company will endeavor to comply with the laws and regulations of the place of operation of the Company and the requirements and guidelines of the Stock Exchange of Hong Kong Limited and local regulatory bodies.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the corporate governance duties as follows:

(a) To develop and review the Company's policies and practices on corporate governance and make recommendations to the board;

(b) To review and monitor the training and continuous professional development of directors and senior management;

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

(d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) To review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (THE "CODE")

The Board is committed to maintaining and ensuring high standards of corporate governance practices.

The Board emphasizes on maintaining a quality Board with balance of skill set of directors, better transparency and effective accountability system in order to enhance shareholders' value. In the opinion of the directors, the Company has adopted and complied with the principles and applicable code provisions of Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarized as below.

Corporate Governance Report

Code Provision A.1.8

As stipulated in the Code provision A.1.8 of CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has not yet made this insurance arrangement as the board of directors considers that the director liability insurance has not yet been identified on the market with reasonable insurance premium while providing adequate suitable security to directors.

Code Provision A.6.7

As stipulated in the Code Provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 28 May 2019 (the "2019 AGM") due to other important engagement.

Code Provision A.4.3

Dr. Qian Shi Zheng ("Dr. Qian") has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Dr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group's business and his participant in the Board brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered. The Company has received from Dr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Dr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Dr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Dr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the shareholders at the Annual General Meeting. At the Annual General Meeting of the Company held on 28 May 2019, a separate resolution to re-elect Dr. Qian, a retiring Director, as an independent non-executive Director was passed by the shareholders by way of poll.

Code Provision A.2.1

As stipulated in the Code provision A.2.1 of CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Li San Yim ("Mr. Li"), an executive director of the Company and the chairman of the Board has been appointed by the Board to act as the chief executive officer concurrently since 21 December 2015. As Mr. Li serves as both the chairman of the Board and the chief executive officer of the Group, such practice deviates from code provision A.2.1 of the CG Code. The Board is of the view that it is appropriate and in the best interests of the Company for Mr. Li to hold both positions as it helps to maintain the continuity of the policies and the stability of the operations of the Company. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2019. The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing their duties. Under the Board, there are currently 4 board committees, namely Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises 9 directors, including 5 executive directors, 1 non-executive directors and 3 independent non-executive directors. Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to the shareholders.

Pursuant to Rules 3.10 (1) and (2) of the Listing Rules, Dr. Qian Shizheng, one of the independent non-executive directors, has specialized in related financial management expertise.

A written confirmation was received from each of the independent non-executive directors, Dr. Qian Shizheng, Mr. Wu Jian Ming and Mr. Chen Zhen confirming their independence pursuant to Rule 3.13 of the Listing Rules.

All members of the Board are of relevant professional background with plenty of experience who can have a positive and motivational effect in raising the development and management level of the Company. Mr. Li San Yim ("Mr. Li") serves as both the Chairman of the Board and the chief executive officer. The chairman of the Board is mainly responsible for the leadership and effective running of the Board, and making key strategic decisions for the Company. The chief executive officer is mainly responsible for the daily operation and management of the Group's business, and implementation of the approved strategies in achieving the overall Company's objectives. Mr. Li holds both positions for the best interests of the Company to maintain the continuity of the policies and the stability of the operations of the Company.

Included in the composition of the Board are two family members: the chairman of the Board, Mr. Li San Yim and his wife Ms. Ngai Ngan Ying, one of the non-executive directors of the Company are subject to retirement by rotation and offer themselves for re-election in the same manner as the executive directors. The Company will review the composition of the Board regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

For detailed information on the members of the directors and senior management, please refer to the section headed "Profiles of Directors and Senior Management" from pages 14 to 17 of this annual report.

For the year ended 31 December 2019, the Board held 4 meetings. Notice of at least 14 days is given for a regular Board meeting to give all directors an opportunity to attend. The following table shows the attendance records of individual directors at the meetings of the Board and the attendance records of individual members at the meetings of the respective Board Committees held for the year ended 31 December 2019:

Corporate Governance Report

Name of directors	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
	Number of meetings attended/Number of Meetings held for the year ended 31 December 2019					
Executive Directors						
Mr. Li San Yim *(Chairman and Chief Executive Officer)*	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Luo Jianru	4/4	2/2	N/A	N/A	N/A	0/1
Mr. Chen Chao	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Zheng Ke Wen	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Yin Kun Lun	4/4	2/2	N/A	N/A	N/A	1/1
Non-Executive Director						
Ms. Ngai Ngan Ying	4/4	N/A	2/2	1/1	1/1	1/1
Independent Non-Executive Directors						
Dr. Qian Shizheng	4/4	N/A	2/2	1/1	N/A	0/1
Mr. Wu Jian Ming	4/4	N/A	N/A	N/A	N/A	0/1
Mr. Chen Zhen	4/4	N/A	2/2	N/A	1/1	0/1

N/A Not Applicable

BOARD COMMITTEES

As part of good corporate governance practice, the Board has delegated certain authorities to a number of committees. These committees include representation from non-executive and independent non-executive directors whose objective views are important in the execution of the controls expected in a listed company.

EXECUTIVE COMMITTEE

The executive committee is responsible for recommending general policy and advising direction for the Company to the Board and as such, it interacts with the audit, remuneration committees and nomination committee in respect of their policy submissions. The executive committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector and assess the independence of the Company's independent non-executive directors.

The Committee currently consists of 5 executive directors, namely Mr. Li San Yim, Mr. Chen Chao, Mr. Luo Jianru, Mr. Zheng Ke Wen and Mr. Yin Kun Lun. Mr. Li San Yim is elected as the chairman.

Under the executive committee, the Company set up a strategy and governance committee and adopted the company code, being its own code on corporate governance. The principal role of the strategy and governance committee are lay down the Company's strategies, policies and business plan and set up appropriate policies to manage risks in pursuit of the Company's strategy objective.

AUDIT COMMITTEE

The audit committee currently comprises 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non executive directors, namely Dr. Qian Shizheng and Mr. Chen Zhen. Dr. Qian Shizheng was elected as chairman.

The primary duties and responsibilities of the audit committee is to assist the Board in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters and those required by the Listing Rules of the Stock Exchange of Hong Kong Limited and other regulatory bodies.

The functions of audit committee include but not limited to the following:

Serve as an independent party to monitor the integrity of the Company's financial statements, reporting process and internal control mechanism;

Review the Company's risk management and internal control systems and discuss the systems with the management to ensure the management has performed its duty to have effective systems.

Consider major investigation findings on risk management and internal control matters and management's response to these findings.

Review and assess audit efforts of the Company's independent auditors; directly appointing, retaining, compensating, evaluating and terminating the Company's independent auditors;

Review the qualifications, independence and performance of the independent auditor; and

Provide an intermediary of open communication among the Company's independent auditors, financial and senior management and board of directors.

The audit committee has reviewed the Company's interim and final results for the year of 2019.

The terms of reference of the Audit Committee are posted on the Company's Website.

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, Ernst & Young Certified Public Accountants ("Ernst & Young") the external auditors of the Group received approximately RMB2.67 million (2018: approximately RMB2.52 million) for audit and review services.

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 1 independent non-executive directors, namely Dr. Qian Shizheng. The primary duties and responsibilities of the remuneration committee is to assist its board of directors (the "Board") in determining the policy and structure for the remuneration of its executive directors, evaluating the performance of its executive directors, reviewing incentive schemes and directors' service contracts and fixing the remuneration packages for all its directors and senior management. No director plays a part in any discussions about his own remuneration for the year ended 31 December 2019. The terms of reference of the Remuneration Committee are posted on the Company's Website.

NOMINATION COMMITTEE

The nomination committee currently comprises 1 non-executive director, namely Ms. Ngai Ngan Ying, and 1 independent non-executive directors, namely Mr. Chen Zhen. The primary duties and responsibilities of the nomination committee is to assist its board of directors (the "Board") in identification of suitable individuals qualified to become Board members, review the structure, size and composition of the Board, review as appropriate to ensure the effectiveness of the board diversity policy and monitor of the implementation of this policy and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The terms of reference of the Nomination Committee are posted on the Company's Website.

BOARD DIVERSITY POLICY

During the year, the Board has adopted a board diversity policy. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, independence, expertise, skills and know-how.

Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity.

The nomination committee of the Board (the "Nomination Committee") has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to this policy in selection of board candidates.

Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, independence, expertise, skills and know-how.

The Nomination Committee will review, as appropriate, to ensure the effectiveness of the Board Diversity Policy and monitor the implementation of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises 9 Directors, including 1 non-executive directors and 3 independent non-executive directors. Among which, one of them is a woman who is non-executive Director, two of them specialize in accounting or related financial management expertise, one of them is from legal background, three of them had experiences other than infrastructure machinery manufacturing, or from different industry and background. The Directors are of diverse background and possess a wide spectrum of professional qualifications and industry experience. The Board is of significant diversity, whether considered in terms of gender, industry experience, background and skills.

INTERNAL CONTROLS AND RISK MANAGEMENT

It is the Board's responsibility for developing and maintaining an effective risk management and internal control system of the Group and reviewing their effectiveness on an ongoing basis. The Group's risk management and internal control systems are designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore it can provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial fraud or losses.

Corporate Governance Report

The Board, through the Audit Committee oversee management in the design, implementation and monitoring of the risk management and internal control systems. The risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Group to identify, evaluate and manage the significant risks to achieve its business objectives. The Company has established policies and procedures to all operating units to ensure the effectiveness of risk management and internal control systems. The senior management also reviews and evaluates the control process, monitor any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks.

The Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control system, including financial, operational, compliance controls and risk management functions for the year ended 31 December 2019. The board is of the opinion that the Group's risk management and internal control system are adequate and effective.

The procedures on disclosure of inside information were in place under the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission, to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

The Company continually reviews and enhances its business and operational activities to identify areas of significant business risks and take necessary measures to control and mitigate these risks.

Internal Audit

The internal audit department is responsible for performing review of the adequacy and effectiveness of the risk management and internal control systems. It reports major risk management and internal review findings to the Board and Audit Committee. The department is monitored and held responsible to the Board and as well as to the audit committee. The internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures, operations and internal control procedures on a regular or in ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regime.

Independent evaluations and recommendations is the core element in the department, the internal audit staff are authorized to access any information relating to the Company and to make enquiries to staff concerned. Besides that, internal audit department would assist external auditors during an external audit by providing pertinent financial information in a timely manner.

Strengthening Systems of Internal Controls

The Company fully adopts a comprehensive budget management and a level-based performance appraisal management, so as to monitor the operations of the Company according to the budget and adjust operating objectives and management initiatives in a timely manner. For a more scientific and effective human resources management, the Company carries out in-depth analysis on each position for a clear and reasonable definition of job missions, duties, skills requirements and key performance targets.

Key internal controls of the Company include

- Establishment of policies, rules, procedures and approval limits for key financial and personnel matters, and the rules to the delegation of authorities;
- Internal documentation of key processes and procedures;
- Maintenance of proper accounting records;
- Safeguarding the Company's assets;
- Ensuring reliability of financial information;
- Ensuring compliance with appropriate legislation and regulations; and
- Having qualified and experienced persons take charge of important functions.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2019, all directors have participated in continuous professional development by way of attending briefings, conference, courses, forum and seminars, teaching, self-reading and participated in business-related research which are relevant to the business or directors duties.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

The Company believes that it is crucial to maintain effective communication with investors to enhance their knowledge and understanding of the Company. In this regard, the Company attaches high importance to implement positive policies that facilitate investor relations and communication. The Company seeks to enhance the transparency and consolidate the knowledge and understanding of the investors towards the Company effectively through various means such as open, fair and impartial information disclosure to investors.

Corporate Governance Report

The Company received communications from a total of 198 domestic and overseas investors throughout the year 2019, including over 31 on-site meetings and over 56 telephone meetings. In 2019, the Company received group visits with 10 to 20 members for 8 times.

Shareholder's Rights

The Board recognises the importance of effective communication with the shareholders. The Company communicates with the shareholders through various channels including publication of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

The general meetings of the Company provide an opportunity for direct communication between the Board and the shareholders. The Company encourages the participation of the shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the shareholders.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Investor Relations Department of the Company. Investor Relations Department of the Company handles both telephone and written enquiries from shareholders from time to time. Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions. The contact details of the Investor Relations Department are set out in the Corporate Information section of this annual report.

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

Pursuant to Article 88 of the Articles of Association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The procedures for shareholders to propose a person for election as a Director is posted on the Company's website.

Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

During the year ended 31 December 2019, there has been no significant change in the Company's constitutional documents.

CORPORATE SOCIAL RESPONSIBILITY

The Group also dedicates itself to contributing to the society and serving the community in the midst of its rapid development. Taking into consideration the actual situation in the place where it operates, the subsidiaries of the Group take part in local social services. Our involvement in community service helps to build a good image of the Company and contribute to the local social development.

In the future, we will continue to support and participate in diversified social and community activities. To promote the relationship between the Company and investors and to enhance the transparency of the operation of the enterprise, the Company will communicate information regarding the Company's business development through various channels when appropriate.

Environmental, Social and Governance Report

I. Environment

Pursuant to the national regulations related to environmental protection, the Company has established a management system in place for environmental protection, set up a leading group responsible for environmental protection and prepared emergency plans for environmental incident. The ISO14001 environment management system has also been established and operated effectively for consistent implementation of cleaner production and pollution treatment to minimize the effect of the Company's production and operation on the environment. Adhering to its environmental approach of "cleaner production to perform social responsibility; sustained improvement to create green enterprise", the Company has included environmental management and control into its "Annual Work Schedule of the Board" to facilitate "cleaner production" and "pollution treatment" and, ultimately, to be a resource conserving and environmentally-friendly enterprise in a socially responsible way.

Emissions

Strictly abiding by the "Environmental Protection Law of the People's Republic of China" (《中華人民共和國環境保護法》) and other related laws and regulations and various emission standards of pollutants, the Company promotes the application of advanced techniques and equipment with high resource efficiency and low pollutant emission so as to reduce the generation of pollutants from their source and maintain effective operation of its pollution treatment facilities, ensuring the pollutants are discharged in compliance with standards.

The greenhouse gas emissions of the Company mainly come from the consumption of direct energy, mainly including the consumption of primary energy like natural gas and diesel oil, and indirect energy, mainly including the consumption of electricity. As of 31 December 2019, calculated on the basis of ISO14064 and IPCC-2006 standards, total emissions of carbon dioxide, methane and nitrous oxide, all being greenhouse gases, of the Company were 225,920 tonnes, 0.4641 tonne and 0.0649 tonne in 2019, respectively.

The waste water discharged by the Company is mainly the one from the metal surface treatment during the production process and a small amount of domestic waste water. The Company has built 8 waste water treatment facilities, which apply techniques including acid-base neutralization, coagulating sedimentation and biochemical degradation to conduct treatment of production waste water. A small amount of domestic waste water undergoes biological treatments through septic tank. After such treatment, the production waste water and domestic waste water of the Company meets the "Wastewater Quality Standards for Discharge to Municipal Sewers" (GB/T 31962-2015). As of 31 December 2019, total waste water discharged by the Company to the urban drainage facility was 615,552 tonnes, with a drainage pass rate of 100% in 2019. The Company has established the "Regulations on Administration of the Usage of Tap Water in Production Areas" (《生產區自來水用水管理規定》) to perform strict quota management and control on water usage, realizing a recycle rate of industrial water of 85%.

The exhaust gases regularly emitted by the Company are mainly sulphur dioxide and nitrogen oxide arising from energy combustion (such as steam boilers, heating furnaces, etc.) as well as exhaust gases generated from the metal surface treatment process. The Company adopted energy-saving gas boilers. The emissions of pollutants (such as sulphur dioxide, nitrogen oxide, etc.) meet the "Emission Standard of Air Pollutants for Boilers" (GB 13271-2014) or "Emission Standard of Air Pollutants for Boilers" (DB31/387-2018). Exhaust gases generated from production process are treated through facilities such as acid fog absorption towers, regenerative combustion and activated carbon absorbers. Such treated pollutants can meet the standard set out in the table 2 of the "Integrated Emission Standard for Air Pollutants" (GB16297-1996) or "Integrated Emission Standard for Air Pollutants" (DB31/993-2015). As of 31 December 2019, the Company emitted 0.028 tonne of sulphur dioxide and 13.398 tonnes of nitrogen oxide in total in 2019.

The solid wastes discharged by the Company mainly include hazardous wastes and non-hazardous wastes. Hazardous wastes are mainly waste mineral oil, waste cutting fluid, paint residue, surface treatment bath solution and sludge, waste acid, waste hazardous chemicals packaging barrels. As of 31 December 2019, the Company generated total hazardous wastes of 2,423 tonnes in 2019, all of which were outsourced to qualified hazardous waste treatment units entrusted by the Company for proper disposal and corresponding examination and approval formalities regarding the transfer of hazardous wastes being processed as required. The management of hazardous wastes of the Company complies with the requirements of regulations such as "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes" (《中華人民共和國固體廢物污染環境防治法》), "National Catalogue of Hazardous Wastes" (《國家危險廢物名錄》), "Measures on Duplicated Form for Transfer of Hazardous Wastes" (《危險廢物轉移聯單管理辦法》) and "Standard for Pollution Control on Hazardous Waste Storage" (《危險廢物儲存污染控制標準》). Non-hazardous wastes are mainly recyclable wastes such as waste steel, waste iron, waste paper and waste plank, and unrecyclable industrial wastes. As of 31 December 2019, the Company generated total non-hazardous wastes of 137,503 tonnes in 2019, including recyclable wastes of 136,485 tonnes, all of which were recollected by a casting and forging company of the Group, or other recycling companies for comprehensive reuse. Industrial wastes of 1,018 tonnes were outsourced to industrial waste treatment units recognised by the local government authorities for disposal.

Use of Resources

Starting from the source, the Company has adopted advanced production processes to abandon equipment with heavy pollution and high energy consumption. In 2019, the main energy consumed by the Group included natural gas of 7,161,000 cubic meters, electricity of 248,904,600 KWH, fuel diesel of 1,645.6 tonnes, and propane of 1,143.2 tonnes.

In 2019, the Company consumed 724,179 tonnes of tap water in total.

Committed to be a resource-saving enterprise, the Company prudently complies with the laws and regulations including the "Law of the People's Republic of China on Energy Conservation" (《中華人民共和國節約能源法》) as well as local regulations on energy conservation. As the Company places great importance on energy conservation and consumption reduction to enhance the utilisation rate of energy, it has adopted a 3-level measurement for energy management and quota management. Each of the cutting gas equipment using natural gas and propane is installed with flow meters for measurement. The most reasonable cutting parameters are determined according to steel plate cutting experiments. All of the flame cutting categories are set up with fixed consumption quota. Energy-intensive equipment is installed with power meters for measurement. For high consumption equipment, electricity suspension is arranged in trough hours. Waste heat from boilers is recycled for utilisation. After implementing the aforesaid measures, the Company has recorded a notable decrease in energy consumption.

The Company consistently adopts the concept of water conservation. By developing a water management system and fixed quota control, installing water meters for measurement and improving recycle rate of industrial water, the Company has recorded a notable decrease in product water consumption.

Packing materials used by the Company mainly include chock block, wrapping film and steel baling strap. Without influencing the product, the Company improves the utilisation rate of recyclable packages and reduces consumption of packing materials to minimise its effect on the environment through strengthened internal management and reasonable use of packages. In 2019, total consumption of timber, plastic film, steel baling strap and other packing materials of the Company was approximately 298 tonnes.

Environment and Natural Resources

In 2019, the Company invested a vast amount of capital to conduct technical renovation on its harmful toxic procedures and several existing pollution treatment facilities. With the adoption of international and domestic advanced production processes and pollution treatment techniques, the production and pollution treatment level has been comprehensively improved. Each type of pollutant emissions has met the national/local standards.

In the production and operation process, the Company intensifies the usage control of non-renewable energy, focuses on saving and eliminates waste. The Company neither uses and wastes plenty of non-renewable energy, nor damages the ecological environment of surrounding areas, and there is no material impact on environment and natural resources.

II. Social Commitment

Employee benefits

Employees are one of the most important resources of the Company and its core for development, growth and value creation. The Company fully respects the legal rights of its employees and always upholds the talent perspective of "recruiting and cultivating talents, selecting the right people for the right jobs" ("聚才用賢、能崗匹配"), with an aim to create a fair, equitable and respectful workplace and ambience for all of its employees.

The Company strictly complies with the "Labour Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》), "Labour Laws of Hong Kong" (《香港勞工法例》) and other relevant laws and regulations. Besides, it has established the "Human Resources Management System" (《人力資源管理制度彙編》), which systemically governs aspects such as remuneration packages, employments and promotions, re-designations and overseas deployment, resignation management, working hours, leave management, appointment qualifications, labour protection as well as prevention and protection from occupational hazards. The Company fights against any kind of career discrimination based on factors including genders, ages, disability, races and religions and ensures that employees are offered fair employment or promotion opportunity and remuneration package based on their capabilities and profit contributions.

The Company provides diverse benefits and care to its employees. In addition to the contribution to social insurance and housing provident funds as required under the national provisions, the Company offers a variety of cash and benefit in kind to its employees such as holiday allowance, wedding gift, birth gift and high temperature allowance as well as caring benefits such as health check-ups, paid leave, free accommodation and significant family care. The Company also offers benefits in the form of "healthy life" themed corporate culture events, and reimbursement of travel expenses for employees who travel through provinces and cities to return home for the Chinese New Year.

Female staffs are entitled to pregnancy examination leave and maternity leave during their pregnancy and parturition, and are arranged to work in their original unit and duties upon expiry of maternity leave in order to actively help employees reintegrate into the workplace.

As of 31 December 2019, the Company had a total of 7,644 employees. The average monthly turnover rate of staff was 2.26% in 2019. Owing to the business nature of the Company as a construction machinery enterprise, most employees are males, accounting for 85.18%; and most employees of the Company are aged 26 to 40. The below table sets forth the breakdown of the age of our employees.

	Age structure of employees			
Item	**Below 25**	**26-40**	**41-50**	**Above 51**
Number of individuals	1,376	3,930	1,928	410
Proportion (%)	18.00	51.41	25.23	5.36

Health and Safety

The Company has always endeavored to safeguard employees' health and safety, recording no work-related deaths and accidents. The number of lost workdays due to injury accidents is 1,630 days as per the GBT15499-1995 "Lost Workdays Standard for Injury Accidents". The Company attaches great importance to environment governance and has invested more than RMB100 million in the past three years to treat dust and toxic and harmful gases discharged in a comprehensive manner. It ensured compliance with all applicable standards and regulations of various discharges. Environmental inspection station in each production base operated normally, which conducted weekly inspections on hazard factors with an annual inspection passing rate at 100%. The Company has obtained the Environment and Occupational Health and Safety Management Systems (OHSMS) certification and carries out annual internal and external reviews to rectify any non-compliance within specified periods of time. The Company ensures the safety and hygienic condition of the working environment in line with the applicable standards.

The Company strictly implements related national laws and regulations, and sticks to the guidelines of "Safety First, Prevention First, Comprehensive Governance" to build and complete various systems to protect employees' safety and physical and mental health. The Company allocates to employees qualified and complete set of labor protection appliances and implements daily supervision and inspections to standardise their usage. The safety production standardisation has obtained level 2 national certificate, and the safe production procedures cover all positions throughout the Company. Further, occupational health examination is arranged annually for workers who are exposed to harmful toxic substances at the production line to prevent occupational diseases.

Development and Training

Lonking takes initiatives in developing a sound environment and room for occupational development. It formulates comprehensive administrative measures on staff development, establishing transparent and clear career path for employees. Besides, the Company offers diverse and complete career-related training courses, facilitating the close linkage between the career development of employees and the business development of the Company as well as helping employees achieve career success step by step.

The Company had outstanding achievements in talent training and development. The Company helped the Shanghai G60 Talents Base to construct policy, strongly carried out the training of highly-skilled talents and the apprenticeship by experienced staff. The Company also worked with high schools to carry out continuing education for technical R&D personnel and established the employee covers online learning platform. The online learning contents cover a total of over 3,000 various courses of different modules including research and development, human resources, finance, production, marketing, personal development and leadership. A good talent training and development system can improve employees' expertise and skills, uplift their management skills, develop their problem-solving skills and inspire their potential, thereby maintaining the Company's leading advantage in the overall benefits of labor efficiency and human resources and promoting the vibrant, harmonious and orderly development of the Company.

Labor Standards

The Company has strictly complied with the relevant laws and regulations such as the "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》) and the "Provisions on the Prohibition of Using Child Labor" (《禁止使用童工規定》) to protect the legitimate rights and interests of minors. We prohibit minors from working in any workplaces. In order to eliminate the employment of minors, during the open recruitments, candidates are required to present their identity cards and verify against the originals and only candidates who fulfill the recruitment conditions may proceed with the entry formalities. In 2019, Lonking did not violate relevant laws or regulations.

Supply Chain Management

In 2019, in establishing long-term and solid partnerships with each supplier, the Company, together with its suppliers, established well-developed supplier admission and appraisal systems, made full use of resources to improve the ability to resist procurement risks and set up the strongest, powerful and competitive supply chain.

In 2019, the Company had 18 strategic cooperative suppliers and 220 new suppliers, which had greatly reduced its bottleneck constraint of products. In 2019, there were a total of 1,093 qualified suppliers, among which, 866 from Eastern China, 76 from Northern China, 19 from Southern China, 18 from the southwest region, 80 from Central China, 17 from the northeast region, 5 from the northwest region and 12 from overseas.

With the all-round promotion of "one card for one fault" inspection policy on production quality, the Company creates card record for each quality-caused fault and implements all-process follow-up and management. This policy has effectively motivated suppliers to rectify and improve their product quality, apparently raising the qualified rate of products procured from external suppliers.

(1) Policy and Management Measures

1. A hierarchic supplier management system has been implemented, and non-compliant suppliers were weeded out in a prompt manner to optimise supply chain structure and construct a supply chain system in line with the product positioning of the Company.

2. The upgrading of its supplier management platform (SRM) was completed, which has improved the synergy management efficiency, integrated the BOM database, and realised the improvement of procurement management level in terms of technology, quality and cost, etc.

3. The products importance classification table was established in accordance with the products importance level. The Company implemented the price comparison on type A and B materials, with focus tilting towards the cost on the premise of quality and delivery schedule guarantee. The Company fully implemented public tender and bidding procurement on type C components.

(2) Introduction and Control of Suppliers

1. In introducing all suppliers, the Company conducts control on the process of procurement and outsourcing pursuant to "Procurement Control Procedures" (《採購控制程序》). The key scope of review on suppliers covers "CCC", "ISO9000", "IATF16949" and "National Military Standards", etc.

2. The control methods of the Company on suppliers include: the Company conducts control on its suppliers through irregular on-site inspection (to inspect the operation condition of suppliers including the procurement of raw materials, production process, quality control process, etc.), and meeting with suppliers with quality concerns (to analyse reasons, propose schemes and measures for improvement and require such suppliers to submit new samples), and suppliers' annual results appraisal, etc.

(3) Long-Term Purchase

The procurement cycle of certain key import components of the Company was longer, which were exposed to the guarantee risk under the significant growth of the products sales of the Company. The solution is to maintain effective communication and contact, and, based on industry and market information and status, to formulate the rolling plan for long-term product procurement and manage strategic inventories in a scientific and reasonable manner, as well as make timely and appropriate adjustments based on demand and cycle, so as to ensure that long-term product procurement meets production demands.

Environmental, Social and Governance Report

(4) Future Plan and Measures

1. Supplier Strategy Planning

   The Company leveraged on the basis of professional procurement management team and excellent supplier team, so as to support the procurement strategy of the Group through continuously improving the competitiveness in terms of the quality, cost and delivery schedule of procurement. The Company adhered to the procurement guideline of "supplier management", "usage management", and "efficiency management", establishing a stable and quality supply chain system.

2. Protection Measures

   (1) Quality: That is "usage management", the Company strengthened the source control and supervised the material procurement, factory inspection, production process and packaging and transportation. If there were quality problems found in the inspection of products procured from external suppliers, the Company would immediately request the supplier to convene the quality seminar at the Company so as to analyse the reason and list out the measures for rectification.

   (2) Cost: That is "efficiency management", the Company has adopted a new pricing model for cost of procurement. It extended cost management forward to promote suppliers to adopt new process, new techniques and new materials for cost reduction, thus realising co-development of the Company and suppliers.

   (3) Production capacity: That is "supplier management", suppliers' production capacity is planned at 120% of the production plan of the Company, which is in line with the production progress of the Company. For non-exclusive suppliers in the industry, the Company requested them to make sufficient reserve during the low season of production.

Product Responsibility

The Company has strictly performed its responsibilities as an enterprise for quality and safety, and has implemented quality management in strict compliance with the requirements of the ISO9001 system. The Company established the quality management department and the supply chain supervision office to build and implement product quality plans, quality control and improvement endeavors in an all-round manner.

In terms of product research and development, the Company improves and strictly implements the "Product Development and Management System" (《產品開發管理制度》), "Product Design Change Management System" (《產品設計變更管理制度》) and other research and development procedures and systems to refine product research and development procedures and links, so as to ensure the compliance of product research and development with safety regulations and quality management system requirements and continuously meet the needs of customers.

In terms of product quality control, the Company sets up supplier appraisal standards to evaluate candidate and existing suppliers. It also maintains on-site supervision on suppliers and signs technical agreements, quality guarantee agreements, and agreements on warranty services of repair, replacement and refund with suppliers to keep improving supplier processes and production quality. In terms of internal quality control, the Company continuously implements a "user-based" management mode and promotes all-staff quality management. It launches an all-round "4M Change Management" mechanism to reduce quality defects from changes in "people, machine, material, and method" to ensure stable and reliable production quality.

In terms of after-sales services, the Company adheres to the principle of "sales agency system", and keeps its advantages of "quality, services and value-for-money" while strictly implementing the "one card for one fault" system. It has built up a QMS electronic information platform to integrate hotlines, emails, and WeChat complaint platform for accurate, timely, and integrated transmission of messages. This has ensured its after-sales service quality and met customers' demands.

The Company attaches great importance to customer satisfaction construction. It makes targeted improvements through customer satisfaction surveys, information collection, analysis and improvement measures, to constantly meet customers' needs and enhance the Company's competitiveness.

Anti-corruption

The Company believes that preventing the occurrence of corruption, bribery, fraud and extortion is the social responsibility and legal liability it shall assume. Besides, the Company is dedicated to developing a clean and honest culture and system for all stakeholders inside and outside the Company, promoting the idea and philosophy of practice of anti-corruption.

Environmental, Social and Governance Report

The Company established the Committee of Discipline Inspection of the Chinese Communist Party (黨委紀律檢查委員會) and the Anti-Corruption Office (廉政辦公室) to carry out anti-corruption work independently and accept the report of and deal with all kinds of violations of laws and regulations. With relevant systems such as "Clean Administration of Lonking Holdings Limited" (《中國龍工控股有限公司廉政規定》), "Measures of Lonking Holdings Limited for the Treatment of Accepting Gifts" (《中國龍工控股有限公司收受禮品處置辦法》), "Whistle-Blowing Procedures" (《舉報程序》) and "Regulations of Lonking Holdings Limited on Eight Restrictions" (《中國龍工控股有限公司「八不准」規定》) in place, the Anti-Corruption Office, Internal Audit Organisation, Financial Management Department and Risk Management Department of the Company, all as effective units responsible for supervision and management to safeguard each stakeholder to act with integrity, are able to implement effective review and supervision on all kinds of economic activities in an independent manner, ensuring that all anti-corruption and integrity systems are executed in an efficacious manner, thereby promoting the development of anti-corruption culture within the Company.

Major business dealings particularly with more centralized stakeholders including purchasing suppliers and sales agents are executed in strict compliance with various business policies and approval procedures. In order to follow the anti-corruption system of the Company, such stakeholders are required to publicise and sign the "Non-corruption Agreement". For those suppliers and sales agents who refuse to sign the "Non-corruption Agreement" and do not follow the non-corruption requirements of the Company, the Company shall terminate the business cooperation(s) with them. All courtesy gifts inevitably accepted in business dealings shall be under the unified treatment of the Anti-Corruption Office of the holding company to deter relevant departments and business project members of the Company from committing unfavorable business practices against the Company as a result of such gifts.

In entering into major fixed asset transactions, the Company has introduced such bidding management system as it thinks necessary to make the transactions transparent, open and fair, on top of normal business policies and approval management mechanism.

Cadres above the office level and employees on key positions shall sign the "Integrity Matters Commitment Letter" on a yearly basis and sign the "Integrity Matters Report Letter" at the end of every year to restrict employees' behavior and strengthen the concept of integrity practice.

The independent operation of internal management structure can ensure each stakeholder can get an appropriate solution when interests are impaired. During the year, Internal Audit Organisation, Anti-Corruption Office, Financial Management Department, and Risk Management Department did not receive any complaints about corruption and blackmailing related to the stakeholders, which violated the laws and the anti-corruption requirement of the Company.

Community Investment

The Company has been actively involved in philanthropy, which established itself a good corporate image and enhanced employees' sense of social responsibility. The Company spares no effort for charity and has made a total of RMB21.65 million in all kinds of charitable donations over the past five years.

Independent Auditor's Report

TO THE SHAREHOLDERS OF LONKING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Lonking Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 57 to 151, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Independent Auditor's Report

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Recoverability of receivables The Group's receivables consisted of trade and bills receivables, loans and other receivables, long-term receivables and finance lease receivables, and accounted for 21% of the Group's total assets. Recoverability of receivables is greatly affected by the overall condition of the economy. The assessment of impairment of these receivables requires the judgements and assumptions by the management. HKFRS 9 requires that the Group measures the impairment of financial assets based on the "expected credit losses" ("ECLs"). In order to measure the ECLs of the receivables, significant judgements and assumptions are applied by the management, including customer payment patterns, product types, credit risk and forward-looking information such as macroeconomic factors. Given the significance of the receivable balances and the complexity of judgements in assessing the allowance for expected credit losses, we considered this area as a key audit matter for the Group. Details of the recoverability of the receivables are disclosed in notes 15, 16, 18 and 19 for the financial statements.	The audit procedures we performed in relation to the recoverability of receivables included: – Obtaining an understanding of the process of the assessment of the impairment of trades and other receivables by the management. – Examining the assumptions and judgements regarding the expected credit loss provision on trade and other receivables including assumptions in respect of the realisable value of collateral, especially the aged receivables and receivables in dispute. – Assessing the appropriateness of the approach and the models along with the key assumptions and parameters used in expected credit losses matrix on trade receivables by testing the accuracy and completeness of the data used in developing the historical loss rates and forward-looking information, and evaluating customer's historical payment patterns. – Testing the accuracy of the ageing of trade receivables on a sample basis against supporting documents. – Assessing the adequacy of the disclosures on the trade receivables in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

- Conclude on the appropriateness of 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.

Independent Auditor's Report

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is LEUNG WAI LAP, PHILIP.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong
26 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	4	**11,743,824**	11,868,316
Cost of sales		**(8,932,960)**	(9,143,780)
Gross profit		**2,810,864**	2,724,536
Other income	5	**102,134**	82,997
Other gains and losses	5	**364,276**	(201,751)
Selling and distribution expenses		**(623,564)**	(639,569)
Administrative expenses		**(238,213)**	(233,484)
Impairment losses on financial assets, net		**(14,068)**	42,627
Research and development costs		**(550,074)**	(544,503)
Other expenses		**(11,068)**	(641)
Finance income	5	**165,193**	135,711
Finance costs	6	**(40,112)**	(46,700)
PROFIT BEFORE TAX	7	**1,965,368**	1,319,223
Income tax expense	10	**(321,429)**	(175,260)
PROFIT FOR THE YEAR		**1,643,939**	1,143,963
Attributable to:			
Owners of the parent		**1,643,405**	1,143,867
Non-controlling interests		**534**	96
		1,643,939	1,143,963
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted:			
– For profit for the year	12	**0.38**	0.27

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**1,643,939**	1,143,963
OTHER COMPREHENSIVE LOSS		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Financial assets at fair value through other comprehensive income:		
Changes in fair value	**2,955**	–
Income tax effect	**(443)**	–
	2,512	–
Exchange differences:		
Exchange differences on translation of foreign operations	**(44,899)**	(110,181)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(42,387)**	(110,181)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(42,387)**	(110,181)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,601,552**	1,033,782
Attributable to:		
Owners of the parent	**1,601,015**	1,033,686
Non-controlling interests	**537**	96
	1,601,552	1,033,782

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	*13*	**2,080,946**	2,189,216
Right-of-use assets	*14(b)*	**175,398**	–
Prepaid land lease payments	*14(a)*	**–**	175,831
Finance lease receivables	*15*	**531**	726
Prepayments for property, plant and equipment		**20,643**	65,406
Long-term receivables	*16*	**248,615**	160,382
Equity investments at fair value through other comprehensive income	*21*	**1,450**	1,220
Financial assets at fair value through profit or loss	*22*	**500,000**	87,277
Derivative financial instrument	*23*	**–**	112,723
Deferred tax assets	*29*	**404,124**	383,592
Pledged deposits	*24*	**356,000**	656,000
Total non-current assets		**3,787,707**	3,832,373
Current assets			
Prepaid land lease payments	*14(a)*	**–**	5,324
Inventories	*17*	**3,005,756**	2,857,771
Finance lease receivables	*15*	**10,048**	20,938
Trade and bills receivables	*18*	**2,245,022**	2,529,327
Due from related parties	*36*	**4,801**	5,317
Prepayments, deposits and other receivables	*19*	**633,786**	508,109
Financial assets at fair value through other comprehensive income	*20*	**209,259**	–
Financial assets at fair value through profit or loss	*22*	**1,836,767**	1,336,739
Derivative financial instrument	*23*	**65,530**	–
Pledged deposits	*24*	**317,191**	411,431
Cash and cash equivalents	*24*	**2,501,836**	2,565,018
Total current assets		**10,829,996**	10,239,974
Current liabilities			
Trade and bills payables	*25*	**3,650,308**	3,507,260
Other payables and accruals	*26*	**785,997**	712,564
Due to related parties	*36*	**8,252**	19,928
Tax payable		**162,684**	123,740
Provisions	*28*	**131,918**	112,920
Deferred income	*30*	**2,138**	2,138
Total current liabilities		**4,741,297**	4,478,550

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Net current assets		**6,088,699**	5,761,424
Total assets less current liabilities		**9,876,406**	9,593,797
Non-current liabilities			
Deposits for finance leases	*15*	**951**	11,469
Interest-bearing bank borrowings	*27*	**709,340**	1,286,850
Deferred tax liabilities	*29*	**66,138**	63,111
Provisions	*28*	**11,933**	11,967
Deferred income	*30*	**11,079**	13,217
Total non-current liabilities		**799,441**	1,386,614
Net assets		**9,076,965**	8,207,183
Equity			
Equity attributable to owners of the parent			
Issued capital	*31*	**444,116**	444,116
Share premium and reserves	*32*	**8,630,330**	7,760,527
		9,074,446	8,204,643
Non-controlling interests		**2,519**	2,540
Total equity		**9,076,965**	8,207,183

Li San Yim
DIRECTOR

Yin Kun Lun
DIRECTOR

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium* RMB'000	Special reserve* RMB'000	Non-distributable reserve* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Retained profits* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	444,116	854,922	394,872	1,632,361	–	5,268,399	(390,027)	8,204,643	2,540	8,207,183
Profit for the year	–	–	–	–	–	1,643,405	–	1,643,405	534	1,643,939
Other comprehensive income for the year:										
Changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	2,509	–	–	2,509	3	2,512
Exchange differences related to foreign operations	–	–	–	–	–	–	(44,899)	(44,899)	–	(44,899)
Total comprehensive income for the year	–	–	–	–	2,509	1,643,405	(44,899)	1,601,015	537	1,601,552
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(558)	(558)
Final 2018 dividend declared	–	–	–	–	–	(731,212)	–	(731,212)	–	(731,212)
Transfer from retained profits	–	–	9,301	71,515	–	(80,816)	–	–	–	–
At 31 December 2019	444,116	854,922	404,173	1,703,876	2,509	6,099,776	(434,926)	9,074,446	2,519	9,076,965

* These reserve accounts comprise the consolidated share premium and reserves of RMB8,630,330,000 (2018: RMB7,760,527,000) in the consolidated statement of financial position.

	Attributable to owners of the parent								
	Issued capital RMB'000	Share premium* RMB'000	Special reserve* RMB'000	Non-distributable reserve* RMB'000	Retained profits* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	444,116	854,922	389,249	1,591,048	4,719,663	(279,846)	7,719,152	2,444	7,721,596
Profit for the year	–	–	–	–	1,143,867	–	1,143,867	96	1,143,963
Exchange differences related to foreign operations	–	–	–	–	–	(110,181)	(110,181)	–	(110,181)
Total comprehensive income for the year	–	–	–	–	1,143,867	(110,181)	1,033,686	96	1,033,782
Final 2017 dividend declared	–	–	–	–	(548,195)	–	(548,195)	–	(548,195)
Transfer from retained profits	–	–	5,623	41,313	(46,936)	–	–	–	–
At 31 December 2018	444,116	854,922	394,872	1,632,361	5,268,399	(390,027)	8,204,643	2,540	8,207,183

Consolidated Statement of Cash Flows

Year Ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,965,368**	1,319,223
Adjustments for:			
Finance costs	*6*	**40,112**	46,700
Interest income	*5*	**(165,193)**	(135,711)
Impairment losses on financial assets, net		**14,068**	(42,627)
Write-down of inventories to net realisable value	*5*	**8,196**	(284)
(Gain)/loss on disposal of items of property, plant and equipment	*5*	**(6,861)**	9,072
Depreciation	*13*	**343,615**	347,055
Amortisation of land lease payments	*14(a)*	**–**	5,879
Amortisation of right-of-use assets	*14(b)*	**5,757**	–
Amortisation of deferred income	*30*	**(2,138)**	(1,650)
Gains from derivative instruments	*5*	**(9,434)**	(13,208)
Fair value (gains)/loss, net:			
Equity investments at fair value through profit or loss	*5*	**(412,751)**	244,686
Compensation terms for investment	*5*	**47,193**	(6,981)
Loss on other financial assets	*5*	**6,242**	–
Gain from loan receivables	*5*	**–**	(16,948)
Exchange gain from bank balances		**21**	(688)
Exchange gain from bank loans		**(28,940)**	(42,284)
		1,805,255	1,712,234
Increase in inventories		**(156,181)**	(411,850)
Increase in trade, bills and other receivables		**(134,504)**	(402,159)
Decrease in finance lease receivables		**10,501**	16,820
Decrease in amounts due from related parties		**516**	4,650
Increase in trade, bills and other payables		**208,949**	200,504
Increase in provisions		**18,964**	26,373
Decrease in amounts due to related parties		**(11,676)**	(1,731)
Decrease in deposits for finance leases		**(4,167)**	(12,395)
Cash generated from operations		**1,737,657**	1,132,446
Interest received		**133,899**	88,963
Income tax paid		**(300,433)**	(410,332)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,571,123**	811,077

Consolidated Statement of Cash Flows

Year Ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
Interest received		–	21,818
Purchases of items of property, plant and equipment		**(197,445)**	(348,986)
Payment for lease premium for land		–	(2,221)
Proceeds from disposal of items of property, plant and equipment		**18,615**	28,877
Purchases of equity investments		**(230)**	–
Proceeds from disposal of financial investments		–	720,000
Increase in deferred income	*30*	–	9,208
Purchase of financial assets at fair value through profit or loss		**(500,000)**	–
Proceeds received from derivative financial instruments	*5*	**9,434**	13,208
NET CASH FLOWS GENERATED (USED IN)/FROM INVESTING ACTIVITIES		**(669,626)**	441,904
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of bank loans		**(593,849)**	(284,695)
Dividends paid		**(731,770)**	(549,027)
Interest paid		**(43,442)**	(46,161)
Decrease in pledged deposits		**394,240**	398,039
Interest received from pledged deposits		**10,163**	159,507
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(964,658)**	(322,337)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(63,161)**	930,644
Cash and cash equivalents at beginning of year		**2,565,018**	1,633,686
Effect of foreign exchange rate changes, net		**(21)**	688
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,501,836**	2,565,018

Notes to Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION

Lonking Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 11 May 2004 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In October 2018, the shares of the Company held through China Longgong Group Holdings Limited, a Company owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45% respectively, have been transferred to Ms. Ngai Ngan Ying. Therefore, Ms. Ngai Ngan Ying is the ultimate controller of the Company. Mr. Li and Ms. Ngai are husband and wife and deemed to be interested in the same block of shares.

The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company's subsidiaries, except for China Dragon Development Ltd. and China Dragon Investment Ltd. The functional currency of the Company, China Dragon Development Ltd. and China Dragon Investment Ltd. is the Hong Kong dollar ("HK$").

The principal activities of the Company and its subsidiaries (the "Group") are the manufacture and distribution of wheel loaders, road rollers, excavators, forklifts and other construction machinery and the provision of finance leases for construction machinery.

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

Name	Place and date of incorporation/ registration and type of entity	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lonking Shanghai Machinery Co., Ltd. (龍工(上海)機械製造有限公司) *	13 August 2004 People's Republic of China ("PRC") Sino-foreign equity joint venture	HK$448,000,000	–	99.89%	Manufacture and distribution of wheel loaders

Notes to Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/ registration and type of entity	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lonking (Shanghai) Precision Hydraulic Component Co., Ltd. (龍工(上海)精工液壓有限公司, formerly known as Lonking (Shanghai) Axle & Transmission Co., Ltd.) *	17 September 2001 PRC wholly-owned-foreign investment enterprise ("WOFE")	HK$168,000,000	–	100%	Manufacture and distribution of axles and gear boxes
Lonking Fujian Machinery Co., Ltd. (龍工(福建)機械有限公司) *	15 September 2004 PRC WOFE	HK$400,000,000	–	100%	Manufacture and distribution of wheel loaders
Fujian Longyan Lonking Machinery Components Co., Ltd. (福建龍岩龍工機械配件有限公司) *	1 March 1999 PRC WOFE	HK$29,680,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Shanghai) Hydraulic Co., Ltd. (龍工(上海)液壓機械有限公司, formerly known as Hydraulics (Shanghai) Hydraulics Machinery Co., Ltd.)	30 September 2003 PRC WOFE	US$31,800,000	–	100%	Manufacture and distribution of components
Lonking (Shanghai) Machinery Components Co., Ltd. (龍工(上海)機械部件有限公司, formerly known as Refined (Shanghai) Machinery Co., Ltd.)	27 November 2003 PRC WOFE	HK$50,000,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Jiangxi) Machinery Co., Ltd. (龍工(江西) 機械有限公司)	12 September 2003 PRC WOFE	RMB257,350,253	–	100%	Manufacture and distribution of wheel loader components
Lonking (Fujian) Hydraulics Machinery Co., Ltd. (龍工(福建)液壓有限公司)	15 January 2007 PRC WOFE	HK$100,000,000	–	100%	Manufacture and distribution of wheel loader components

Notes to Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/ registration and type of entity	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Lonking (Fujian) Axle & Transmission Co., Ltd. (龍工(福建)橋箱有限公司)	16 January 2007 PRC WOFE	HK$200,000,000	–	100%	Manufacture and distribution of axles and gear boxes
Lonking (Shanghai) Road Machinery Construction Co., Ltd. (龍工(上海)路面機械製造有限公司)	12 September 2007 PRC Sino-foreign equity joint venture	HK$100,000,000	–	100%	Manufacture and distribution of wheel loaders and road rollers
Lonking (Shanghai) Excavator Co., Ltd. (龍工(上海)挖掘機製造有限公司)	12 September 2007 PRC WOFE	HK$260,000,000	–	100%	Manufacture and distribution of excavators
Lonking (Shanghai) Forklift Sales (龍工(上海)叉車銷售有限公司) formerly known as Monarch (Shanghai) Machinery Co., Ltd.)	1 January 2007 PRC WOFE	HK$83,600,000	–	100%	Distribution of forklifts
Lonking (Shanghai) Forklift Co., Ltd. (龍工(上海)叉車有限公司)	7 February 2007 PRC WOFE	HK$500,000,000	–	100%	Manufacture and distribution of forklifts
Henan Lonking Machinery Co., Ltd. (河南龍工機械製造有限公司)	11 July 2002 PRC Sino-foreign equity	RMB482,700,000	–	100%	Manufacture and distribution of wheel loaders
Lonking (Shanghai) Financial Leasing Co., Ltd. (龍工(上海)融資租賃有限公司)	28 March 2008 PRC WOFE	US$23,000,000	–	100%	Finance leasing for wheel loaders and other machinery
Lonking (China) Machinery Sales Co., Ltd. (龍工(中國)機械銷售有限公司)	12 September 2008 PRC WOFE	RMB850,000,000	–	100%	Distribution of wheel loaders and other machinery

Notes to Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/ registration and type of entity	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Lonking (Fujian) International Trade (龍工(福建)國際貿易有限公司)	19 June 2008 PRC WOFE	RMB30,000,000	–	100%	Distribution of wheel loaders and other machinery
Lonking (Fujian) Casting & Forging Co., Ltd. (龍工(福建)鑄鍛有限公司)	13 August 2008 PRC WOFE	US$65,000,000	–	100%	Manufacture and distribution of wheel loader components
China Dragon Development Holdings Ltd (中國龍工發展控股有限公司) *(note 1)*	3 May 2004 British Virgin Islands ("BVI")	US$50,000	100%	–	Investment holding
China Dragon Investment Holdings Ltd. (中國龍工投資控股有限公司) *(note 1)*	3 May 2004 BVI	US$50,000	100%	–	Investment holding
Lonking (Fujian) Excavator Co., Ltd. (龍工(福建)挖掘機有限公司)	20 September 2010 PRC WOFE	RMB100,000,000	–	100%	Manufacture and distribution of excavators
Lonking (Shanghai) Excavator Sales Co., Ltd. (龍工(上海)挖掘機銷售有限公司)	17 December 2018 PRC WOFE	RMB20,000,000	–	100%	Distribution of excavators

Note 1: The Company directly holds the interests in China Dragon Development Holdings Ltd. and China Dragon Investment Holdings Ltd. All other interests shown above are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

Notes to Financial Statements

31 December 2019

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

Notes to Financial Statements

31 December 2019

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

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

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Impacts on transition

The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied at the date of initial application. The Group elected to present the right-of-use assets separately in the statement of financial position.

Notes to Financial Statements

31 December 2019

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

(a) *(Continued)*

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	181,155
Decrease in prepaid land lease payments	(181,155)
Increase in total assets	–

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

Notes to Financial Statements

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

Buildings	3% to 12.5%
Plant and machinery	9% to 32%
Motor vehicles	10% to 19%
Furniture and fixtures	9% to 32%

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

Research and development costs

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

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

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Group as a lessee *(Continued)*

(a) Right-of-use assets

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

Leasehold land	50 years

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

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

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss. Contingent rents are recognised as other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments:* Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition of financial assets

A financial asset is primarily derecognised when:

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

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

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

Impairment of financial assets

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

General approach

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach (continued)

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

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

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Simplified approach (continued)

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, deposit for finance leases, interest-bearing bank borrowings and an amount due to related parties.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

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

Income tax

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

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

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

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (continued)

Sale of industrial products

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

Other income

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

Contract liabilities

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

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Dividends

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

Foreign currencies

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

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

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

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

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

Notes to Financial Statements

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was RMB22,191,000 (2018: RMB20,069,000). The amount of unrecognised tax losses at 31 December 2019 was RMB8,417,000 (2018: RMB10,951,000). Further details are contained in note 29 to the financial statements.

Deferred tax liabilities

Deferred tax liabilities are recognised for withholding corporate income taxes relating to the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes. Significant management judgement is required to determine the amount of deferred tax liabilities, based upon the likely distribution level of such earnings from these subsidiaries in the foreseeable future. The carrying value of deferred tax liabilities arising from the withholding tax associated with the investments in subsidiaries in Mainland China for the year ended 31 December 2019 was RMB44,388,000 (31 December 2018: RMB63,111,000). Further details are contained in note 29 to the financial statements.

Notes to Financial Statements

31 December 2019

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

Estimation uncertainty

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

Provision for expected credit losses on trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in notes 15, 16, 18 and 19 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Notes to Financial Statements

31 December 2019

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

Estimation uncertainty *(Continued)*

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. The management reassesses these estimates at each reporting date.

Provision for warranty costs

As explained in note 28, the Group offers an 18-month warranty for excavators and a 12-month warranty for wheel loaders, road rollers and forklifts, during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The provision for warranty costs is based on the historical experience and statistics. As at 31 December 2019, the carrying amount of provision for warranty costs was RMB143,851,000 (31 December 2018: RMB124,887,000).

Fair value of derivative financial instruments

The Group classifies certain assets as derivative financial instruments and recognises movements of their fair values in profit or loss. The Group makes its estimates based on the financial condition of the assets management company, historical default record and the fluctuation of the fair value of the derivative financial instruments. If the financial condition of the assets management company deteriorates such that the actual impairment loss might be higher than expected, the Group would revise the basis for making the allowance. At 31 December 2019, no impairment loss has been recognised for derivative financial instruments (2019: Nil). The carrying amount of derivative financial instruments was RMB65,530,000 (2018: RMB112,723,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) sale of construction machinery

(b) finance lease of construction machinery

(c) financial investment

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, non-lease-related finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings and tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2019

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	11,741,698	2,126	–	11,743,824
Segment results	1,483,071	(1,201)	374,992	1,856,862
Reconciliation:				
Interest income				165,193
Unallocated other income and gains				(3,139)
Corporate and other unallocated expenses				(13,436)
Finance costs				(40,112)
Profit before tax				1,965,368
Segment assets	12,047,551	12,124	2,402,297	14,461,972
Corporate and other unallocated assets				155,731
Total assets				14,617,703
Segment liabilities	4,772,125	13,980	–	4,786,105
Corporate and other unallocated liabilities				754,633
Total liabilities				5,540,738
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss, net	21,680	584	–	22,264
Depreciation and amortisation	349,372	–	–	349,372
Capital expenditure*	246,719	–	–	246,719

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Notes to Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2018

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	11,864,956	3,360	–	11,868,316
Segment results	1,431,098	4,398	(207,549)	1,227,947
Reconciliation:				
Interest income				135,711
Unallocated other income and gains				14,586
Corporate and other unallocated expenses				(12,321)
Finance costs				(46,700)
Profit before tax				1,319,223
Segment assets	12,396,462	23,881	1,537,959	13,958,302
Corporate and other unallocated assets				114,045
Total assets				14,072,347
Segment liabilities	4,488,198	23,920	–	4,512,118
Corporate and other unallocated liabilities				1,353,046
Total liabilities				5,865,164
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss	35,070	–	–	35,070
Impairment losses reversed in the statement of profit or loss	(69,992)	(7,989)	–	(77,981)
Depreciation and amortisation	352,933	1	–	352,934
Capital expenditure*	297,092	–	–	297,092

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Notes to Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

Revenue derived from major products and services

The following is an analysis of the Group's revenue derived from its major products and services:

	2019		2018	
	RMB'000	**%**	RMB'000	%
Wheel loaders	**6,025,944**	**51.3**	6,154,086	51.9
Excavators	**2,121,858**	**18.1**	2,111,480	17.8
Road rollers	**113,226**	**1.0**	158,802	1.3
Forklifts	**2,373,971**	**20.2**	2,308,392	19.5
Others	**1,106,699**	**9.4**	1,132,196	9.5
Subtotal	**11,741,698**	**100.0**	11,864,956	100.0
Finance lease interest income	**2,126**	**0.0**	3,360	0.0
Total	**11,743,824**	**100.0**	11,868,316	100.0

There was no single customer from whom the revenue derived accounted for 10% or more of the total revenue of the Group for the year.

The revenue is recognised when goods are transferred at a point in time.

Geographical information

The Group's operations are substantially located in Mainland China and substantially all non-current assets of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

Notes to Financial Statements

31 December 2019

5. OTHER INCOME, FINANCE INCOME AND OTHER GAINS AND LOSSES

	2019 RMB'000	2018 RMB'000
Finance income		
Bank interest income	**165,193**	135,711
Other income		
Government grants	**90,299**	65,603
Penalty income	**570**	4,165
Others	**11,265**	13,229
	102,134	82,997
Other gains and losses		
(Loss)/gain on Foreign exchange gains	**(3,139)**	14,586
Gain/(loss) on disposal of items of property, plant and equipment	**6,861**	(9,072)
Gains from financial instruments	**–**	16,948
Gains from derivative instruments	**9,434**	13,208
Fair value gains, net:		
Financial assets at fair value through profit or loss – held for trading	**412,751**	(244,686)
Derivative instruments – transactions not qualifying as hedges	**(47,193)**	6,981
Loss on derecognition of financial assets measured at amortised cost	**(6,242)**	–
Provision for inventories	**(8,196)**	284
	364,276	(201,751)

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	**40,112**	46,700
Total interest expense on financial liabilities not at fair value through profit or loss	**40,112**	46,700

Notes to Financial Statements

31 December 2019

7. PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
Cost of inventories sold	**8,932,960**	9,143,780
Depreciation of property, plant and equipment *(note 13)*	**343,615**	347,055
Depreciation of right-of-use assets *(note 14)* (2018: amortisation of land lease payments)	**5,757**	5,879
Research and development costs	**550,074**	544,503
Auditor's remuneration	**2,665**	2,520
Employee benefit expense (excluding directors' remuneration *(note 8)*):		
Wages and salaries	**652,630**	699,987
Contributions to a pension scheme	**51,975**	55,871
Foreign exchange differences, net	**(3,139)**	14,586
Impairment of financial assets		
– trade receivables *(note 18)*	**10,441**	(50,256)
– other receivables *(note 19)*	**3,043**	7,629
– financial lease receivables *(note 15)*	**584**	–
	14,068	(42,627)
Write-down of inventories to net realisable value	**8,196**	(284)
Product warranty provision:		
Additional provision *(note 28)*	**245,961**	197,870
Bank interest income	**(165,193)**	(135,711)
(Gain)/loss on disposal of items of property, plant and equipment	**(6,861)**	9,072
Fair value (gains)/losses, net:		
Financial assets at fair value through profit or loss – held for trading	**(412,751)**	244,686
Derivative instruments – transactions not qualifying as hedges	**47,193**	(6,981)
Loss on derecognition of financial assets measured at amortised cost	**6,242**	–

Notes to Financial Statements

31 December 2019

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2019 RMB'000	2018 RMB'000
Fees	**1,600**	1,600
Other emoluments:		
Salaries, allowances and discretionary bonuses	**13,800**	14,025
Pension scheme contribution	**147**	150
	13,947	14,175
	15,547	15,775

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Dr. Qian Shizheng	**200**	200
Mr. Wu Jianming	**100**	100
Mr. Chen Zhen	**100**	100
	400	400

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

Notes to Financial Statements

31 December 2019

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

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

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019					
Chief executive:					
Mr. Li San Yim	–	6,840	2,860	–	9,700
Executive directors:					
Mr. Chen Chao	–	600	600	49	1,249
Mr. Luo Jianru	–	300	600	–	900
Mr. Zheng Kewen	–	600	600	49	1,249
Mr. Yin Kunlun	–	400	400	49	849
	–	1,900	2,200	147	4,247
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	–	–	–	1,200
	1,200	8,740	5,060	147	15,147

Notes to Financial Statements

31 December 2019

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

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

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Chief executive:					
Mr. Li San Yim	–	6,840	3,085	–	9,925
Executive directors:					
Mr. Chen Chao	–	600	600	50	1,250
Mr. Luo Jianru	–	300	600	–	900
Mr. Zheng Kewen	–	600	600	50	1,250
Mr. Yin Kunlun	–	400	400	50	850
	–	1,900	2,200	150	4,250
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	–	–	–	1,200
	1,200	8,740	5,285	150	15,375

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group in 2019 and 2018 were all directors of the Company and details of their remuneration are included in note 8 above.

Notes to Financial Statements

31 December 2019

10. INCOME TAX

	2019	2018
	RMB'000	RMB'000
Current tax		
Charged for the year	**239,545**	215,993
Overprovision in prior years	**(10,106)**	(21,126)
Withholding tax paid	**109,938**	18,828
	339,377	213,695
Deferred tax *(note 29)*	**(17,948)**	(38,435)
Total tax charge for the year	**321,429**	175,260

The Company, China Dragon Development Holdings Ltd. and China Dragon Investment Holdings Ltd. are tax exempted companies registered in the Cayman Islands or British Virgin Islands. No provision for Hong Kong profits tax has been made as the Group's profit neither arose in nor was derived from Hong Kong during the year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries has become 25% from 1 January 2008 onwards.

(a) There are 12 entities that have maintained the qualifications of "High and New Technology Enterprises" ("HNTE") and one entity, Lonking (Fujian) Excavator Co., Ltd. has been granted as HNTE since 2019. In accordance with the EIT Law, they were subject to income tax at a rate of 15% for the effective years.

(b) The EIT Law imposes withholding tax on dividends distributed by the Group's subsidiaries in Mainland China to the holding companies located off-shore starting from 1 January 2008. In 2009, the off-shore intermediate holding companies were recognised as the tax residents of Hong Kong by the Inland Revenue Department of Hong Kong. The tax bureaus in charge of the subsidiaries elect to apply a 5% preferential withholding income tax rate on the dividends based on the tax treaty between the Hong Kong Special Administrative Region and Mainland China. In view of the above, a 5% withholding tax rate is applicable to the dividends, for the period starting from 1 January 2009, distributed by the PRC subsidiaries to these off-shore companies, and was also applicable in year 2019.

Notes to Financial Statements

31 December 2019

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2019		2018	
	RMB'000	**%**	RMB'000	%
Profit before tax	**1,965,368**		1,319,223	
Tax at the statutory tax rate of 25% (2018: 25%)	**491,342**	**25.0**	329,806	25.0
Expenses not deductible for tax *(i)*	**23,712**	**1.2**	12,563	1.0
Effect on opening deferred tax balance due to increase in rates	**–**	**–**	680	0.1
Adjustments in respect of current tax of previous periods	**(10,106)**	**(0.5)**	(21,126)	(1.6)
Tax losses utilised from previous periods	**(1,263)**	**(0.1)**	(655)	(0.1)
Tax incentives on eligible R&D expenditures	**(61,884)**	**(3.1)**	(57,727)	(4.4)
Effect of withholding tax	**91,215**	**4.6**	32,873	2.5
Effect of the preferential tax rate of 15%	**(211,587)**	**(10.8)**	(121,154)	(9.2)
Tax charge and effective tax rate for the year	**321,429**	**16.3**	175,260	13.3

(i) Expenses not deductible for tax purposes generally refer to expenses without proper tax deductible documents and other miscellaneous expenses which are in excess of the allowable tax deduction limit, such as entertainment expenses.

11. DIVIDENDS

	2019	2018
	RMB'000	RMB'000
Proposed final – HK$0.25 (2018: HK$0.2) per ordinary share	**975,510**	731,212

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to Financial Statements

31 December 2019

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,280,100,000 (2018: 4,280,100,000) in issue during the year. The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2019	1,621,396	3,333,406	55,697	146,613	78,271	5,235,383
Additions	22,074	44,760	1,013	4,315	174,557	246,719
Transfers	3,800	150,227	191	6,128	(160,346)	–
Disposals	(5,560)	(37,605)	(5,284)	(2,632)	(2,758)	(53,839)
Exchange realignment	459	–	–	8	–	467
At 31 December 2019	1,642,169	3,490,788	51,617	154,432	89,724	5,428,730
Accumulated depreciation and impairment						
At 1 January 2019	660,913	2,224,744	46,486	114,024	–	3,046,167
Charge for the year	72,959	261,015	1,613	8,028	–	343,615
Disposals	(3,549)	(30,978)	(5,063)	(2,495)	–	(42,085)
Exchange realignment	78	–	–	9	–	87
At 31 December 2019	730,401	2,454,781	43,036	119,566	–	3,347,784
Carrying amount						
At 31 December 2019	911,768	1,036,007	8,581	34,866	89,724	2,080,946

Notes to Financial Statements

31 December 2019

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

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2018	1,599,987	3,114,934	51,624	141,830	115,092	5,023,467
Additions	11,061	69,787	1,217	6,150	206,656	294,871
Transfers	10,849	211,064	3,313	1,930	(227,156)	–
Disposals	(1,444)	(62,379)	(457)	(3,314)	(16,321)	(83,915)
Exchange realignment	943	–	–	17	–	960
At 31 December 2018	1,621,396	3,333,406	55,697	146,613	78,271	5,235,383
Accumulated depreciation and impairment						
At 1 January 2018	587,828	2,001,839	44,454	110,779	–	2,744,900
Charge for the year	72,955	265,279	2,438	6,383	–	347,055
Disposals	(31)	(42,374)	(406)	(3,155)	–	(45,966)
Exchange realignment	161	–	–	17	–	178
At 31 December 2018	660,913	2,224,744	46,486	114,024	–	3,046,167
Carrying amount						
At 31 December 2018	960,483	1,108,662	9,211	32,589	78,271	2,189,216

The construction in progress is mainly related to the construction of factory premises and production plants which had not been completed at the end of the reporting period.

As at 31 December 2019, the Group was in the process of applying for title certificates of certain buildings with a carrying amount of RMB126,517,000 (2018: RMB132,815,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2019.

As at 31 December 2019, no property, plant and equipment of the Group were pledged (2018: Nil).

Notes to Financial Statements

31 December 2019

14. LEASES

The Group as a lessee

The Group has lease contracts for leasehold land. Lump sum payments were made upfront to acquire the leased land from the government with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases.

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

	2018 RMB'000
Carrying amount at 1 January 2018	184,813
Additions	2,221
Recognised in profit or loss during the year	(5,879)
Carrying amount at 31 December 2018	181,155

(b) *Right-of-use assets*

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

	Prepaid land lease payments RMB'000
As at 1 January 2019	181,155
Depreciation charge	(5,757)
As at 31 December 2019	175,398

(c) *The amount recognised in profit or loss in relation to leases is as follows:*

	2019 **RMB'000**
Depreciation charge of right-of-use assets in profits or loss	**(5,757)**

Notes to Financial Statements

31 December 2019

15. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**10,566**	21,871	**10,149**	20,938
One to five years	**1,056**	758	**1,014**	726
	11,622	22,629	**11,163**	21,664
Less: Unearned finance income	**459**	965	**–**	–
Less: Provision for impairment	**584**	–	**584**	–
Present value of minimum lease payment receivables	**10,579**	21,664	**10,579**	21,664
Analysed as:				
Current			**10,048**	20,938
Non-current			**531**	726
			10,579	21,664

The movement of the provision for impairment of finance lease receivables is as follows:

	2019	2018
	RMB'000	RMB'000
At 1 January	**–**	–
Impairment losses recognised *(note 7)*	**584**	–
At 31 December	**584**	–

The effective interest rates of the above finance leases range from 6% to 9.5% (2018: 6% to 9.5%) per annum.

Notes to Financial Statements

31 December 2019

15. FINANCE LEASE RECEIVABLES *(Continued)*

Finance lease receivables are secured over the leased construction machinery. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessees.

As at 31 December 2019, the Group's refundable finance lease deposits are as follows:

	2019	2018
	RMB'000	RMB'000
Current *(note 26)*	**8,471**	2,120
Non-current	**951**	11,469
	9,422	13,589

The finance lease deposits are non-interest-bearing and are settled on terms according to the lease agreements.

16. LONG-TERM RECEIVABLES

Long-term receivables are the receivables due after one year according to the credit terms, and include the following item:

	2019	2018
	RMB'000	RMB'000
Trade receivables *(note 18)*	**248,615**	160,382

The long-term trade receivables bear interest at approximately 4% to 8% per annum.

Notes to Financial Statements

31 December 2019

17. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**852,843**	717,568
Work in progress	**188,511**	115,577
Finished goods	**1,964,402**	2,024,626
	3,005,756	2,857,771

18. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**2,908,701**	2,870,255
Impairment	**(415,064)**	(412,984)
Less: Non-current portion *(note 16)*	**(248,615)**	(160,382)
	2,245,022	2,296,889
Bills receivable	**–**	232,438
	2,245,022	2,529,327

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally six to twelve months, extending up to eighteen to twenty-four months for some customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables due within one year are non-interest-bearing.

Notes to Financial Statements

31 December 2019

18. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2019 **RMB'000**	2018 RMB'000
Within 3 months	**1,395,345**	1,741,904
3 to 6 months	**421,823**	279,139
6 months to 1 year	**363,494**	220,969
More than 1 year	**64,360**	54,877
	2,245,022	2,296,889

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

	2019 **RMB'000**	2018 RMB'000
At beginning of year	**412,984**	469,562
Impairment losses, net *(note 7)*	**10,441**	(50,256)
Written off as uncollectible	**(8,361)**	(6,322)
At end of year	**415,064**	412,984

An impairment analysis is performed at each reporting date. The Group identifies the receivables that are credit-impaired (but that are not purchased or originated credit-impaired) from total receivables, considering the observable information, such as the debtors being in major financial difficulties, in breach of the contract stipulations or in bankruptcy. The ECLs are based on all the cash flows that the Group expects to receive, discounted at an effective interest rate. As at 31 December 2019, the Group has accrued ECLs of RMB400,003,000 for credit impaired trade receivables with a gross carrying amount of RMB460,093,000.

Notes to Financial Statements

31 December 2019

18. TRADE AND BILLS RECEIVABLES *(Continued)*

The Group uses a provision matrix to measure expected credit losses for the remaining receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off that are unlikely to be collected.

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

As at 31 December 2019		**Past Due**				
	Current	**Less than 6 months**	**6 months to 12 months**	**12 months to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.25%**	**0.47%**	**1.60%**	**3.41%**	**10.07%**	**0.62%**
Gross carrying amount (RMB'000)	**1,466,108**	**574,781**	**340,091**	**51,950**	**15,678**	**2,448,608**
Expected credit losses (RMB'000)	**3,593**	**2,685**	**5,431**	**1,774**	**1,578**	**15,061**

As at 31 December 2018		Past Due				
	Current	Less than 6 months	6 months to 12 months	12 months to 2 years	Over 2 years	Total
Expected credit loss rate	0.24%	0.44%	1.75%	2.60%	11.08%	0.75%
Gross carrying amount (RMB'000)	1,231,761	795,829	254,312	36,947	52,612	2,371,461
Expected credit losses (RMB'000)	3,005	3,537	4,444	961	5,829	17,776

Notes to Financial Statements

31 December 2019

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**409,882**	329,396
Deductible value-added tax	**72,069**	40,626
Deposits	**3,182**	7,470
Total	**485,133**	377,492
Other receivables:		
Loan receivables	**478,767**	497,176
Less: Impairment	**(409,133)**	(409,225)
Net loan receivables	**69,634**	87,951
Other miscellaneous receivables	**80,418**	44,065
Less: Impairment	**(1,399)**	(1,399)
Net other miscellaneous receivables	**79,019**	42,666
Total other receivables	**148,653**	130,617
Grand total	**633,786**	508,109

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

	2019 RMB'000	2018 RMB'000
At 1 January	**410,624**	412,308
Impairment losses recognised *(note 7)*	**3,043**	7,629
Written off as uncollectible	**(3,135)**	(9,313)
At 31 December	**410,532**	410,624

The carrying amounts of financial assets included in prepayments, deposits and other receivables approximate to their fair values.

None of the deposits with suppliers is either past due or impaired, for which there was no recent history of default.

Notes to Financial Statements

31 December 2019

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(Continued)*

A large portion of other receivables represent the loans to sales agencies for their repurchase of machines. The collection of receivables of sales financed by leasing went worse due to the deterioration of the external operating environment. According to the finance lease agreements, the sales agencies were required to fulfil the obligation to repurchase the machines and pay the outstanding lease amount back to the lease companies once there is a balance overdue for more than three months. The Group provided loans to the sales agencies for the settlement of repurchase. The sales agencies were required to pay off within three months as it normally takes three months to resell the machines. The Group would enter into instalment contracts with the sales agencies if the repurchased machines had been sold again. The instalments would be arranged at interest rates ranging from 4% to 8% per annum and mainly repaid within 18 to 24 months. Other receivables also include miscellaneous borrowings for sales agencies' daily operation needs.

The Group has considered the financial assets described above credit-impaired (but that are not purchased or originated credit-impaired), for which the loss allowance is measured at an amount equal to lifetime ECLs. An impairment analysis is performed at each reporting date by considering the probability of default, the ageing, existence of disputes, likelihood of collection, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

An ageing analysis of the loan receivables as at the end of the reporting period, based on the transaction date and net of provisions, is as follows:

	2019 **RMB'000**	2018 RMB'000
Within 3 months	**–**	3,673
More than 1 year	**69,634**	84,278
	69,634	87,951

Notes to Financial Statements

31 December 2019

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Bills receivable, at fair value	**209,259**	–

The Group has classified bills receivable that are held both to collect cash flows and to sell to financial assets at fair value through other comprehensive income under HKFRS 9.

21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**1,450**	1,220

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

Notes to Financial Statements

31 December 2019

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Listed equity investments, at fair value – current	**134,470**	–
Listed equity investments, at fair value – non-current	**–**	87,277
Unlisted equity investments, at fair value – current	**1,702,297**	1,336,739
Unlisted equity investments, at fair value – non-current	**500,000**	–
	2,336,767	1,424,016

The above listed equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

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

23. DERIVATIVE FINANCIAL INSTRUMENT

	2019 RMB'000	2018 RMB'000
Compensation terms for investment – current	**65,530**	–
Compensation terms for investment – non current	**–**	112,723
	65,530	112,723

The compensation terms for investment are related to the listed equity investments at fair value through profit or loss (note 22).

The Group has entered into an agreement with an asset management company which will help the Group to arrange the investment with an initial investment amount of RMB200,000,000. The asset management company has guaranteed an investment return of 5% per annum on the initial capital investment. Should the investment return falls below 5% of the initial amount, the Group will receive a compensation from the asset management company such that the total return will not be less than 5%. The maturity date of the derivative financial instrument is 31 December 2020.

Notes to Financial Statements

31 December 2019

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**2,201,836**	2,565,018
Time deposits	**973,191**	1,067,431
	3,175,027	3,632,449
Less: Pledged cash and bank balances and time deposits:		
Pledged for long-term bank loans *(note 27)*	**(356,000)**	(656,000)
Pledged for bank acceptance bills *(note 25)*	**(290,467)**	(403,923)
Pledged for others	**(26,724)**	(7,508)
Cash and cash equivalents	**2,501,836**	2,565,018

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

The Group's pledged bank deposits and certain bank balances and cash that are denominated in currencies other than the functional currencies of the respective group entities are as follows:

Original currency	**US$** RMB'000	**HK$** RMB'000
As at 31 December 2019	**19,409**	**16,914**
As at 31 December 2018	7,560	6,307

Notes to Financial Statements

31 December 2019

25. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	RMB'000
Trade payables	**1,376,819**	1,237,265
Bills payables	**2,273,489**	2,269,995
	3,650,308	3,507,260

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

	2019	2018
	RMB'000	RMB'000
Within 6 months	**3,584,881**	3,443,703
6 months to 1 year	**33,554**	11,864
1 to 2 years	**13,696**	27,108
2 to 3 years	**8,311**	14,623
Over 3 years	**9,866**	9,962
	3,650,308	3,507,260

Bills payable were aged within 12 months at the end of the reporting period, and were secured by pledged bank deposits amounting to RMB290,467,000 (2018: RMB403,923,000) (note 24).

The trade and bills payables are non-interest-bearing.

Notes to Financial Statements

31 December 2019

26. OTHER PAYABLES AND ACCRUALS

	2019	2018
	RMB'000	RMB'000
Accrued sales rebate	**436,036**	374,154
Other payables	**78,292**	77,565
Salaries and wages payable	**126,778**	132,471
Contract liabilities	**56,248**	48,599
Other taxes payable	**12,693**	21,866
Other accrued expenses	**49,448**	42,269
Deposit for finance leases *(note 15)*	**8,471**	2,120
Payable for acquisition of property, plant and equipment	**18,031**	13,520
	785,997	712,564

Other payables are non-interest-bearing and have different credit terms within one year.

Contract liabilities include short-term advances received to deliver industrial products. The revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period amounted to RMB41,896,000. The contract liabilities as of 31 December 2019 are expected to be recognised as revenue within one year.

Notes to Financial Statements

31 December 2019

27. INTEREST-BEARING BANK BORROWINGS

	2019			2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Non-current						
Bank loans – secured	**2.92-3.72**	**2021**	**709,340**	2.22-2.93	2021	1,286,850
			709,340			1,286,850

	2019 **RMB'000**	2018 RMB'000
Analysed into:		
Within one year	**–**	–
In the second year	**709,340**	–
In the third year	**–**	1,286,850
	709,340	1,286,850

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are as follows:

Original currency	**US$** RMB'000
As at 31 December 2019	**709,340**
As at 31 December 2018	1,286,850

Certain of the Group's bank loans are secured by the pledge of certain of the Group's long-term time deposits amounting to RMB356,000,000 (2018: RMB656,000,000) (note 24).

Notes to Financial Statements

31 December 2019

28. PROVISIONS

	2019	2018
	RMB'000	RMB'000
At 1 January	**124,887**	98,514
Additional provision *(note 7)*	**245,961**	197,870
Amounts utilised during the year	**(226,997)**	(171,497)
At 31 December	**143,851**	124,887
Analysis of total provisions		
Current	**131,918**	112,920
Non-current	**11,933**	11,967
	143,851	124,887

The Group provides an 18-month warranty for excavators and a 12-month warranty for wheel loaders, road rollers and forklifts for general repairs of defects occurring during the warranty period. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Notes to Financial Statements

31 December 2019

29. DEFERRED TAX

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

Deferred tax assets:

	Allowance for bad and doubtful debts and inventories RMB'000	Provision for product warranties RMB'000	Charity donation RMB'000	Unrealised profit in inventories RMB'000	Accrued sales rebate and others RMB'000	Tax losses RMB'000	Deferred income RMB'000	Change in fair value of financial assets through profit or loss RMB'000	Change in fair value of financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2018	167,125	20,797	1,494	57,105	78,293	48,531	750	–	–	374,095
(Charged)/credited to the statement of profit or loss for the year *(note 10)*	(13,203)	4,406	(1,494)	21,573	6,275	(28,462)	1,193	24,489	–	14,777
At 31 December 2018	153,922	25,203	–	78,678	84,568	20,069	1,943	24,489	–	388,872
(Charged)/credited to the statement of profit or loss for the year *(note 10)*	**2,017**	**4,453**	**-**	**18,708**	**28,145**	**2,122**	**(260)**	**(24,489)**	**936**	**31,632**
(Charged)/credited to other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(443)**	**(443)**
At 31 December 2019	**155,939**	**29,656**	**-**	**97,386**	**112,713**	**22,191**	**1,683**	**-**	**493**	**420,061**

Notes to Financial Statements

31 December 2019

29. DEFERRED TAX *(Continued)*

Deferred tax liabilities:

	Fair value arising from acquisition of a subsidiary	Withholding taxes on undistributed dividends	Accrued interest income	Change in fair value of financial assets through profit or loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	26	49,066	31,791	11,166	92,049
Charged/(credited) to the statement of profit or loss for the year *(note 10)*	(26)	14,045	(26,511)	(11,166)	(23,658)
At 31 December 2018	–	**63,111**	**5,280**	–	**68,391**
Charged/(credited) to the statement of profit or loss for the year *(note 10)*	–	**(18,723)**	**2,062**	**30,345**	**13,684**
At 31 December 2019	–	**44,388**	**7,342**	**30,345**	**82,075**

For presentation purposes, certain deferred tax assets and liabilities amounting to RMB15,937,000 have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019	2018
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**404,124**	383,592
Net deferred tax liabilities recognised in the consolidated statement of financial position	**66,138**	63,111

Notes to Financial Statements

31 December 2019

29. DEFERRED TAX *(Continued)*

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. At the end of the reporting period, certain subsidiaries of the Group had unused tax losses arising in Mainland China of RMB8,417,000 (2018: RMB10,951,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of such losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment 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 5%. 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 based on the distribution rate announced by the board resolution. At the end of the reporting period, certain subsidiaries of the Group had undistributed profit arising in Mainland China of RMB5,357,348,000 (2018: RMB3,629,363,000) that has not been recognised deferred tax liabilities.

30. DEFERRED INCOME

Deferred income represents government grants received related to assets whose useful lives are 5 or 10 years.

	2019 **RMB'000**	2018 RMB'000
Special government grants for promoting technological improvements	**13,217**	15,355

The movements in government grants during the year are as follows:

	2019 **RMB'000**	2018 RMB'000
At 1 January	**15,355**	7,797
New additions	**–**	9,208
Recognised as income during the year	**(2,138)**	(1,650)
At 31 December	**13,217**	15,355

Notes to Financial Statements

31 December 2019

30. DEFERRED INCOME *(Continued)*

	2019	2018
	RMB'000	RMB'000
Analysis of total deferred income:		
Current	**2,138**	2,138
Non-current	**11,079**	13,217
	13,217	15,355

31. ISSUED CAPITAL

Shares

	2019	2018
	RMB'000	RMB'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.1 each	**2,000,000**	2,000,000

	2019	2018
	RMB'000	RMB'000
Issued and fully paid:		
4,280,100,000 ordinary shares of HK$0.1 each	**444,116**	444,116

Notes to Financial Statements

31 December 2019

32. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 10 and 11 of the financial statements.

The share premium of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in 2004. The movement of the special reserve represents the safety fund amounting to RMB9,301,000 appropriated from the profit after taxation of the subsidiaries established in Mainland China.

The non-distributable reserve of the Group represents the statutory reserve which comprises statutory reserve funds and surplus reserve funds appropriated from the profit after taxation of the subsidiaries established in Mainland China in accordance with the PRC laws and regulations.

33. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities and assets arising from financing activities

Year ended 31 December 2019

	Bank loans RMB'000	Pledged bank deposits RMB'000
At 1 January 2019	**1,286,850**	**1,067,431**
Changes from financing cash flows	**(593,849)**	**(394,240)**
Foreign exchange movement	**16,339**	**–**
At 31 December 2019	**709,340**	**673,191**

Notes to Financial Statements

31 December 2019

33. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

Changes in liabilities and assets arising from financing activities *(Continued)*

Year ended 31 December 2018

	Bank loans RMB'000	Pledged bank deposits RMB'000
At 1 January 2018	1,502,866	1,465,470
Changes from financing cash flows	(284,695)	(398,039)
Foreign exchange movement	68,679	–
At 31 December 2018	1,286,850	1,067,431

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and bills payable are included in notes 25 and 27, respectively, to the financial statements.

35. COMMITMENTS

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Plant and machinery	**22,009**	40,248

Notes to Financial Statements

31 December 2019

36. RELATED PARTY TRANSACTIONS

(a) The following table sets out the total amounts of transactions which have been entered into with related parties during the years ended 31 December 2019 and 31 December 2018 as well as balances with related parties as at 31 December 2019 and 31 December 2018:

		Sales to related parties	Purchase from related parties	Amounts due from related parties	Amounts due to related parties
		RMB'000	RMB'000	RMB'000	RMB'000
		(i)	*(ii)*		
Related parties:					
Longyan City Jinlong					
Machinery Company	2019	–	47,714	–	6,148
Limited *(note a)*	2018	–	39,125	–	11,073
Herkules (Shanghai)					
Automation Equipment	2019	386	37,954	4,613	2,054
Co. Ltd. *(note b)*	2018	–	73,665	–	3,619
Shanghai Refined Machinery	2019	572	–	188	–
Co. Ltd. *(note c)*	2018	–	–	89	–
Shanghai Longtui					
Environmental Technology	2019	581	652	–	50
Co. Ltd. *(note c)*	2018	–	649	–	8

36. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

note a: Mr. Ngai Ngan Gin, the brother of Ms. Ngai Ngan Ying (a director of the Company), holds a controlling interest in this entity.

note b: Herkules (Shanghai) Automation Equipment Co. Ltd., a company established in the PRC with limited liability, is wholly owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive director and the chairman of the Company. The Group prepaid RMB4,613,000 for purchase of equipments to Herkules (Shanghai) Automation Equipment Co. Ltd. at 31 December 2019.

note c: Shanghai Refined Machinery Co. Ltd. is wholly owned by Refined Holdings, which is wholly owned by Mr. Li Bin, the son of Mr. Li San Yim.

Shanghai Longtui Machinery Environmental Technology Co. Ltd. (formerly named as Shanghai Longtui Machinery Co. Ltd.) is wholly owned by Mr. Li Bin.

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

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

All the amounts are unsecured, non-interest-bearing and repayable on demand or based on the agreed credit term of approximately 90 days.

Notes to Financial Statements

31 December 2019

36. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**13,800**	14,025
Pension scheme contributions	**147**	150
Total compensation paid to key management personnel	**13,947**	14,175

Further details of directors' emoluments are included in note 8 to the financial statements.

37. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are derecognised in their entirety

At 31 December 2019, the Group endorsed certain bills accepted by banks in the PRC (the "Derecognised Bills") to certain suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB3,359,039,000 (2018: RMB3,460,936,000). The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year 2019, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year 2019.

Notes to Financial Statements

31 December 2019

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income			
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity instruments RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	–	–	–	2,245,022	2,245,022
Financial assets at fair value through other comprehensive income	–	–	–	209,259	–	209,259
Long-term receivables	–	–	–	–	248,615	248,615
Due from related parties	–	–	–	–	4,801	4,801
Financial assets included in prepayments deposits and other receivables	–	–	–	–	126,971	126,971
Finance lease receivables	–	–	–	–	10,579	10,579
Financial assets at fair value through profit or loss	–	2,336,767	–	–	–	2,336,767
Equity investments at fair value through other comprehensive income	–	–	1,450	–	–	1,450
Derivative financial instruments	65,530	–	–	–	–	65,530
Pledged deposits	–	–	–	–	673,191	673,191
Cash and cash equivalents	–	–	–	–	2,501,836	2,501,836
	65,530	2,336,767	1,450	209,259	5,811,015	8,424,021

Notes to Financial Statements

31 December 2019

38. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	**3,650,308**
Financial liabilities included in other payables and accruals	**96,323**
Deposit for finance leases *(note 15)*	**9,422**
Interest-bearing bank borrowings	**709,340**
Due to related parties	**8,252**
	4,473,645

Notes to Financial Statements

31 December 2019

38. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2018

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity instruments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	–	–	–	2,529,327	2,529,327
Long-term receivables	–	–	–	160,382	160,382
Due from related parties	–	–	–	5,317	5,317
Financial assets included in prepayments deposits and other receivables	–	–	–	127,355	127,355
Finance lease receivables	–	–	–	21,664	21,664
Financial assets at fair value through profit or loss	–	1,424,016	–	–	1,424,016
Financial assets at fair value through other comprehensive income	–	–	1,220	–	1,220
Derivative financial instruments	112,723	–	–	–	112,723
Pledged deposits	–	–	–	1,067,431	1,067,431
Cash and cash equivalents	–	–	–	2,565,018	2,565,018
	112,723	1,424,016	1,220	6,476,494	8,014,453

Notes to Financial Statements

31 December 2019

38. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,507,260
Financial liabilities included in other payables and accruals	91,085
Deposit for finance leases *(note 15)*	13,589
Interest-bearing bank borrowings	1,286,850
Due to related parties	19,928
	4,918,712

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, the current portion of deposits for financial lease and amounts due from/to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments. The fair values of long-term receivables and financial lease receivables carried at amortised cost are based or current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Notes to Financial Statements

31 December 2019

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

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

The fair values of the non-current portion of pledged deposits, non-current portion of finance lease receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2019 were assessed to be insignificant. The fair values of the non-current portion of deposits for finance leases was assessed and approximated to their carrying amounts.

The fair values of listed equity investments are based on quoted market prices.

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

Bills receivable held both to collect cash flows and to sell in financial assets at fair value through other comprehensive income are measured using discounted cash flow method.

Notes to Financial Statements

31 December 2019

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through other comprehensive income	–	–	209,259	209,259
Equity investments designated at fair value through other comprehensive income	–	–	1,450	1,450
Financial assets at fair value through profit or loss	134,470	2,202,297	–	2,336,767
Derivative financial instruments	–	65,530	–	65,530
	134,470	2,267,827	210,709	2,613,006

Notes to Financial Statements

31 December 2019

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

Fair value hierarchy *(Continued)*

Assets measured at fair value: (Continued)

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	1,220	1,220
Financial assets at fair value through profit or loss	87,277	1,336,739	–	1,424,016
Derivative financial instruments	–	112,723	–	112,723
	87,277	1,449,462	1,220	1,537,959

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

Notes to Financial Statements

31 December 2019

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives and equity investments, comprise bank loans, finance leases, other interest-bearing loans and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group has not entered into any interest rate hedging contracts or any other similar derivative financial instruments. Management closely monitors such risk and will consider hedging significant interest rate risk exposure should the need arise. At 31 December 2019, the Group's interest-bearing borrowings of approximately RMB709,340,000 (31 December 2018: RMB1,286,850,000) bore interest at floating rates.

Notes to Financial Statements

31 December 2019

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

Interest rate risk *(Continued)*

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

	Increase/ (Decrease) in basis points	Increase/ (Decrease) in profit before tax RMB'000
2019		
US$	**(50)**	**147**
US$	**50**	**(147)**
2018		
US$	(50)	235
US$	50	(235)

Notes to Financial Statements

31 December 2019

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

Foreign currency risk

The Group's exposure to foreign currency risk arises from:

(a) Bank balances of the Company and certain subsidiaries that are denominated in foreign currencies; and

(b) Certain trade receivables and payables of certain subsidiaries of the Company, which conduct foreign currency sales and purchases that are denominated in foreign currencies.

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currencies. Approximately 5% (2018: 6%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, while 100% (2018: 100%) costs were denominated in the units' functional currencies.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**174,823**	126,305	**709,340**	1,286,850
HK$	**16,914**	6,307	**–**	–

Notes to Financial Statements

31 December 2019

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

Foreign currency risk *(Continued)*

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

	Change in foreign currency rate	Increase/ (decrease) in profit before tax and other comprehensive income
	%	RMB'000
2019		
If RMB weakens against US$	**10%**	**(53,452)**
If RMB strengthens against US$	**10%**	**53,452**
If RMB weakens against HK$	**10%**	**1,691**
If RMB strengthens against HK$	**10%**	**(1,691)**
2018		
If RMB weakens against US$	10%	(116,055)
If RMB strengthens against US$	10%	116,055
If RMB weakens against HK$	10%	631
If RMB strengthens against HK$	10%	(631)

Notes to Financial Statements

31 December 2019

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

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

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

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

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

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

Notes to Financial Statements

31 December 2019

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

Liquidity risk *(Continued)*

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

2019

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	**–**	**5,240**	**17,573**	**715,988**	**738,801**
Trade and bills payables	**65,427**	**98,514**	**3,486,367**	**–**	**3,650,308**
Other payables and accruals	**96,323**	**–**	**–**	**–**	**96,323**
Due to related parties	**8,252**	**–**	**–**	**–**	**8,252**
Deposits for finance leases	**9,422**	**–**	**–**	**–**	**9,422**
	179,424	**103,754**	**3,503,940**	**715,988**	**4,503,106**

2018

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	11,832	69,193	1,320,334	1,401,359
Trade and bills payables	63,557	37,753	3,405,950	–	3,507,260
Other payables and accruals	91,085	–	–	–	91,085
Due to related parties	19,928	–	–	–	19,928
Deposits for finance leases	13,589	–	–	–	13,589
	188,159	49,585	3,475,143	1,320,334	5,033,221

Notes to Financial Statements

31 December 2019

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in financial assets at fair value through profit or loss (note 22) and equity investments at fair value through other comprehensive income (note 21) as at 31 December 2019. The Group's listed investments are listed on the Shenzhen and Shanghai stock exchanges and are valued at quoted market prices at the end of the reporting period.

	31 December 2019	**High/low 2019**	31 December 2018	High/low 2018
Shenzhen – A Share Index	**10,431**	**10,541/ 7,011**	7,240	11,633/ 7,084
Shanghai – A Share Index	**3,050**	**3,288/ 2,441**	2,494	3,587/ 2,449

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

Notes to Financial Statements

31 December 2019

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

Equity price risk *(Continued)*

	Carrying amount of equity investments RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2019			
Investments listed in:			
Shenzhen – Equity investments at fair value through profit or loss	**23,458**	**2,346/ (2,346)**	**–**
Shanghai – Equity investments at fair value through profit or loss	**111,012**	**11,101/ (11,101)**	**–**
Unlisted investments at fair value:			
– Financial assets at fair value through profit or loss	**2,202,297**	**220,230/ (220,230)**	**–**
– Equity investments at fair value through other comprehensive income	**1,450**	**–**	**145/ (145)**

	Carrying amount of equity investments RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2018			
Investments listed in:			
Shenzhen – Equity investments at fair value through profit or loss	18,847	1,885/ (1,885)	–
Shanghai – Equity investments at fair value through profit or loss	68,430	6,843/ (6,843)	–
Unlisted investments at fair value:			
– Financial assets at fair value through profit or loss	1,336,739	133,674/ (133,674)	–
– Equity investments at fair value through other comprehensive income	1,220	–	122/ (122)

Notes to Financial Statements

31 December 2019

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

Capital management

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio between 20% and 70%. Net debt includes interest-bearing bank borrowings, trade, bills and other payables, accruals, amounts due to related parties, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2019 **RMB'000**	2018 RMB'000
Interest-bearing bank borrowings	**709,340**	1,286,850
Trade and bills payables	**3,650,308**	3,507,260
Other payables and accruals	**777,799**	712,564
Due to related parties	**8,252**	19,928
Less: Cash and cash equivalents	**(2,501,836)**	(2,565,018)
Net debt	**2,643,863**	2,961,584
Equity attributable to owners of the parent	**9,074,446**	8,204,643
Capital and net debt	**11,718,309**	11,166,227
Gearing ratio	**23%**	27%

Notes to Financial Statements

31 December 2019

41. EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of the Coronavirus Disease 2019 ("COVID-19") in January, the prevention and control of the COVID-19 has been going on throughout the country.

The COVID-19 situation has certain temporary impacts on the Group's production and operation. The degree of the impact depends on the levels of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies. The Company and its subsidiaries have resumed work since 10 February 2020 and implemented strict measures in epidemic prevention.

The Group will keep continuous attention on the COVID-19 situation, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Notes to Financial Statements

31 December 2019

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 RMB'000	2018 RMB'000
Non-current assets		
Property, plant and equipment	**17,320**	16,941
Investments in subsidiaries	**111,789**	109,346
Total non-current assets	**129,109**	126,287
Current assets		
Due from subsidiaries	**1,665,520**	1,961,806
Other receivables	**1,003**	981
Cash and cash equivalents	**33,455**	10,479
Total current assets	**1,699,978**	1,973,266
Current liabilities		
Other payables	**904**	3,085
Total current liabilities	**904**	3,085
Net current assets	**1,699,074**	1,970,181
Total assets less current liabilities	**1,828,183**	2,096,468
Non-current liabilities		
Due to subsidiaries	**4,292,797**	3,104,268
Interest-bearing bank borrowings	**709,340**	1,286,850
Total non-current liabilities	**5,002,137**	4,391,118
Net liabilities	**(3,173,954)**	(2,294,650)
Equity		
Equity attributable to owners of the parent		
Issued capital	**444,116**	444,116
Share premium and reserves	**(3,618,070)**	(2,738,766)
Total equity	**(3,173,954)**	(2,294,650)

Notes to Financial Statements

31 December 2019

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

Note:

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

	Share premium account RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
Balance at 1 January 2018	982,757	(2,879,750)	(59,415)	(1,956,408)
Final 2017 dividend declared	–	(548,195)	–	(548,195)
Total comprehensive income for the year	–	(106,902)	(127,261)	(234,163)
At 31 December 2018	**982,757**	**(3,534,847)**	**(186,676)**	**(2,738,766)**
Final 2018 dividend declared	**–**	**(731,212)**	**–**	**(731,212)**
Total comprehensive income for the year	**–**	**(60,555)**	**(87,537)**	**(148,092)**
At 31 December 2019	**982,757**	**(4,326,614)**	**(274,213)**	**(3,618,070)**

43. APPROVAL OF THE FINANCIAL STATEMENTS

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

Summary of Financial Information

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

	For the year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Result					
Profit before taxation	212,499	559,065	1,423,871	1,319,223	**1,965,368**
Income tax credit (expense)	(95,869)	(97,142)	(377,718)	(175,260)	**(321,429)**
Profit for the year	116,630	461,923	1,046,153	1,143,963	**1,643,939**
Attributable to:					
Equity holder of the parent	116,556	461,764	1,045,635	1,143,867	**1,643,405**
Non-controlling interests	74	159	518	96	**534**
	116,630	461,923	1,046,153	1,143,963	**1,643,939**
Dividends	61,178	234,982	548,195	731,212	**975,510**
Earnings per share-basic (RMB)	0.03	0.11	0.24	0.27	**0.38**

	As at 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Assets and Liabilities					
Total assets	12,515,611	11,206,751	13,818,866	14,072,347	**14,617,703**
Total liabilities	5,891,469	4,487,039	6,088,660	5,865,164	**5,540,738**
	6,624,142	6,719,712	7,730,206	8,207,183	**9,076,965**
Equity attributable to equity holders of the parent	6,621,346	6,716,819	7,727,762	8,204,643	**9,074,446**
Non-controlling interests	2,796	2,893	2,444	2,540	**2,519**
	6,624,142	6,719,712	7,730,206	8,207,183	**9,076,965**