2020 Annual Report

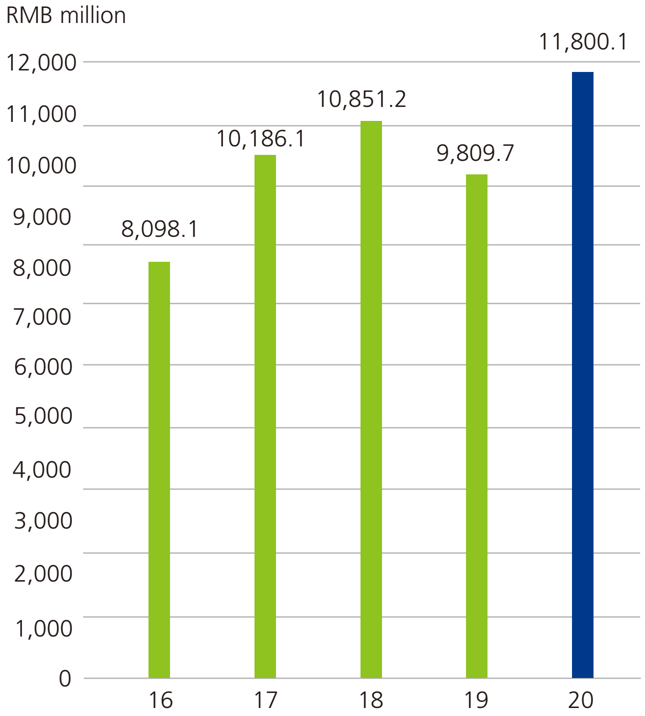
Haitian International Holding Limited

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

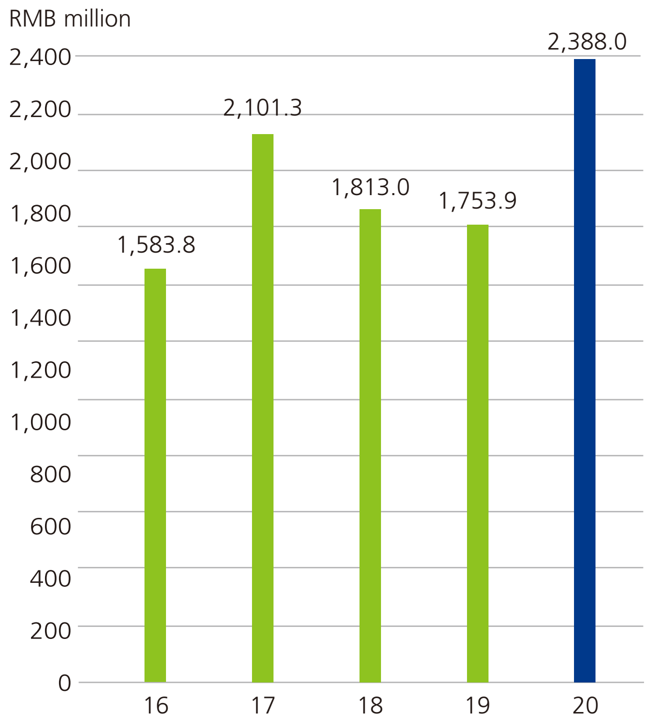
CONTENTS

Financial Highlights

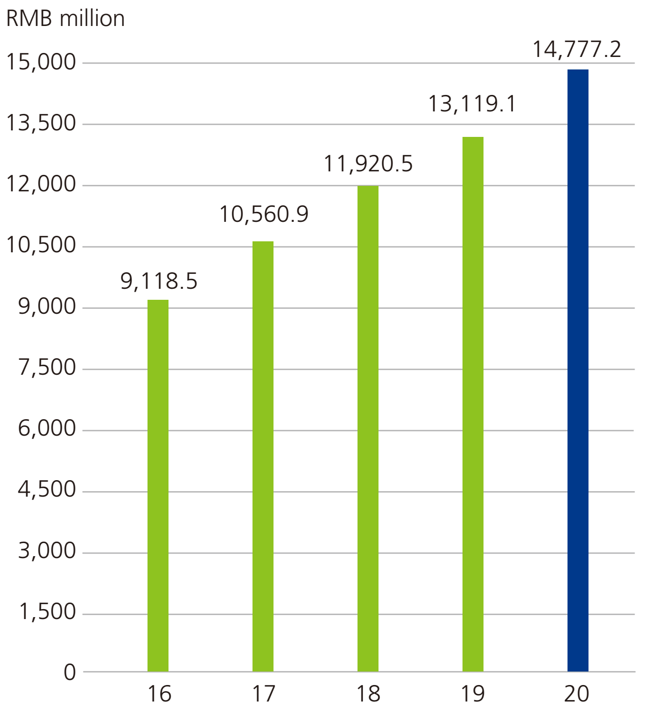
Revenue



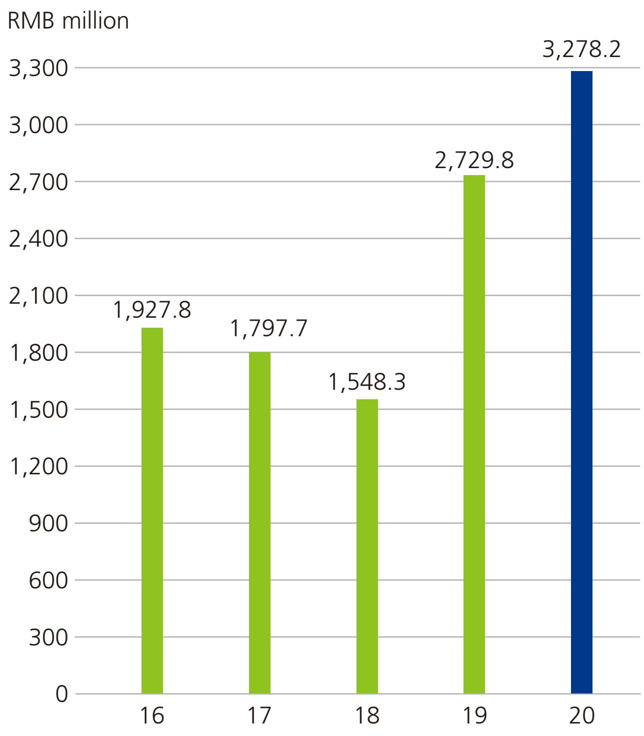
Profit attributable to the shareholders of the Company excluding issuing expense and change in fair value of Convertible Bonds ("CB") resulted from bond values changes



Capital and reserves attributable to shareholders of the Company



Net cash generated from operating activities



Company Profile and Corporate Information

Executive Directors

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

Non-Executive Directors

Mr. GUO Mingguang
Mr. LIU Jianbo

Independent Non-Executive Directors

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

Audit Committee

Mr. LOU Baijun *(Chairman)*
Mr. GUO Yonghui
Dr. YU Junxian

Nomination Committee

Mr. ZHANG Jingzhang *(Chairman)*
Mr. GUO Yonghui
Dr. YU Junxian

Remuneration Committee

Dr. YU Junxian *(Chairman)*
Mr. ZHANG Jianming
Mr. GUO Yonghui

Company Secretary

Ms. LEE Ka Man

Registered Office

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

Principal Share Registrar and Transfer Office in Cayman Islands

Suntera (Cayman) Limited (formerly known as SMP Partners (Cayman) Limited)
Suite 3204, Unit 2A, Block 3, Building D
P.O. Box 1586, Gardenia Court
Camana Bay Grand Cayman, KY1-1100
Cayman Islands

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Place of Business

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

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

Principal Banks

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

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

CHAIRMAN'S STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2020, the sudden outbreak of COVID-19 pandemic has dealt a severe blow to the global economy, with no exception to major economies. To fight against the pandemic, many countries have imposed lockdown measures to keep social distance and brought economic activities to a standstill. To mitigate the pandemic-induced damage, ultra-loose easing monetary and fiscal policies were introduced in the U.S. and the Europe in a bid to stimulate their insufficient demand. However, under the continuous recurrence of the pandemic, the road to economic recovery remained bumpy for the major developed economies and also nearly all the emerging markets and developing economies were still in tough situations. By contrast, China took the lead in recording positive growth and was gradually putting its economy back on track, thanks to the strict measures taken by its government in the early days and the support by easing policies aiming to stabilize investment and export.

Chairman's Statements

Due to the rapid recovery of economic activities in China following the pandemic, demand from our downstream customers was strong. The sales of the Company amounted to RMB11,800.1 million for the year ended 31 December 2020, representing an increase of 20.3% compared to the same period in 2019. Due to improving operational efficiency, achieving economies of scale and having stable of raw material price, the gross profit margin improved to 34.2% from 31.6% in the same period of 2019. Meanwhile, the net profit margin increased to 20.2% from 17.9% in the same period of 2019.

For the year ended 31 December 2020, the net profit attributable to shareholders of the Company increased by 36.4% to RMB2,388.0 million (2019: RMB1,750.5 million), compared to the same period last year.

The Board has declared a second interim dividend of HKD0.65 per share for the year ended 31 December 2020 (2019: HKD0.19 per share) and a special interim dividend of HKD0.75 per share due to operating profit of the Company reaching record highs and sufficient cash flow, resulting in dividend with a total of HKD1.64 per share (2019: HKD0.40 per share) for 2020.

Domestic and export sales

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

(RMB million)	**2020**	**%**	2019	%	**2020 Vs 2019**
Domestic sales	**8,281.5**	**70.2%**	6,362.0	64.9%	**30.2%**
Export Sales	**3,518.6**	**29.8%**	3,447.7	35.1%	**2.1%**
Total	**11,800.1**	**100%**	9,809.7	100%	**20.3%**

Affected by the pandemic, the service and the manufacturing sectors in many countries have been put out of action owing to their respective lockdown measures. Domestically, nevertheless, the pandemic has been effectively under control since the second quarter of 2020 and the resumption of work and production has been accelerating. In order to cater the consumption demand all over the world, China continued to assume its key role as the world's factory, allowing the Company to fully roll out the third-generation machines, which have been widely recognized in the market. The Company's domestic sales still managed to make a remarkable achievement despite suffering a month-long shutdown in the first quarter. The domestic sales for the year reached RMB8,281.5 million, representing an increase of 30.2% as compared with the same period last year. As affected by the pandemic, sales in some overseas markets, such as India and Brazil have declined. Nonetheless, given the Company's continuous expansion in overseas network over the years, we recorded a significant increase in sales in certain countries such as Turkey and Vietnam. Even as the pandemic hit, our export sales increased by 2.1% to RMB3,518.6 million as compared with the same period last year.

Sales mix of PIMMs by product series

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

(RMB million)	**2020**	**%**	2019	%	**2020 Vs 2019**
Mars series (energy-saving features PIMMs)	**8,214.5**	**69.6%**	6,387.5	65.1%	**28.6%**
Zhafir electrical series PIMMs	**1,439.9**	**12.2%**	1,348.6	13.7%	**6.8%**
Jupiter series (two-platen PIMMs)	**1,303.0**	**11.0%**	1,263.0	12.9%	**3.2%**
Other series	**495.8**	**4.2%**	478.5	4.9%	**3.6%**
Parts & Service	**346.9**	**3.0%**	332.1	3.4%	**4.5%**
Total	**11,800.1**	**100%**	9,809.7	100%	**20.3%**

Due to the strong demand for medical products and consumer products such as packaging products in the first half of the year arose from the pandemic, and different degree of recoveries in various sectors in the second half of the year, there was enormous demand for the Mars series, the main product of the Company. Its sales increased from RMB6,387.5 million in 2019 to RMB8,214.5 million in 2020, representing an increase of 28.6%. As the domestic and foreign household appliance industry continued to recover and the demand of automotive industry increased in the second half of the year, the sales of Zhafir electrical series and Jupiter two-platen series increased by 6.8% to RMB1,439.9 million and by 3.2% to RMB1,303.0 million, respectively, as compared with the same period last year.

Chairman's Statements

Outlook

In 2021, the road to recovery for the global economy is full of uncertainties under the severe impact of the pandemic. With the introduction of vaccines, the developed economies, which are led by the U.S., see a big sign of hope. The time consuming vaccination work and repeatedly recurrence of the pandemic, however, cast shadow on the economic prospects of various countries, bringing uncertainties to the global economic and trade climate. At the same time, geopolitical crisis and trade disputes among countries are likely to remain the most outstanding issues worldwide, and it seems the rivalry between China and the U.S. shall remain for a long time. On the bright side, The Association of Southeast Asian Nations became China's largest trading partner in 2020, and with China officially signing The Regional Comprehensive Economic Partnership agreement, Asia-Pacific economic cooperation is expected to be strengthened. Overall, China will face more opportunities and challenges in its economic development.

As the national 14th Five-Year Plan starts from 2021, the Company formulated the general outline for its own 14th Five-Year Plan at the beginning of 2021, which aims at strengthening the global market layout, enlarging market shares in various industries, increasing competitiveness in high-end market and creating a digital Haitian. In 2021, Haitian will call for efficient rules, meaning to carry out standardization for efficiency particularly in areas such as market strategy, product research and development, technology update, risk management and control and intelligent manufacturing. As a multi-national global manufacturing enterprise, Haitian's ongoing digital transformation starts to be effective and has achieved phased results. The third-generation machines that were fully rolled out in 2020 have been recognized by the market and customers, allowing our customers to experience products with higher performance ratio and helping them integrate into the dual-cycle economic model of the domestic and international markets. The Company will continue to increase its investment in technological research in order to respond to the state's strategy of strengthening scientific and technological capabilities. At the same time, the Company has sped up the construction of a younger management team to meet and adapt to the current reform and development needs. The Company will continue to be driven by efficiency, focus even more on intelligent manufacturing processes, and improve production capabilities in terms of flexibility and intelligence. The transformation of digital factories and successive completion of new production bases will help increase the Company's future production capacity. We remain optimistic towards the economy throughout the year, which is favourable to striving for a new high of the Company's results.

The Company has been focusing on the research and development in the plastic processing machinery industry and was awarded the Technological Advances Prize (科技進步獎) of China Machinery Industry Science and Technology Award (中國機械工業科學技術獎) in 2020. On the premise of the concept and proven strategy of "technology to the point", we satisfy our customized needs and demand from each niche market while standardizing the production of our components. We strive to maintain our leading position in every aspect of the PIMMs. As always, the Company will continue to create value for our customers with better quality and more convenient services, and will grow and develop together with our customers, employees and business partners.

CEO'S REPORT

HIGHLIGHTS

	2020 RMB' million	2019 RMB' million	Change %
Revenue	**11,800.1**	9,809.7	20.3
Gross profit	**4,040.3**	3,098.7	30.4
Operating profit	**2,873.2**	2,143.4	34.0
Profit attributable to shareholders of the Company	**2,388.0**	1,750.5	36.4
Basic Earnings per share (expressed in RMB per share)	**1.50**	1.10	36.4
Dividend per share (expressed in HKD per share)			
Second interim dividend	**0.65**	0.19	242.0
Special interim dividend	**0.75**	–	–
Full year dividend (including interim dividend, second interim dividend and special interim dividend (if applicable))	**1.64**	0.40	310.0

- Amidst the macro environment of COVID-19 pandemic, as China gradually put its economic activities back on track, demand from our downstream customers was strong. The sales of the Company amounted to RMB11,800.1 million for the year ended 31 December 2020, representing an increase of 20.3% compared to the same period in 2019.

- Gross profit margin raised to 34.2% (2019: 31.6%) as a result of improving operation efficiency, achieving economies of scale and having stable price of raw material during 2020.

- Profit attributable to shareholders of the Company increased by 36.4% to RMB2,388.0 million (2019: RMB1,750.5 million) compared to the same period last year.

- As a result of consistent focus on flexibility and efficiency in business operation and strong operational capability of capital management, the net cash flow from operation of the Company in 2020 reached RMB3,278.2 million (2019: RMB2,729.8 million), and total net cash (including wealth management products) increased to RMB9,605.5 million (2019: RMB7,417.6 million).

- Earnings per share amounted to RMB1.5 during the year, increased by 36.4% compared to the same period last year.

- The Board declared a second interim dividend of HKD0.65 per share and a special interim dividend of HKD0.75 per share due to operating profit of the Company reaching record highs and sufficient cash flow, together with the interim dividend of HKD0.24 per share, which constitute a total dividend of HKD1.64 per share (2019: HKD0.40 per share).

Financial Review

Revenue

Amidst the macro environment of COVID-19 pandemic, as China gradually put its economic activities back on track, demand from our downstream customers was strong. The sale revenue of the Company amounted to RMB11,800.1 million for the year ended 31 December 2020, representing an increase of 20.3% compared to the same period in 2019. The domestic sales increased by 30.2% to RMB8,281.5 million compared to 2019, while our export sales increased by 2.1% to RMB3,518.6 million, as compared to 2019.

Gross Profit

In 2020, we had a gross profit of approximately RMB4,040.3 million, representing an increase of 30.4% comparing to 2019. Overall gross margin reached 34.2% in 2020 (2019: 31.6%) as a result of improving operation efficiency, achieving economies of scale and having stable price of the raw material.

Selling and administrative expenses

The selling and administrative expenses increased by 5.2% from RMB1,441.3 million in 2019 to RMB1,516.4 million in 2020. The increase in expenses was mainly due to the increase of labor cost, provision made for the litigation, and other administrative expenses. The labor costs related to research and development activities were RMB154.4 million in 2020 (2019: RMB151.1 million).

Other income

Other income mainly consists of government subsidy and decreased by 39.2% from RMB233.7 million in 2019 to RMB142.2 million in 2020.

Finance income – net

We had an increase of RMB31.7 million in net finance income in 2020 compared to a net finance income of RMB38.6 million in 2019. The increase was mainly attributable to the fact that i) we recorded the interest income of RMB126.7 million from restricted bank deposits, term deposits and cash and cash equivalents in 2020 compared to RMB76.3 million in 2019; and ii) we recorded net foreign exchange losses of RMB43.3 million in 2020 compared to net foreign exchange losses of RMB3.2 million in 2019.

Income tax expenses

Income tax expenses increased by 33.7% from RMB433.5 million in 2019 to RMB579.5 million in 2020. Our effective tax rate maintained at a similar level of 19.5% in 2020 (2019: 19.9%).

Net profit attributable to shareholders

As a result of the foregoing, our net profit attributable to shareholders of the Company in 2020 increased to RMB2,388.0 million, representing an increase of 36.4% compared to 2019.

Liquidity, Financial Resources, Borrowing and Gearing

The Group finances its operations and investment activities mainly with internally generated cash flow. As at 31 December 2020, the Group's total cash and cash equivalents, term deposits and restricted bank deposits amounted to RMB3,746.4 million, RMB2,540.9 million and RMB31.4 million respectively (31 December 2019: RMB1,538.4 million, RMB1,185.0 million and RMB51.9 million respectively). The Group's short-term bank borrowing amounted to RMB1,318.1 million as at 31 December 2020 (31 December 2019: RMB1,021.9 million).

The Group also placed certain surplus fund into wealth management products which were recorded as financial assets at FVPL. The wealth management products carry floating interests ranging from 1.36% to 7.40% (2019: 1.50% to 8.50%) per annum. As at 31 December 2020, the Group's financial assets at FVPL amounted to RMB4,604.9 million (31 December 2019: RMB5,664.2 million).

The net gearing ratio is defined by our management as total borrowings net of cash divided by shareholders' equity. As at 31 December 2020, the Group was in a strong financial position with a net cash position amounting to RMB5,000.6 million (31 December 2019: RMB1,753.3 million). Accordingly, no net gearing ratio is presented.

Capital Expenditure

In 2020, the Group's capital expenditure consisted of additions of property, plant and equipment and land use rights, which amounted to RMB925.8 million (2019: RMB431.3 million).

Charges on Group Assets

As at 31 December 2020, no assets were pledged by the Group (31 December 2019: no assets were pledged by the Group).

Foreign Exchange Risk Management

As of 31 December 2020, the Group exported approximately 29.8% of its products to international markets. Such sales were denominated in U.S. dollars or other foreign currencies, while the Group's purchases denominated in U.S. dollars or other foreign currencies accounted for less than 10% of the total purchases.

Financial guarantee

As at 31 December 2020, the Group provided guarantee to banks in connection with facilities granted to the customers with an amount of RMB649.1 million (31 December 2019: RMB657.4 million). As at 31 December 2020, the Group reassessed the provisions based on the credit history of its customers and the current market condition. No significant provision is noticed.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Jingzhang (張靜章), aged 84, is an Executive Director and the Chairman of the Group. He is also the chairman of the Nomination Committee. He is responsible for the overall business development strategy of the Group and has in-depth knowledge of, and more than 50 years of experience in, the plastic processing machinery industry. Mr. Zhang was the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian Group Co., Ltd (寧波海天股份有限公司) ("Ningbo Haitian") from 1970 to 1994. He was named as an excellent model worker of Ningbo (寧波市特等勞模) in 1988 by the Ningbo Municipal People's Government, and was also awarded the title of an "Outstanding Factory Manager and Manager of Industrial Enterprise of Ningbo" (寧波市工業企業優秀廠長、經理) by the Ningbo Municipal Committee of Communist Party of China for Economic Affair and Ningbo Economic Committee in 1993. In July 1994, Mr. Zhang founded the Group and was appointed as the chairman of the Group. Mr. Zhang was appointed as the president of Ningbo Haitian Precision Machinery Co., Ltd. 寧波海天精工股份有限公司 (listed on Shanghai Stock Exchange, stock code: 601882) since March 2012, Mr. Zhang was named as an economist by the Ningbo Municipal People's Government (寧波市人民政府) in 1994, an outstanding worker in the national plastic processing machinery industry (全國塑料機械行業先進工作者) by the China Plastic Processing Machinery Industry Association in 1996 and an outstanding township entrepreneur in Zhejiang (浙江省優秀鄉鎮企業家) by the Zhejiang Township Enterprise Bureau. In December 2002, Mr. Zhang was awarded the title of New Millennium Star Entrepreneur of the National Machinery Industry (新世紀首屆全國機械工業明星企業家) by the China Machinery Industry Federation (中國機械工業聯合會), an entrepreneur of China (全國鄉鎮企業家) and outstanding factory manager (manager and chairman) of China (全國優秀鄉鎮企業廠長) and was also elected as a deputy to the People's Congress of Ningbo and Beilun District (寧波市和北侖區人大代表) in both 1988 and 1999. He was named an outstanding entrepreneur of Zhejiang (浙江省優秀創業家) in 2006. Mr. Zhang currently serves as the honorary chairman of the China Plastics Machinery Industry Association (中國塑料機械工業協會).

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

Directors and Senior Management

Mr. Zhang Jianming (張劍鳴), aged 58, is an Executive Director and the Chief Executive Officer of the Group and is responsible for the overall daily operations of the Group. He is also a member of the Remuneration Committee. By introduction of Mr. Zhang Jingzhang, Mr. Zhang joined the Group in August 1977 as worker and has gained extensive exposure in various departments of the Group. With over 40 years of experience in the plastic processing machinery industry, Mr. Zhang is experienced in all facet of the overall operation of the Group. He was appointed as the director of Ningbo Haitian Precision Machinery Co., Ltd. 寧波海天精工股份有限公司 (listed on Shanghai Stock Exchange, stock code: 601882) since March 2012. He obtained a master in business administration from the Management College of Fudan University (復旦大學管理學院) in July 2002. Mr. Zhang has been appointed as the chief executive officer of the Group since April 2000. Mr. Zhang served as a member of the National Committee of the Chinese People's Political Consultative Conference in Beilun District (北侖區政協委員會) in 1996 and as a director of the Quality Management Association of Beilun District of Ningbo (寧波市北侖區質量管理協會) from 1990 to 2000. In January 2006, Mr. Zhang was also selected as a representative of Ningbo's private enterprises to attend the National Science and Technology Conference. From 2003 to 2011, he was the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會). Mr. Zhang was also elected a deputy to the People's Congress of Beilun District (北侖區人大代表) in 2012. Mr. Zhang Jianming is the elder son of Mr. Zhang Jingzhang, the elder brother of Mr. Zhang Jianfeng, the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo and the father of Mr. Zhang Bin, all of whom are directors of the Company, and he is also a director of Sky Treasure, Premier Capital and Cambridge Management.

Mr. Zhang Jianfeng (張劍峰), aged 51, is an Executive Director and the senior vice president of sales and marketing of the Group. Mr. Zhang joined the Group in October 1985 and has more than 30 years of experience in the plastic processing machinery industry. He was promoted to the deputy head of the Group's sales division in the sales and marketing department in 1997. He has been appointed as the senior vice president of sales and marketing of the Group since 2002. Mr. Zhang has been appointed as the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會) since 2012. Mr. Zhang is the younger son of Mr. Zhang Jingzhang, the younger brother of Mr. Zhang Jianming and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are directors of the Company, and he is also a director of Sky Treasure, Premier Capital and Cambridge Management.

Directors and Senior Management

Mr. Chen Weiqun (陳蔚群), aged 49, is an Executive Director and the general manager of Haitian Huayuan, the export arm of the Group. Mr. Chen graduated from Huadong Yejin College (華東冶金學院) with a bachelor's degree in mechanics in August 1993. In 2005, he obtained a master's degree in business administration from the University of Zhejiang. He joined the research and development department of the Group in 1993. In 1994, he joined the international sales team of the sales department. He was appointed as an assistant to the chief executive officer in 2000 and as the deputy general manager of international sales in 2003. He has been appointed as the deputy general manager responsible for the Group's international sales since 2004. In addition, Mr. Chen was appointed as the general manager of Haitian Huayuan in 2004. He is also a director of Premier Capital and Cambridge Management.

Mr. Zhang Bin (張斌), aged 34, is an Executive Director and the general manager of Ningbo Zhafir, the electric PIMM arm of the Group. Mr. Zhang joined the Group in January 2014. He obtained his Bachelor's degree in mechanical engineering from the University of Nottingham in July 2009, and his master's degree in engineering management from King's College London, the University of London, in January 2011. Upon joining the Group in January 2014, Mr. Zhang was appointed as an officer of the information management department of the Group. In January 2015, he also took up the role of assistant to general manager of Ningbo Zhafir Plastics Machinery Co., Ltd. under the Group. In January 2017, Mr. Zhang was appointed as general manager of Ningbo Zhafir Plastics Machinery Co., Ltd. under the Group. Mr. Zhang Bin is a grandson of Mr. Zhang Jingzhang, our Chairman, and a son of Mr. Zhang Jianming, our CEO.

Directors and Senior Management

Non-Executive Directors

Mr. Guo Mingguang (郭明光), aged 54, is a Non-Executive Director. Mr. Guo joined the Group in January 1983 and has more than 30 years of experience in the plastic processing machinery industry. In 1985, he was transferred to the Group's customer services department, and was transferred again in 1989 to the Group's engineering department. From 1994 to 1999, he served as the deputy general manager of Ningbo Zongtian Plastic Processing Machinery Manufacturing Co., Ltd. From 1999 to 2002, he served as the general manager of a factory of the Group. In 2003, he was appointed as the deputy head of production of the Group and was promoted to the vice president of production of the Group in 2004. Mr. Guo was re-designated from an Executive Director to a Non-Executive Director on 1 June 2012. Mr. Guo is a son-in-law of Mr. Zhang Jingzhang, the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Liu Jianbo, all of whom are directors of the Company and he is also a director of Premier Capital and Cambridge Management.

Mr. Liu Jianbo (劉劍波), aged 53, is a Non-Executive Director. Mr. Liu joined the quality assurance department of the Group in November 1986 and was appointed as a quality control manager in 1997. In 2000, he qualified as an internal auditor under the ISO9001:2000 certification system and since then has been responsible for the Company's internal quality control audit. He has been the Company's vice president of quality control since February 2004 and the Company's vice president of customer service since July 2004. Mr. Liu was re-designated from an Executive Director to a Non-Executive Director on 1 June 2012. Mr. Liu is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Guo Mingguang, all of whom are directors of the Company, and he is also a director of Premier Capital and Cambridge Management.

Independent Non-Executive Directors

Dr. Yu Junxian (餘俊仙), aged 55, was appointed as an independent non-executive director on 1 February 2019. Dr. Yu Junxian has been appointed as the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee with effect from 27 March 2020. Dr. Yu is currently the president of Zhejiang Tianping Investment Consulting Co., Ltd.* 浙江天平投資諮詢有限公司. Dr. Yu has in-depth knowledge of, over 30 years of experience in, auditing, accounting, and finance and is a professor level senior accountant, certified accountant, certified valuer and registered tax agent in China. Dr. Yu taught in Zhejiang Finance Economics College* 浙江財經學院 between 1988 and 1998. Dr. Yu was a partner with Zhejiang Tianping Accounting Firm* 浙江天平會計師事務所 in Hangzhou since 1999. Dr. Yu was an independent non-executive director of Ningbo Haitian Precision Machinery Co., Ltd.* 寧波海天精工股份有限公司 (stock code: 601882) from July 2013 to April 2018, the shares of which were listed on the Shanghai Stock Exchange. Dr. Yu was an independent non-executive director of Gansu Shangfeng Cement Co., Ltd.* 甘肅上峰水泥股份有限公司 (stock code: 000672) since January 2015, the shares of which were listed on the Shenzhen Stock Exchange. Dr. Yu was an independent non-executive director of Hangzhou XZB Tech Co., Ltd.* 杭州新座標科技有限公司 (stock code: 603040) since January 2017, the share of which were listed on the Shanghai Stock Exchange.

Mr. Lou Baijun (樓百均), aged 57, joined the Group in March 2012 as an Independent Non-Executive Director. He is also the chairman of the Audit Committee. He is currently the Head of Modern Logistics School and Professor of Zhejiang Wanli University. Mr. Lou is a member of the Chinese Institute of Certified Public Accountants since 1996. Mr. Lou was appointed deputy director and deputy professor of Faculty of Financial Management of Jiangxi University of Finance and Economics between 1985 and 2001 and commenced teaching at Zhejiang Wanli University since 2001. Mr. Lou obtained a master degree in management and engineering from Wuhan University of Technology in 2006.

Mr. Guo Yonghui (郭永輝), aged 64, joined the Group in November 2016 as an Independent Non-Executive Director. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. Prior to his retirement in August 2016, he was the Department General Manager of Ningbo Branch of Bank of China Limited. He was appointed to a number of roles at Finance & Local Taxation Bureau of Xiangshan District in Ningbo, China including section chief and director of Finance & Local Taxation Office between 1986 and 1994. He was appointed to the position of President of Sub-branch and Department General Manager of Ningbo Branch of Bank of China Limited since 1995. Mr. Guo graduated from Zhejiang Radio & TV University with a diploma in industrial accounting in 1990. He was a qualified economist in China since 1993. He graduated in law from PLA Dalian Naval Academy in 2003.

Mr. Lo Chi Chiu (盧志超), aged 48, was appointed as an independent non-executive director on 1 February 2019. Mr. Lo has over 20 years of accounting and auditing experience in international accounting firms and various corporations. He served as staff account in Ernest & Young from August 1995 to October 1997. From December 1997 to June 2001, Mr. Lo initially worked as senior associate and later was appointed as manager in PricewaterhouseCoopers Ltd. Mr. Lo was appointed as financial controller for Technicon Engineering Limited from July 2001 to July 2002. He was appointed as financial controller for Zhejiang Xinfu Biochemical Co., Ltd. from July 2002 to November 2002. From December 2002 to June 2003, Mr. Lo was appointed as financial controller for Shenzhen Glory Medical Co., Ltd. He was initially appointed as project accountant and subsequently as finance manager for Integrated Distribution Services Group Management Limited from June 2004 to August 2006. He was appointed as company secretary and chief financial officer of Truly International Holdings Limited (stock code: 732) from November 2010 to January 2011, the shares of which listed on the Stock Exchange. From February 2011 to August 2011, Mr. Lo was appointed as chief financial officer for VPower Holdings Limited. He was appointed as chief financial officer of the Company from August 2006 to November 2010 and from September 2011 to June 2016. Mr. Lo served as an independent non-executive director, chairman of the audit committee and the remuneration committee and a member of the nomination committee of Ernest Borel Holdings Limited (stock code: 1856) from June 2014 to December 2017, the shares of which listed on the Stock Exchange. He has also been appointed as an independent non-executive director, chairman of the audit committee and a member of the nomination committee and the remuneration committee of Edvantage Group Holdings Limited (stock code: 382) since 15 July 2019, the shares of which listed on the Stock Exchange.

* *For identification purpose only*

Senior Management

Mr. Yu Wenxian (虞文賢), aged 51, is the vice president of human resources and administration of the Group. Mr. Yu graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in mechanical engineering in 1991. He joined the Group in May 1993 as an engineer. Since 1997, Mr. Yu has been working in the areas of administration and human resources and served various managerial roles in those areas. He has been appointed as the vice president of human resources and administration of the Group since 2003 and had been serving as the executive assistant to the chief executive officer of the Group between 2004 and 2010.

Mr. Bei Haibo (貝海波), aged 54, is the vice president of domestic sales of the Group. Mr. Bei joined the Group in January 1983 and has more than 30 years of experience in the plastic processing machinery industry. He was appointed as a manager responsible for after-sales services in 1997 and was promoted to deputy general manager of the Group's sales department in 1998.

Mr. Fu Nanhong (傅南紅), aged 45, is the head of technology of our Group. Mr. Fu graduated from Dalian University of Technology with a bachelor's degree in mechanical engineering in 1997 and a master degree in mechanical and electronic engineering in 2000. He joined the research and development department of our Group in 2000. In 2003, he was appointed assistant to the head of research and development department and its deputy head in 2006. In 2008, he was also appointed deputy general manager of Ningbo Zhafir, the electric PIMM arm of our Group, and promoted to its general manager between 2014 and 2016. He was appointed as the head of technology of our Group since 2013.

Mr. Shi Huajun (施華均), aged 49, is the general manager of the internal control and investor relation department of the Group. Mr. Shi graduated from Zhejiang Finance Economics College with a bachelor's degree in economics in 1994. He obtained a master's degree in business administration from the Open University of Hong Kong in 2003. Mr. Shi has in-depth knowledge of, and over 20 years of experience in, auditing, accounting and finance and is a certified accountant, certified valuer and registered tax agent in China. Prior to joining the Group, Mr. Shi was a partner with a local accounting firm in Ningbo. He was named an outstanding certified accountant in Zhejiang (浙江省優秀註冊會計師) by the Zhejiang Certified Accountants Association in 2003.

Mr. Xie Zhenfeng (解臻峰), aged 34, was appointed as the chief financial officer of the Group in February 2021. Mr. Xie graduated from Fudan University (復旦大學) with a bachelor's degree in science in 2008. Mr. Xie is a certified public accountant and a certified internal auditor in China. He used to serve as an auditor in Deloitte Touche Tohmatsu Certified Public Accountants LLP and has extensive work experience in enterprises and banks. In 2015, he joined the finance department of the Group and held the position of assistant to the chief financial officer.

Investor Information

Listing Information

Listing:	Hong Kong Stock Exchange
Stock code:	1882

Key Dates

22 March 2021	—	Annual Result Announcement of 2020
9–13 April 2021	—	Closure of register of members (entitlement to second interim dividend and special interim dividend)
Around 19 April 2021	—	Payment date of second interim dividend and special interim dividend
13–18 May 2021	—	Closure of register of members (Annual General Meeting)
18 May 2021	—	Annual General Meeting

Share Information

Board lot size: 1,000 shares

Shares in issue as at 31 December 2020:
1,596,000,000 shares

Market Capitalisation as at 31 December 2020:
HKD42,772.8 million

Basic earnings per share for 2020:	RMB1.50
Diluted earnings per share for 2020:	RMB1.50

Dividend per share for 2020	
Interim dividend	HKD24 cents
Second interim dividend	HKD65 cents
Special interim dividend	HKD75 cents
Total	HKD164 cents

Hong Kong Share Registrar Transfer Office

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

Enquiries Contact

Investor Relations Department

Tel (China):	86-574-86182786
Tel (Hong Kong):	852-24282999
Fax:	86-574-86182787
E-mail:	andy@mail.haitian.com
Address:	No. 1688 Haitian Road, Beilun District, Ningbo, Zhejiang Province, China
Postal code:	315800

Websites

http://www.haitianinter.com
http://www.haitian.com

Innovation

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(I) Introduction

This report covers the activities of Haitian International Holdings Limited and its subsidiaries in the area of anti-corruption and anti-bribery, environmental protection, technology innovation, employees, compliance with regulatory requirements in business operation and social responsibility. The period covered by this report is 2020 and comparative figures in 2019 are also provided to the extent available.

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

(II) Anti-corruption and Anti-bribery

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

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

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

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

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

The investigation procedure has also been established as follows:

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

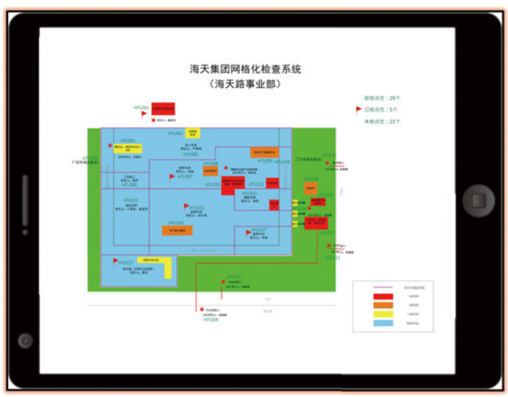
(III) Safety and Environment Protection

I. 1. Overview

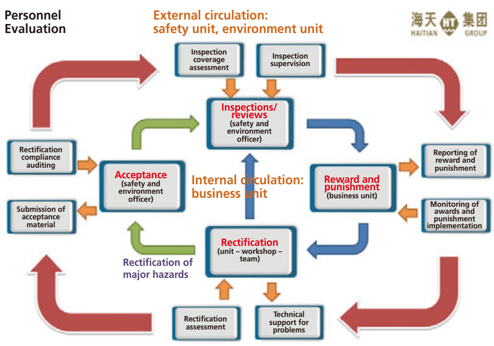
In 2017, the Company obtained the ISO 14001: 2015 environmental management system certification, procured our management system reaching the international standard and developed a standardized management system. The Company also successfully obtained the system supervision certification in 2018,2019 and 2020.

In 2020, the Company carried on implementing a comprehensive regional grid management and smart control for safety and environmental protection, four-color hierarchical management and control on safety, and key area management and control on environmental protection. It established a vertical management with "industry – business unit – workshop – team", a four-level management structure, as the main line, and a horizontal management supported by the supervision and assessment, and technical guidance of functional departments, and forms a safety and environmental protection management mode with equal emphasis on supervision and management. Through grid management, we realized the transformation from extensive management to fine management, and achieved full coverage in management.

The smart control system of the Company consists of four major items, namely the inspection standards regarding the regional grid of safety and environmental protection, operation of manual examination, monthly reports on analysis of safety and environmental protection, as well as the online smart inspection system. Currently, we have completed setting up the smart grid control system in the business unit on Haitian Road.



At the same time, in 2020, for better environmental protection in a more digital and standard way, and for a more refined management, we enhanced the team building for safety and environmental protection on three aspects, which are deployment, training and evaluation of our personnel. Each business unit is equipped with specialised management personnel to carry out inspections on a daily basis, and our dedicated personnel of safety and environmental protection are evaluated regularly.



The Company has improved its accidents accountability system by adding in the "material accidents and requirements of relevant responsibility" to enhance the efforts on the accountability of accidents in respect of safety and environmental protection.

安全环保事故分级当责处理规定

1、责任判定以安环事故联合调查小组调查认定意见为准。（事故联合调查组由管理者代表、监管部门、人资本部、内控本部、工会、事业部派人组成。）
2、如同一人承担多项责任时，按照责任从重原则进行处理。
3、员工在公司外部发生的交通安全事故不做考核。
4、监管部门责任（以联合调查组责任认定结果为准）。
（1）监管部门有明文规定或明确提出相关安全环保要求的，因事故部门违反规定和要求发生的事故，则监管部门承担监管到位的事故连带责任。
（2）监管部门未明文规定和明确提出相关安全环保要求的，监管部门承担监管不到位事故监管责任。

序号	事故等级	事故界定说明	直接责任车间或科室负责人	主管领导	事业部总经理	监管部门负责人	管理者代表责任	备注
1	特级	（1）发生1人及以上公司员工死亡的责任安全生产事故；	直接责任车间或科室负责人予以免职处理	对事故发生区域主管领导予以连降3个职等处理	对事故发生区域主管领导予以降职等处分，并根据事故情节和损失处以10000—20000元罚款。	1、监管到位：予以监管部门负责人3000-5000元连带罚款处理。	根据事故情节和损失情况，对管理者代表予以警告处分，处以20000—30000元罚款。	1、大基建项目（新厂房建设，独立工地项目）发生亡人事故，根据政府监管部门责任认定结果参照本规定执行。
2		（2）发生1人及以上外协单位或委外施工单位人员死亡的公司主责安全事故（经办部门和施工区域管理部门未签订安全协议、未按照公司相关安全管理制度执行等，经安监部门认定公司负有主要责任的事故）				2、监管不到位：予以监管部门负责人降1个职等处分		
3	一级	（1）发生1人及以上外协单位人员或委外施工单位人员死亡的非公司主责安全事故（经办部门和施工区域管理部门签订了安全协议，并按照公司相关安全管理制度执行等，经安监部门认定外协单位或委外施工单位负主要责任的事故）；	直接责任车间或科室负责人予以降职等处理。	对事故发生区域主管领导予以降职等处分，并根据事故情节和损失处以10000—20000元罚款。	根据事故情节和损失情况，对事故发生区域事业部总经理予以警告处分，处以20000—30000元罚款。	1、监管到位：予以监管部门负责人3000-5000元连带罚款处理。	根据事故情节，管代予以10000—20000元罚款。	2、小基建项目（已投入使用场所局部改扩建项目）按照委外施工执行。
4		（2）发生3人及以上（包含公司员工及外协单位人员）伤残等级达到三级及以上的重伤安全环保事故；						
5		（3）发生公司被政府监管部门行政处罚的严重伤亡、火灾、爆炸及重大环境污染等安全环保事故；				2、监管不到位：予以监管部门负责人降到所在职等最低职级处分		
6		（4）发生对公司造成公司直接经济损失达200万（含）以上的安全环保事故；						
7		（5）发生对公司造成严重负面影响的安全环保事故，如被省级以上新闻媒体曝光、导致重大项目无法办理通过、导致停产整顿或产生其他恶劣影响事件等。						
8	二级	（1）发生3人（不含）以下（包含公司员工及外协单位人员）伤残等级达到三级及以上的重伤安全环保事故。	直接责任车间或科室负责人予以降职处分（6职等和7职等降到该职等的最低职级，再次发生则6职等和7职等降一个职等，8职[illegible]	根据事故情节和损失情况，对事故发生区域主管领导予以警告处分，处以15000—[illegible]	根据事故情节和损失情况，对事故发生区域事业部总经理，处以10000—20000[illegible]	1、监管到位：予以监管部门负责人2000-3000元连带罚款处理。	根据事故情节，管代予以5000—10000元罚款。	
9		（2）发生对公司造成直接经济损失100万（含）以上，200万以下的安全环保事故；						
10		（3）发生3人（不含）以上的工伤、中毒等群伤性安全环保事故；				2、监管不到位：予以监管部门负[illegible]		
11		（4）发生被政府监管部门行政处罚的一般伤亡、火灾、爆[illegible]						

2. Measures to Reduce Emissions in 2020:

Reduce gas emissions

1) **Replacement of oil-based paint process with water-based paint process.** In response to the national call for VOC emission reduction, in 2020 our Company proactively initiated a reform of the spraying process for casting parts of plastic injection moulding machine, experimenting with water-based paint instead of oil-based paint. Small batch tests showed that the technology is feasible. It is planned to be fully implemented in all divisions of the Company in 2021. The use of water-based paint spraying can significantly reduce the emissions of volatile organic compounds (VOC).

2) **We acquired electric forklifts to phase out fuel forklifts.** In recent years, in order to phase out the fuel forklifts, the new forklifts purchased by our Company were basically the cleaner and environmentally friendly electric forklifts. In 2020, our Company purchased 9 new electric forklifts, so that the ratio of electric forklifts to fuel forklifts has reached 8:3, which has greatly reduced the emission of automobile exhaust.

Reduce the discharge of waste water

1) **We added a waste water discharge assessment to control the discharge of waste water.** In 2020, we installed precise measuring devices at each water consumption point and waste water discharge point in order to control the water quantity in real time, and added waste water discharge assessment indexes to each division under our Company.

Reduce the emissions of hazardous waste

1) **Zhafir business unit added a cutting fluid recycle device at the end of 2020.** Previously, we used cutting fluid water separation device to reduce the amount of waste cutting fluid treatment by separating and reusing the water in the waste cutting fluid, but the waste cutting fluid treated as hazardous waste has lots useful ingredients, so there is loss and waste. Zhafir business unit has added a waste cutting fluid regeneration and reuse device, which can purify the waste cutting fluid to achieve regeneration and reuse of cutting fluid, as well as extend the recycling time of cutting fluid and reduce production costs.

2) **Zhafir business unit added the separation device of paint residue and water.** After the water curtain is removed from the paint mist, it is necessary to manually salvage the paint residue in the pool regularly, therefore, the labor intensity of the staff is high and the operation risk factor is high; at the same time, the water content of the paint residue is high, so the amount of hazardous waste treatment is large; when the water quality is turbid, it will lead to uneven water curtain, thus affecting the spraying effect. Zhafir business unit added the separation device of paint residue and water, which can reduce the water content of paint residue, thus reducing the amount of hazardous waste disposal. The volume of paint residue generated by Zhafir business unit in 2019 was 29.09 tons, while the volume of paint residue generated in 2020 was 15.71 tons, i.e., with a reduction of approximately 46%.

The Company also set the following objectives for the environmental management system for the year 2021:

1) Zero environmental pollution accident

2) Waste water, waste gas and noise emissions meet the standards

3) 100% compliance of hazardous waste disposal and reduction of hazardous waste volume by 3% compared with the previous year; 100% compliance of general industrial solid waste disposal

4) Energy consumption per output value of RMB10,000 will decrease by 1% compared to the previous year

5) Waste water emissions per output value of RMB10,000 will decrease by 2% compared to the previous year

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

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

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

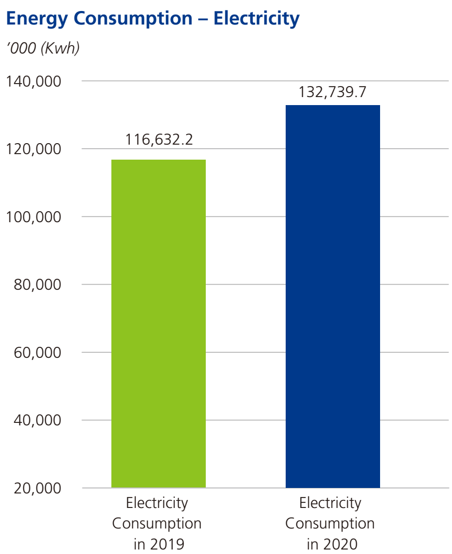
II. Energy Consumption

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

2019	2020	YoY
16.716	17.997	7.7%

Electricity

The main energy consumption during our manufacturing processes and daily operations is electricity, which is mainly provided by public electric grid of relevant regions. Below is the data of electricity consumption for our main production and office facilities in 2019 and 2020:



The average electricity consumption per unit of product output in 2019 and 2020 are 3,575.48 (Kwh) and 3,076.24 (Kwh), respectively.

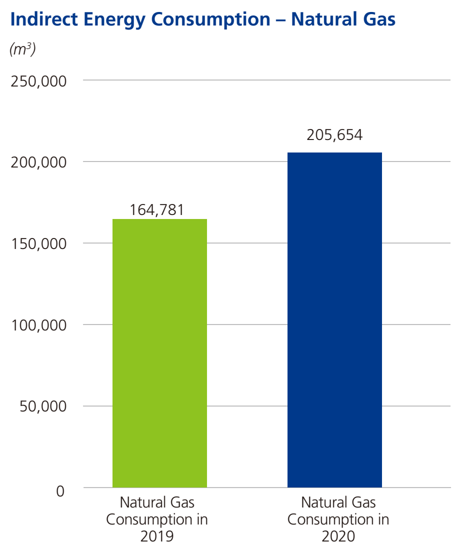
Electricity consumption/output per RMB10,000 value (Kg standard coal/RMB10,000 value):

2019	2020	YoY
12.892	13.155	2.04%

Heat treatment is the high electricity consumption production process of our Company, with an electricity consumption accounting for about one-third of total electricity consumption of our Company, therefore, our Company has especially strengthened the control of electricity consumption in the heat treatment workshop, which includes: 1. purchasing heat treatment furnaces with low energy consumption and good heat preservation performance, and gradually eliminating heat treatment furnaces with poor heat preservation performance and high energy consumption; 2. rational scheduling, continuous production operations, and reducing the heat loss from turning on and off the furnace. In addition, the Company is also eliminating the old lighting fixtures in the workshop year by year and adopting energy-saving lighting fixtures with low energy consumption.

Natural Gas

The drying process after painting and powdering in our manufacturing flow requires the use of natural gas, which is mainly provided by natural gas supplier of relevant regions. Below is the data of natural gas consumption for our main production facilities in China in 2019 and 2020:



The average natural gas consumption per unit of product output in 2019 and 2020 are 5.1 (m3) and 4.8 (m3), respectively.

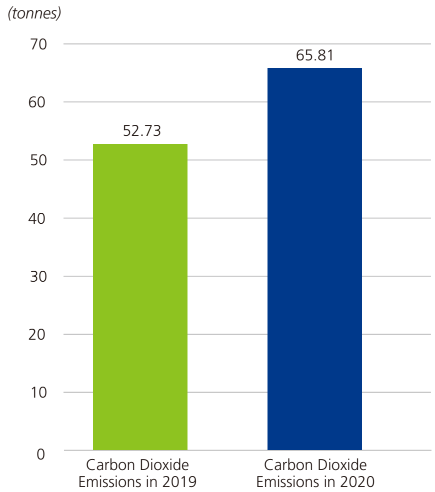
Natural gas consumption/output per RMB10,000 value (Kg standard coal/RMB10,000 value):

2019	2020	YoY
0.192	0.214	11.5%

Natural gas is mainly used in our production process for powder spray drying, paint spray drying and canteen stoves. For the control of natural gas usage, our Company has formulated "Energy Management Control Procedures" in the construction of environmental management system to strengthen the management and assessment of energy usage including natural gas, and supervise and check the drying temperature and drying time to eliminate wasteful energy behavior.

Below is the data of carbon dioxide emitted in our use of natural gas for our production facilities in China in 2019 and 2020, which are 52.73 tonnes and 65.81 tonnes respectively.

Carbon Dioxide Emission – Natural Gas

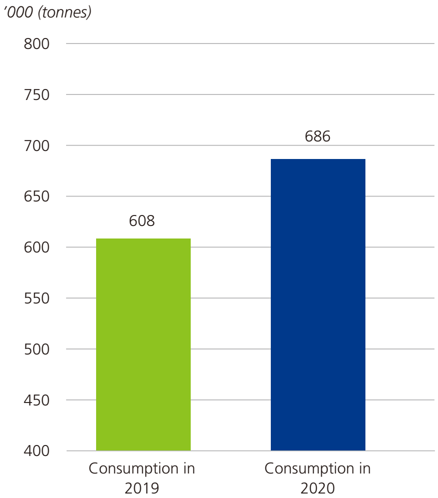


We will continue to review the energy consumption of our Group and propose measures to reduce energy consumption including using equipment with higher efficiency in energy consumption and improving manufacturing process to reduce energy waste.

III. Resource consumption

The parts and components surface-processing during our production process including painting, cleaning and powdering consume water, which is also required for other operation purposes such as cleaning and staff dormitory. The water comes from municipal running water. Below is the data of water consumption for our main facilities in 2019 and 2020:

Water Consumption



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

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

2019	2020	YoY
0.0396	0.0445	12.4%

IV. Pollution Control

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

1. Gas: the painting and powdering processing in production will produce waste emission which requires processing. We adopt filter – adhesion-diffusion-catalyst combustion to process emission from painting. The polluting components in such emission will be filtered with filters and carbon-based catalyst, and disposed by standardized exhaust vent after meeting required emission standard. The saturated carbon-based catalyst with adhesion is required to conduct desorption on a regular basis. Desorption is a process to remove the pollutants from carbon-based catalyst by using heated air and the pollutants will be emitted through catalytic combustion eventually. The dusts from powdering processing will be filtered in two phases by using rotating precipitator and bag precipitator in order to meet the standard before emission. The gas discharged by our Company does not contain carbon dioxide, methane, nitrous oxide, HFCs, PFCs or sulphur hexafluoride. We also engaged third-party with valid qualification to conduct regular monitoring of our gas emission since 2017 to ensure our compliance with regulatory requirements.


CMA
161100341841

检测报告
Test Report

报告编号：	检 02202001265
项目名称：	海天塑机集团有限公司江南路事业部
	自行监测（废气）
委托单位：	海天塑机集团有限公司
受检单位：	海天塑机集团有限公司
检测类别：	委托检测
签发日期：	二〇二〇年六月十八日

NICE 耐斯检测技术服务有限公司
Nice Testing & Technology Services Co., Ltd.


CMA
161100341841

检测报告
Test Report

报告编号：	检 02202001268
项目名称：	海天塑机集团有限公司通途路事业部
	自行监测（废气）
委托单位：	海天塑机集团有限公司
受检单位：	海天塑机集团有限公司
检测类别：	委托检测
签发日期：	二〇二〇年六月十八日

NICE 耐斯检测技术服务有限公司
Nice Testing & Technology Services Co., Ltd.

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

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

The sewage treatment plant in one of our factories

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

CMA
161100341841

检测报告
Test Report

报告编号：检 02202001276
项目名称：海天塑机集团有限公司海天路事业部
自行监测（废水）
委托单位：海天塑机集团有限公司
受检单位：海天塑机集团有限公司
检测类别：委托检测
签发日期：二〇二〇年六月十八日

耐斯检测技术服务有限公司
Nice Testing & Technology Services Co., Ltd.

CMA
161100341841

检测报告
Test Report

报告编号：检 02202001271
项目名称：海天塑机集团有限公司长飞亚事业部
自行监测（废水）
委托单位：海天塑机集团有限公司
受检单位：海天塑机集团有限公司
检测类别：委托检测
签发日期：二〇二〇年六月十八日

耐斯检测技术服务有限公司
Nice Testing & Technology Services Co., Ltd.

In 2019 and 2020, Our sewage plants treated 59,626 and 69,055.8 tonnes of waste water, respectively.

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

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

The following figures show the amount of other solid and liquid wastes we produced in 2019 and 2020:

Nature of wastes	2019 (tonnes)	**2020 (tonnes)**
Waste mineral oi	183.2	**243.51**
Waste emulsified mixture	436.76	**419.73**
Waste carbon-based catalyst	6.4	**22.69**
Waste filter	5.32	**12.18**
Paint residue	108.42	**123.33**
Waste oil barrel	85.81	**102.36**
sludge	389.07	**597.78**
Waste hydrochloric acid	23.9	**12.56**

In 2020, the increase in sales orders and production capacity led to more solid and liquid wastes, while the renovation of the sewage station of business unit on Jiangnan Road resulted in the increase of sludge. The Company still process some of the waste that has been removed from the oily waste list by the state for higher environment protection concern. The Company has set up a recycling system for emulsified mixture in factories in Ningbo in order to reduce emulsified mixture wastes generated.

We have adopted specific regulations for processing of wastes generated from our manufacturing process and its implementation is continuously monitored by our Environmental Protection Division. We have set up detailed recording system for the processing of hazardous wastes that require special treatment under applicable regulations, which ensures that the processing of all hazardous wastes is able to comply with such regulatory requirements and allows cross-checking of the status of different check-point in the system. Since 2017, the Group has adopted the ISO 14001 environmental management system to enhance control over environmental management. Below is the ISO 14001 Certificate.


北京中大华远认证中心

环境管理体系认证证书

证书号：02020E1299R1L

海天塑机集团有限公司

体系适用范围：位于中国浙江省宁波市北仑区小港海天路 1688 号；浙江省宁波市北仑区小港街道陈山西路 18 号；浙江省宁波市北仑区春晓街道观海路 98 号；浙江省宁波市出口加工区南环路 1 号；浙江省宁波市北仑区江南中路 32 号；浙江省宁波市衡朱路 19 号；浙江省宁波市北仑区江南中路 35 号；浙江省宁波市大港工业城区凤洋三路 45 号的海天塑机集团有限公司的塑料注射成型机的设计、开发、生产和服务的环境管理活动

注册地址：中国浙江省宁波市北仑区小港海天路 1688 号

环境管理体系符合：GB/T 24001-2016/ISO 14001:2015 《环境管理体系 要求及使用指南》

发证日期：2020 年 10 月 16 日；有效期至 2023 年 10 月 15 日

初次发证日期：2017 年 10 月 19 日

主任签发：

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


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

(IV) Green Products and Technical Innovation

The Group is committed to adopting green technologies in product design and manufacturing. All three generations of plastic injection moulding machines (from generation one to generation three launched in 2020) developed by the Group use energy-saving technology in hydraulic, mechanical, electronic and control fronts. The Group takes into full consideration production efficiency, environmental protection, product precision and qualification rate. It has developed lightweight moulding technology for the automotive manufacturing industry and effectively used low-grade or waste raw materials to develop synthetic products and sandwich products moulding technology. Following the COVID-19 outbreak in early 2020, we set up a special working group for the research and development of plastic injection moulding machines for goggles, respirators, CT and nucleic acid testing kits, providing moulding equipment solution for the production of anti-epidemic materials. The "Key Technology and Equipment for High-Efficiency Precision Injection Moulding of Plastic Products for Epidemic Prevention and Control" jointly developed with Beijing University of Chemical Technology was awarded the second prize of 2020 Beijing Science and Technology Achievement Progress.

1) Cutting energy consumption

Ordinary water distribution system cannot control the temperature on mould cavity surface but only stabilize it by increasing the total cooling flow. Thus, the Group proposed the intelligent water distribution system for cooling molds. It consists of a water distribution assembly, a special control board, a digital bus interface and intelligent management software. The system implements precise control of the temperature field on the surface of the mould cavity, a relevant plastic injection moulding process. It senses the dynamic changes in temperature in different branches of the mould water circuit in real time and, according to processing requirements, controls the water flow in the branches in real time through the integrated body control mechanism to achieve optimal temperature field control, saving energy and water resources.

2) Saving steel resources

ANSYS and NASTRAN were used to optimize topology and dimension for the best feature form and to optimise the design of the three main mould plates for plastic injection moulding machine, which improves the strength and stiffness of the plates while reducing the weight by more than 5% compared to conventional designs, meaning almost 5 tonnes of the weight of plastic injection moulding equipment with a rated clamping force of 40,000 KN. Besides, the energy consumption for moving the plate can be reduced.

3) Reducing environment pollution

More efforts were put into the development of all-electric injection moulding machines and electro-hydraulic hybrid injection moulding machines to expand the market share. Such machines are not only energy-saving, but also more precise in transmission mechanism, with more stable movement and less noise. Due to the absence of hydraulic systems or their less application, hydraulic oil contamination and cooling water usage are significantly reduced, saving a large amount of water.

In the meantime, focusing on technologies such as energy saving, environmental protection and intelligent equipment, the Company set up green energy saving innovation team, intelligent equipment innovation team and electric injection moulding innovation team related to clean technology products.

Green energy saving innovation team:

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

Intelligent equipment innovation team:

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

Electric injection moulding innovation team:

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

(V) Employees

I. Overview

Over the past 50 years of development, Haitian transformed from a local factory with just over a hundred employees into a global enterprise with approximately 6,668 employees. Our success builds upon the effort and contribution of each employee and a safe work place, sufficient work-related training and diversified outside-work activities are our concern throughout the years. We regard such elements as crucial for a stable work-force and for a continuing Haitian story.

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

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

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

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

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

II. Basic Information of Employees

We had a total workforce of approximately 6,668 employees as of 31 December 2020.

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

Location of Employees

Location	Numbers	Percentage
China	6,173	93%
Overseas	495	7%
Total	6,668	100%

Age Group of Employees

Age Group	Numbers	Percentage
30 or below	2,053	31%
31–50	3,813	57%
51 or above	802	12%
Total	6,668	100%

Gender of Employees

Gender	Numbers	Percentage
Female	770	12%
Male	5,898	88%
Total	6,668	100%

Educational Level of Employees

Educational Level	Numbers	Percentage
Postgraduate or above	106	2%
Undergraduate and technical college	3,021	45%
Secondary technical junior school, secondary technical high school and secondary high school	2,271	34%
Secondary junior school or below	1,270	19%
Total	6,668	100%

The table below shows figures of turnover rate of our employees in 2019 and 2020:

	2019	2020
Turnover rate	5.3%	6.5%

III. Occupational Safety

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

ZDHY

北京中大华远认证中心

(北京市西城区阜成门外大街乙22号 100833)

职业健康安全管理体系认证证书

证书号: 02020S1248R1L

海天塑机集团有限公司

(统一社会信用代码: 91330200717285453P)

体系适用范围: 位于中国浙江省宁波市北仑区小港海天路 1688 号; 浙江省宁波市北仑区小港街道陈山西路 18 号; 浙江省宁波市北仑区春晓街道观海路 98 号; 浙江省宁波市出口加工区南环路 1 号; 浙江省宁波市北仑区江南中路 32 号; 浙江省宁波市衙朱路 19 号; 浙江省宁波市北仑区江南中路 35 号; 浙江省宁波市大港工业城区凤洋三路 45 号的海天塑机集团有限公司的塑料注射成型机的设计、开发、生产和服务的职业健康安全管理活动

注册地址: 中国浙江省宁波市北仑区小港海天路 1688 号

职业健康安全管理体系符合: GB/T 45001-2020/ISO 45001:2018 《职业健康安全管理体系 要求及使用指南》

发证日期: 2020 年 10 月 16 日; 有效期至 2023 年10月15 日

初次发证日期: 2017 年 10 月 19 日

注: 认证注册范围不包括未获得有效的国家规定的相关行政许可、资质许可的产品/服务范围:

自初审/再认证审核认证决定之日起, 每间隔不超过 12 个月必须接受一次监督审核, 并经审核合格证书方为有效。

证书信息可通过国家认监委官方网站 (www.cnca.gov.cn) 或扫描下方二维码查询。

主任签发:

CNAS 中国认可 管理体系 MANAGEMENT SYSTEM CNAS C020-M

ZHONGDAHUAYUAN CERTIFICATION CENTER 北京中大华远认证中心 ZDHY BEI JING

The table below shows figures of work injuries and loss in work-day in 2019 and 2020:

Year	Incidents of work injuries	Loss in work days	Work-related death number	Work-related death rate
2019	97	3,291	0	0%
2020	119	3,307	0	0%

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

IV. Work Training

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

The table below shows the relevant data of our staff training in 2019 and 2020:

Year	Total number of staff training entries	Average training entry per staff	Total hours of training (hours)	Average hours of training per staff (hours)
2019	14,414	17.6	50,042	3.47
2020	11,942	23.6	30,458	2.80

Because of the pandemic, the number of staff training entries and average hours of training per staff decreased throughout the year.

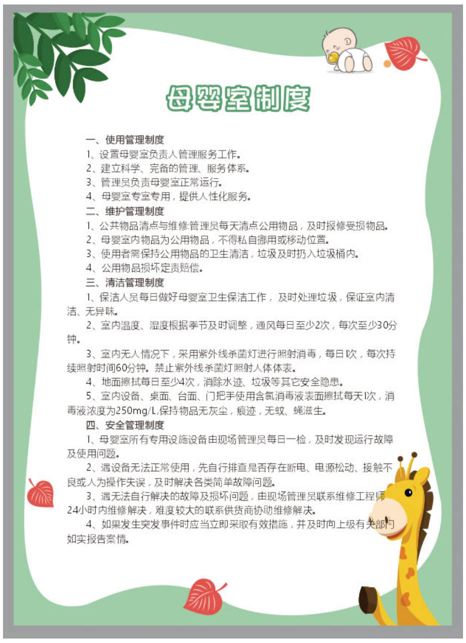
V. Diversified After-work Activities

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

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

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

We also set up an infant room for staff's convenience.



母婴室制度

一、使用管理制度

1、设置母婴室负责人管理服务工作。
2、建立科学、完备的管理、服务体系。
3、管理员负责母婴室正常运行。
4、母婴室专室专用，提供人性化服务。

二、维护管理制度

1、公共物品清点与维修管理员每天清点公用物品，及时报修受损物品。
2、母婴室内物品为公用物品，不得私自挪用或移动位置。
3、使用者需保持公用物品的卫生清洁，垃圾及时扔入垃圾桶内。
4、公用物品损坏定责赔偿。

三、清洁管理制度

1、保洁人员每日做好母婴室卫生保洁工作，及时处理垃圾，保证室内清洁、无异味。
2、室内温度、湿度根据季节及时调整，通风每日至少2次，每次至少30分钟。
3、室内无人情况下，采用紫外线杀菌灯进行照射消毒，每日1次，每次持续照射时间60分钟。禁止紫外线杀菌灯照射人体体表。
4、地面擦拭每日至少4次，消除水迹、垃圾等其它安全隐患。
5、室内设备、桌面、台面、门把手使用含氯消毒液表面擦拭每天1次，消毒液浓度为250mg/L,保持物品无灰尘，痕迹，无蚊、蝇滋生。

四、安全管理制度

1、母婴室所有专用设施设备由现场管理员每日一检，及时发现运行故障及使用问题。
2、遇设备无法正常使用，先自行排查是否存在断电、电源松动、接触不良或人为操作失误，及时解决各类简单故障问题。
3、遇无法自行解决的故障及损坏问题，由现场管理员联系维修工程师24小时内维修解决，难度较大的联系供货商协助维修解决。
4、如果发生突发事件时应当立即采取有效措施，并及时向上级有关部门如实报告案情。

VI. Compliance with laws

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

Social security and other benefits

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

– social security programs including medical, work injury and retirement insurance schemes

– paid annual leave

– overtime-work compensation

Anti-discrimination

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

Prohibition on child labour

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

(VI) Supply Chain Management

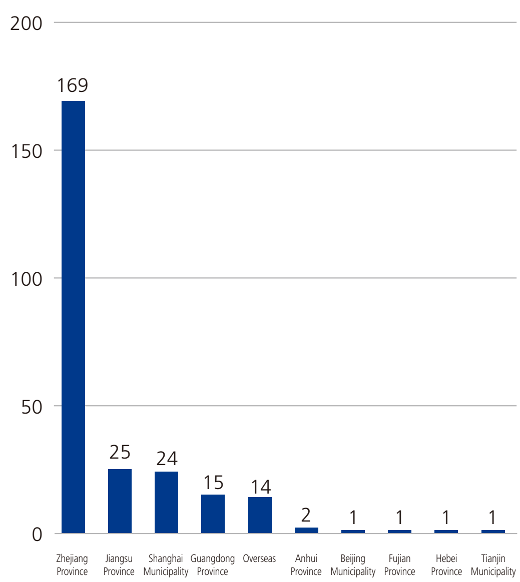
The majority of our suppliers are companies in China. Under the emphasis of transformation towards a sustainable economic development by the Chinese government, and of corporate social responsibility by Haitian, all suppliers are required to pay more attention to environmental protection, social responsibility, anti-corruption and anti-bribery.

Haitian has compiled relevant management and assessment documents such as "New Supplier Entry Measures" (《新供應商准入辦法》) and "Supplier Evaluation and Assessment Measures" (《供應商評估考核辦法》) for suppliers. For processing which we out-source to third party contractors and involves potential pollution to the environment, we request the contractors to obtain relevant license from the environmental protection bureau of the local government as soon as possible to ensure they are qualified to perform the relevant work.

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

We have 253 suppliers above designated size by 2020:

Location of suppliers



In order for Haitian and suppliers to jointly promote sustainable development, we require suppliers above designated size to sign the "Haitian Group Supplier Safety and Environmental Protection Management Measures" (《海天集團供應商安全環保管理辦法》), "Haitian Group Supplier Social Responsibility Guidelines" (《海天集團供應商社會責任準則》) and "Supplier Integrity Letter" (《供方廉政承諾書》), in addition to relevant standard supplier agreements.

Suppliers	Number
Suppliers above designated size in 2020	253
Suppliers having passed ISO 14001 environmental management system certification	77
Suppliers having signed Supplier Integrity Letter	50
Suppliers having signed Haitian Group Supplier Safety and Environmental Protection Management Measures	145
Suppliers having signed Haitian Group Supplier Social Responsibility Guidelines	145

(VII) Product Responsibility

Product Quality Assurance

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

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

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

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

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

Intellectual Property Rights

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

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

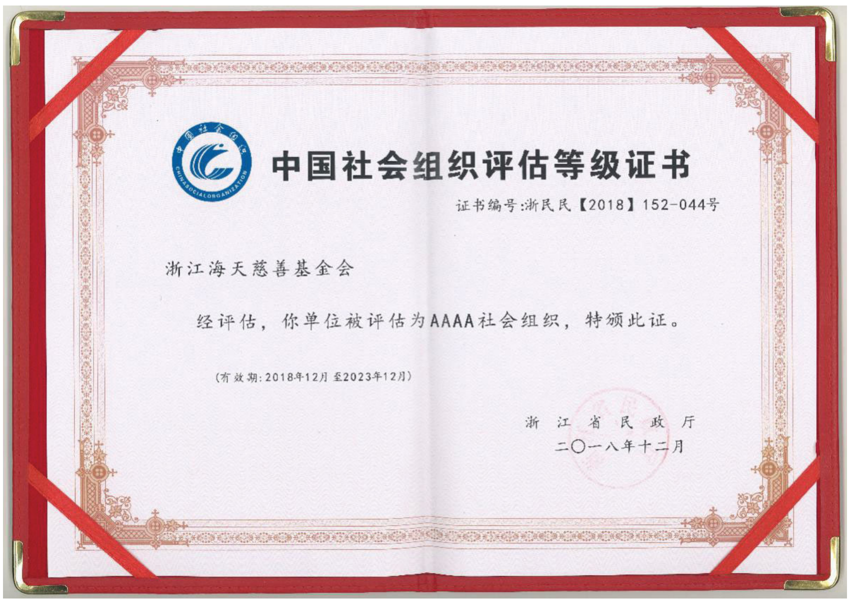
Haitian Plastic Machinery Group Co., Ltd.
Ningbo Haitian Huayuan Machinery Co., Ltd.
Ningbo Zhafir Plastics Machinery Co., Ltd.

(VIII) Charity

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

Since the founding of Haitian Group, our efforts to contribute to the society have never stopped. We have funded the reconstruction of facility of nearby communities, offered scholarship to students in financial needs and financed the establishment of Haitian Park. Our employees also contributed personally for aids to natural disasters and this was echoed with "One-Day Donation" since 2003. The total contribution from Haitian Group till 2020 for these purposes had reached RMB202 million. In order to conduct such charitable activities in a scientific, systematic and consistent manner, Haitian Group started to prepare for the establishment of a charity foundation in 2012.

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


中国社会组织评估等级证书

证书编号:浙民民【2018】152-044号

浙江海天慈善基金会

经评估，你单位被评估为AAAA社会组织，特颁此证。

(有效期:2018年12月 至2023年12月)

浙江省民政厅

二〇一八年十二月

Haitian was awarded the "Zhejiang Charity Award" (浙江慈善獎), the provincial government's highest award in the field of charity, by the Zhejiang Provincial Department of Civil Affairs in 2019 for its' outstanding contribution to philanthropy. In addition, it was awarded the 2018 Charitable Enterprise Award of National Charity Association (2018年度全國慈善會愛心企業獎) by the China Charity Federation. Below is the provincial government's highest award in the field of charity, i.e. "Zhejiang Charity Award".

In 2020, we have conducted various service items under the support of the foundation:

I. Regular Activities

1. Support for medical, educational and household expenses

- medical: provide financial support to people in need who are unable to afford medical expenses resulting from their severe sickness. Medical expenses in 2020 was RMB20,000.

- educational: provide financial support to families having difficulties in sending children to school and for senior high-school and university level educational needs. For the renowned universities which are closely worked with in Zhejiang Province, we provide subsidies for the students who have good academic performance and conduct, come from needy families and are all-round developed. We started helping students since May 2017 and our support has covered 5 universities in or out of Zhejiang Province such as Zhejiang University of Technology and Ningbo University till 2020. The total scholarship we offered amounted to RMB496,000 for 2020.

- household: provide financial support to families in need which are having living problems as a result of natural disasters, accidents or severe sickness. Household expenses in 2020 reached RMB355,000.

2. Support to local community

We provided financial support to families in need at Yaqian, Shanxia and Qianjin villages in Xiaogang, Beilun, Ningbo before Chinese Lunar New Year. We spent a total of RMB420,000 in 2020.

3. Support to special groups of people in need

In joint operation with the Women's Association of Xiaogang Street, Beilun, Ningbo, we visited women in financial need and suffering from cancer and helped the youths in need to improve their livelihood and learning. We spent condolence payments in aggregate of RMB180,000 in 2020.

4. Free healthcare

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

5. Haitian Charity Day

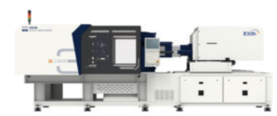
Already its 8th anniversary, the Haitian Charity Day covers free services such as charity photography, free optometry for the elderly, bicycle and electric bike repairs, small household appliances repairs, key duplication, blood pressure and sugar check, book exchange, social dating, psychology consultation,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

6. Staff voluntary work

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

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

CORPORATE GOVERNANCE REPORT



Corporate Governance Report

Haitian International Holdings Limited (the "Company") recognises the importance of good corporate governance to its healthy growth and has therefore devoted much efforts into formulating corporate governance practices that agree with its business needs. The Company has applied the principles set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") by adopting the relevant code provisions. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG code. The directors of the Company ("Directors") consider that the Company complied with all the applicable code provisions set out in the CG Code for the year ended 31 December 2020.

Board of Directors

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

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

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

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

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

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

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

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

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

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

Board Meetings

The Board meets regularly so that all directors are kept updated with the business development of the Group. Special meetings of the Board will be convened if the situation requires so. For the year ended 31 December 2020, the Board convened a total of four Board meetings (include four regular Board meetings) and the individual attendance record of the Directors is tabulated as follows:

Attendance

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

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

Non-executive Directors

Each of non-executive directors and independent non-executive directors has entered into a service contract with the Company for a term of three years, subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

Model Code for Securities Transactions by Directors of the Company

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all directors who were in office during year 2020 and they all have confirmed that they had complied with the required standard set out in the Model Code for the Reported Period.

Relationship of the Directors

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

Nomination Committee

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

Nomination Policy

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

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

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

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

The composition of the Nomination Committee and the attendance of the one meeting of the Nomination Committee during year 2020 are set out below:

Attendance	
Mr. Zhang Jingzhang *(Chairman of Committee)*	1/1
Mr. Jin Hailiang*	1/1
Mr. Guo Yonghui	1/1
Dr. Yu Junxian*	0/0

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

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

Board Diversity Policy

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

Audit Committee

The Company has set up an audit committee in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company with at least one of them having appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee has reviewed the Group's condensed consolidated financial information for the year ended 31 December 2020, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee, together with the management and the external auditors, has regularly reviewed the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and reviewed the financial results of the Group.

The composition of the Audit Committee and the attendance of the two meetings of the Audit Committee during year 2020 are set out below:

	Attendance
Mr. Lou Baijun *(Chairman of Committee)*	2/2
Mr. Jin Hailiang*	1/1
Mr. Guo Yonghui	2/2
Dr. Yu Junxian*	1/1

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

The Audit Committee met two times during year 2020. During the meetings, the Audit Committee considered the annual results of the Group for the year ended 31 December 2019 and the interim results of the Group for the six months ended 30 June 2020 as well as the reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit/review.

Remuneration Committee

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

The emoluments of senior management by band for the year ended 31 December 2020 is set out in Biographical Details of and Remunerations to Directors and Senior Management section in the Report of the Directors.

Remuneration Policy

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

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

The composition of the Remuneration Committee and the attendance of the one meeting of the Remuneration Committee during year 2020 are set out below:

Attendance	
Dr. Yu Junxian* *(Chairman of Committee)*	0/0
Mr. Zhang Jianming	1/1
Mr. Guo Yonghui	1/1
Mr. Jin Hailiang*	1/1

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

The Remuneration Committee had concluded that the packages of the Directors and senior management are in line with market standards for companies in the industry which the Group belongs to, determined the policy for the remuneration of executive directors, assessed performance of executive directors and approved the terms of executive directors' service contracts.

Training and Support for Directors

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

During year 2020, the Directors had participated in the following types of continuous professional development:

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

Note:

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

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

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

Risk Management, Internal Control and Corporate Governance

The Board has overall responsibility for the establishment, maintenance and annual review of the Group's risk management, system of internal control and corporate governance. In 2020, the Board has conducted a review with the management of the effectiveness of the risk management and internal control systems and corporate governance of the Company and its subsidiaries and considered that the risk management and internal control systems and corporate governance measures are effective and adequate.

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

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

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

Handling and dissemination of inside information

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

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

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

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

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

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

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties including developing and reviewing the Company's policies and operation on corporate governance and making recommendations; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring the Company's policies and operation on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors; and reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules. The Board has performed the above duties during the year.

Internal Audit

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

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

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

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

4. to assist the Audit Committee of the Company in its work.

Directors' and Auditor's Acknowledgement

The Board acknowledges its responsibility for preparing the accounts of the Company are in accordance with statutory requirements and applicable accounting standards. The management provides all relevant information and records to the Board, which enable it to prepare the accounts and to make above assessments. The statement of the auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 75 and 76.

Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, charged RMB2.49 million for audit services.

Company Secretary

The Company has engaged Fair Wind Secretarial Service Limited, external service provider, and Ms. Lee Ka Man ("Ms. Lee") has been appointed as the company secretary of the Company in 2019. Ms. Lee is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom. She has over 16 years of experience in the fields of company secretarial and compliance. Ms. Lee's primary contact at the Company is Mr. Dai Feng, General Counsel of the Company. During the year ended 31 December 2020, Ms. Lee has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge. All directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

Dividend Policy

The Board has established a Dividend Policy setting out the principles and guidelines that the Company intends to apply when considering the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. In deciding whether to propose dividends, and in determining the dividend amount, the Board shall take into account, inter alia: (i) the Group's unappropriated profits/earnings and the impact on the Group's long term earning capacity; (ii) the Group's results of operations, earnings performance, cash flows, financial condition, future prospects, statutory and regulatory restrictions on the payment of dividends; and (iii) any other factors that the Board considers relevant. The Company is subject to the Articles of Association of the Company and all applicable laws (including the Cayman Company Laws), rules and regulations, during declaration and payment of dividends to shareholders of the Company. The dividend policy will be reviewed periodically and when necessary in light of changes in circumstances and regulatory requirements. There is no assurance that a dividend will be proposed or declared in any specific periods.

Investor Relations and Shareholders' Communication

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

The annual general meeting held in year 2020 was held on 19 May 2020 and the attendance record of the Directors at the meeting is set out below:

Attendance

Executive Directors	
Mr. Zhang Jinzhang *(Chairman)*	1/1
Mr. Zhang Jianming *(Chief Executive Officer)*	1/1
Mr. Zhang Jianfeng	1/1
Mr. Chen Weiqun	1/1
Mr. Zhang Bin	1/1
Non-executive Directors	
Mr. Guo Mingguang	1/1
Mr. Liu Jianbo	1/1
Independent Non-executive Directors	
Mr. Lou Baijun	1/1
Mr. Guo Yonghui	1/1
Dr. Yu Junxian	1/1
Mr. Lo Chi Chiu	1/1

Shareholders' Rights

How shareholders can convene an extraordinary general meeting

Any one or more shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to make a written requisition to the Board or the Company Secretary to convene an extraordinary general meeting pursuant to article 58 of the Company's Articles of Association. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the shareholder(s) who make the requisition may convene the extraordinary general meeting.

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

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

Procedures for putting forward proposals at general meeting

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

REPORT OF THE DIRECTORS

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2020.

Principal Activities and Business Review

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

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

Environmental Policies and Performance

The Group's environmental policies are driven towards two main targets, namely compliance with environmental related laws and regulations and additional measures to protect the environment in the area of energy-saving and waste reduction. For compliance with laws and regulations, the Group's major production facilities are located in China and there is a specific team inside the Group to continuously monitor the regulatory requirements and the Group's compliance with such requirements. The Group also engaged professional experts to conduct analysis of energy efficiency and waste generation in its operation and provide recommendations for area which can be improved. The Board believes that the Group has complied with environmental related laws and regulations in China and adopted additional measures which enhanced the energy efficiency and reduced waste production in its operation. Please refer to the Environmental, Social and Governance Report on pages 21 to 47 for details of the Group's environmental policies and performance.

Compliance with Laws and Regulations

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 79. The directors declared an interim dividend of HKD24 cents per share, totalling RMB342,782,000 which was paid on 15 September 2020. The directors declared the payment of a second interim dividend of HKD65 cents per share and a special interim dividend of HKD75 cents per share, totalling approximately RMB1,875,444,000. It constitutes a total dividend of HKD164 cents per share for the full year.

Closure of Register of Members

The register of members of the Company will be closed from 9 April 2021 to 13 April 2021 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the second interim dividend and the special interim dividend, all properly completed shares transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 8 April 2021, for registration.

The register of members of the Company to attend the AGM will be closed from 13 May 2021 to 18 May 2021 (both days inclusive). In order to be eligible to attend the forthcoming annual general meeting (the "AGM"), all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 12 May 2021, for registration.

Key Relationships with Employees, Customers and Suppliers and Others

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

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

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

Key Risks and Uncertainties

Foreign Currency Risk

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

Fair Value and Cash Flow Interest Rate Risk

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

As at 31 December 2020, as for all borrowings have fixed interest rates, interest rate risk is avoided.

Credit Risk

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 36 months.

Liquidity Risk

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

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB25.1 million.

Permitted Indemnity

Under the Articles of Association, the Directors are indemnified secured harmless out of the assets and profits of the Group from and against all actions, costs, charges, losses, damages and expenses, which they or any of them incur as a result of any act or failure to act in carrying out their functions other than such liability (if any), that they may incur by reason of their own fraud or dishonesty. Such permitted indemnity provision has been in force for the year ended 31 December 2020. The Group has arranged appropriate liability insurance coverage for the Directors.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 18 to the financial statements.

Property, Plant and Equipment

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

Share Capital

Details of the movements in share capital of the Company are set out in note 17 to the financial statements.

Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and retained earnings which in aggregate amounted to RMB2,426.8 million as at 31 December 2020. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2020 and for the previous four financial years are set out on page 160.

Share Option Scheme

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

Report of the Directors

Directors

The Directors who held office during year 2020 and up to the date of this report were:

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

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

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

* *On 27 March 2020, Prof. Helmut Helmar Franz, Mr. Zhang Jianguo and Ms. Chen Ningning resigned as Non-executive Directors and Mr. Jin Hailiang resigned as an Independent Non-executive Director due to their age and they would like to devote more time to their respective family and personal matters.*

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

Directors' Service Contracts

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

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

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

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

Directors' Interests in Contracts

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

Director's Right to Acquire Shares or Debentures

Save as disclosed in the annual report, at no time during the year of 2020 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Group granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was any member of the Group a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Biographical Details of and Remunerations to Directors and Senior Management

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

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

During the year ended 31 December 2020, total remunerations paid to members of senior management (who are not directors) are as follows:

	Year ended 31 December 2020 RMB'000
Salaries	4,110
Pension costs and mandatory provident fund contributions	184
	4,294

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

	Number of individuals
Nil – RMB1,000,000	5

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

As at 31 December 2020, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

Long position in shares and underlying shares of the Company

Name of Director	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding in the Company
Mr. Zhang Jingzhang	Corporate Interest(1)	514,836,219	32.26%
	Corporate Interest(2)	493,000	0.03%
Mr. Zhang Jianming	Corporate Interest(1)	514,836,219	32.26%
	Corporate Interest(2)	3,957,000	0.25%
	Personal Interest	4,212,000	0.26%
Mr. Zhang Jianfeng	Corporate Interest(2)	1,000,000	0.06%
Mr. Liu Jianbo	Corporate Interest (2)	520,000	0.03%
Mr. Guo Mingguang	Corporate Interest (2)	200,000	0.01%
	Spouse Interest(3)	277,000	0.02%
Mr. Chen Weiqun	Corporate Interest(2)	250,000	0.02%
	Personal Interest	20,000	0.00%

(L) denotes a long position

Notes:

(1) Mr. Zhang Jingzhang and Mr. Zhang Jianming were deemed under the SFO to be interested in 327,042,016 shares of the Company held by Premier Capital Management (PTC) Ltd. and 187,794,203 shares of the Company held by Cambridge Management Consultants (PTC) Ltd., respectively.

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

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

Interests and Short Positions of Shareholders

As at 31 December 2020, the persons or corporations (not being a Director or chief executive of the Company) who have interests or short positions in the shares, underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of Shareholder	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding
Sky Treasure Capital Limited	Beneficial owner	433,888,453 (L)	27.18%
Premier Capital Management (PTC) Ltd.	Beneficial owner	327,042,016 (L)	20.49%
Cambridge Management Consultants (PTC) Ltd.	Beneficial owner	187,794,203 (L)	11.77%
UBS Trustees (B.V.I) Limited	Trustee	433,888,453 (L)	27.18%
Schroders Plc	Investment Manager[1]	95,814,266 (L)	6.00%

(L) denotes a long position

Notes:

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

Save as disclosed above, as at 31 December 2020, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

Management in Transactions, Arrangements and Contracts

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

Major Customers and Suppliers

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

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

Equity-Linked Agreements

The Group has not entered into any equity-linked agreement for the year ended 31 December 2020.

Significant Investments

During the year ended 31 December 2020, the Company has no significant investment.

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

The Company has no specific future plans for material investments or capital assets as at 31 December 2020.

Controlling Shareholders' Interest

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

Competing Business

None of the Directors had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2020.

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

Continuing Connected Transactions

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

Purchase of Servo Systems and Components

On 21 November 2014, the Group entered into a purchase framework agreement with Ningbo Haitian Drive Systems Co., Ltd. (formerly known as Ningbo Haitian Electric Machinery Co., Ltd.) ("HDS") relating to the purchase of servo systems (the "2014 Framework Agreement"), linear motion guides, ball screws and hydraulic parts for a term of three years commencing from the 1 January 2015 and ended on 31 December 2017, whereby the Group agreed to purchase these systems and components from HDS and its related companies at the price no less favourable than the terms at which HDS offers to independent third parties for the same or similar products. As the 2014 Framework Agreement has expired in 31 December 2017, the Company has entered into a purchase framework agreement with HDS (the "2018 Framework Agreement") on 26 January 2018, with a term of three years commencing from 1 January 2018 to 31 December 2020. Since the 2018 Framework Agreement has expired on 31 December 2020, the Company has entered into a purchase framework agreement with HDS (the "2021 Framework Agreement") on 27 November 2020, with a term of three years commencing from 1 January 2021 to 31 December 2023. HDS was an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore are connected persons by virtue of Rule 14A.07 of the Listing Rules.

For the year ended 31 December 2020, the Group's purchase of these systems and components from HDS and its related companies amounted to RMB837.6 million.

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

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

(2) on normal commercial terms; and

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his conclusions in respect of the continuing connected transactions disclosed by the Group on page 67 of the annual report in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

Connected Transactions

Purchase of CNC turning machines and machining centres

For the year ended 31 December 2020, the Group purchased automatic processing line, CNC turning machines, machining centres and related equipment from Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") for approximately RMB9.85 million. Such equipment was purchased for processing parts and components for the manufacture of products of the Group. Haitian Precision is an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore is a connected person of the Company. The transaction was carried out pursuant to a machinery equipment purchase agreement entered into with Haitian Precision on 27 November 2020. Please refer to the Company's announcements dated 27 November 2020 and 8 December 2020 for details of such purchases.

Other Related Party Transactions

Details of the Company's transactions with other related parties during the financial year ended 31 December 2020 are set out in note 35 of the financial statements.

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

In addition, for the year ended 31 December 2020, the Group entered into transactions with Ningbo SPP Hydraulics Co., Ltd., and Ningbo Hilectro Power Technology Co., Ltd. The Group also provided loans to some Directors during such period. All such parties are connected persons of the Company but the relevant transactions were exempted from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Pre-Emptive Rights

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

Purchases, Sale or Redemption of Shares

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

Tax Relief and Exemption

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

Public Float

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

Auditor

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

On behalf of the Board
Zhang Jianming
Chief Executive Officer

22 March 2021

Independent Auditor's Report

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Haitian International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 77 to 159, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

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

Basis for Opinion

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

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

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

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

羅兵咸永道

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for impairment of trade and bills receivable	
Refer to notes 4 (Critical accounting estimates and judgements) and 11 of the consolidated financial statements. Management applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivable. Management exercised judgement on the recoverability of trade and bills receivable and made estimates of the impairment provision based on the ageing pattern, and credit and settlement history of the relevant customers. Management adjusted the historical loss rates by taking the time value of money into consideration and to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area due to the significance of the balances of trade and bills receivable and the related provision for impairment, the high degree of estimation uncertainty about impairment provision,the inherent complexity, and involvement of management's significant judgement and estimates of the provision for impairment.	We obtained an understanding of the management's internal control and assessment process of assessing impairment of trad and bills receivable and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as management judgement on the recoverability of trade and bills receivable and management estimates of the impairment provision based on the ageing pattern and credit and settlement history of the relevant customers. We evaluated and tested management's controls in respect of assessing impairment of trade and bills receivable. We obtained the detailed listings of trade and bills receivable together with the ageing analysis and agreed the balances to the general ledgers for those operating entities which have been identified as significant components to the Group. We tested the ageing analysis on sample basis by checking to relevant supporting documents, including sales invoices, sales contracts, and goods delivery notes. We obtained the management's expected credit losses assessment along with the historical payment profile and agreed the transactions to the sub-ledgers for those operating entities which have been identified as significant components to the Group. We tested the historical payment profile on sample basis by checking bank slips and bank statements. We recalculated the historical loss rate for each time bucket of trade and bills receivable and agreed the results to management's calculations.

羅兵咸永道

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

Key Audit Matter	How our audit addressed the Key Audit Matter
	We inquired with management and challenged the reasonableness of their judgements on the recoverability of trade receivables, the adequacy of the impairment provision, and adjustments due to the current and forward-looking information on macroeconomic factors, primarily based on the information and evidence collected by management for the purpose of their assessment. We also considered whether the judgement made on the recoverability of trade and bills receivable and estimates of impairment provision would give rise to indicators of possible management bias. We performed subsequent settlement tests to agree the relevant trade receivable balances to post year end cash receipts. We assessed the adequacy of the disclosures related to provision for impairment of trade and bills receivable in the context of HKFRSs. Based on the above, we considered that management had made reasonable judgements and estimates that were supported by the available evidence for their assessment of the provision for impairment.

羅兵咸永道

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

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

pwc 羅兵咸永道

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

Other Information

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

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

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

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

When we read the environmental, social and governance (ESG) report and corporate governance report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

羅兵咸永道

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

pwc 羅兵咸永道

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

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

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

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

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor's report is Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2021

Consolidated Balance Sheet

As at 31 December 2020
(Amounts expressed in RMB)

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*5*	**3,914,165**	3,667,506
Right-of-use assets	*6*	**721,248**	480,791
Investment in an associate	*8*	**484,610**	517,249
Intangible assets	*9*	**53,815**	55,136
Deferred income tax assets	*23*	**157,542**	143,001
Other financial assets at amortised cost	*12*	**494,274**	546,042
Trade and bills receivable	*11*	**130,351**	200,384
Term deposits	*16*	**2,310,000**	995,000
Financial assets at fair value through other comprehensive income		**500**	–
		8,266,505	6,605,109
Current assets			
Inventories	*10*	**2,934,336**	2,370,729
Trade and bills receivable	*11*	**3,135,711**	2,566,381
Other financial assets at amortised cost	*12*	**156,348**	115,116
Prepayments and other assets	*13*	**223,453**	183,743
Prepaid income tax		**3,159**	17,815
Financial asset at fair value through profit or loss	*3.3(b), 14*	**4,604,867**	5,664,205
Dividend receivable	*15*	**58,750**	–
Restricted bank deposits	*16*	**31,417**	51,886
Term deposits	*16*	**230,884**	190,000
Cash and cash equivalents	*16*	**3,746,430**	1,538,360
		15,125,355	12,698,235
Total assets		**23,391,860**	19,303,344
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*17*	**160,510**	160,510
Share premium	*18*	**1,331,913**	1,331,913
Other reserves	*18*	**1,613,756**	1,543,510
Retained earnings	*18*	**11,671,055**	10,083,130
		14,777,234	13,119,063
Non-controlling interests		**8,802**	6,740
Total equity		**14,786,036**	13,125,803

Consolidated Balance Sheet (Continued)

As at 31 December 2020
(Amounts expressed in RMB)

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	*6*	550	1,133
Deferred income	*22*	57,592	45,503
Deferred income tax liabilities	*23*	380,588	279,072
		438,730	325,708
Current liabilities			
Trade and bills payable	*19*	4,112,557	2,959,618
Accruals and other payables	*20*	1,516,812	1,059,247
Contract liabilities	*20*	964,110	710,047
Current income tax liabilities		254,880	99,893
Bank borrowings	*21*	1,318,130	1,021,898
Lease liabilities	*6*	605	1,130
		8,167,094	5,851,833
Total liabilities		8,605,824	6,177,541
Total equity and liabilities		23,391,860	19,303,344

The accompanying notes on pages 83 to 159 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 22 March 2021 and were signed on its behalf by:

Zhang Jianming
Director

Zhang Bin
Director

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020
(Amounts expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
		For the year ended 31 December	
Revenue	24	**11,800,052**	9,809,716
Cost of sales	25	**(7,759,797)**	(6,711,046)
Gross profit		**4,040,255**	3,098,670
Selling and marketing expenses	25	**(765,399)**	(752,191)
General and administrative expenses	25	**(750,968)**	(689,080)
Other income	26	**142,210**	233,655
Other gains – net	27	**207,096**	252,337
Operating profit		**2,873,194**	2,143,391
Finance income	29	**149,086**	90,645
Finance costs	29	**(78,779)**	(52,094)
Finance income – net	29	**70,307**	38,551
Share of profit of an associate	8	**26,111**	2,249
Profit before income tax		**2,969,612**	2,184,191
Income tax expense	30	**(579,524)**	(433,540)
Profit for the year		**2,390,088**	1,750,651
Profit attributable to:			
Shareholders of the Company		**2,388,016**	1,750,519
Non-controlling interests		**2,072**	132
		2,390,088	1,750,651
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share)			
– basic	31	**1.50**	1.10

The accompanying notes on pages 83 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020
(Amounts expressed in RMB)

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit for the year	**2,390,088**	1,750,651
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(113,502)**	8,806
Total comprehensive income for the year	**2,276,586**	1,759,457
Total comprehensive income attributable to:		
Shareholders of the Company	**2,274,524**	1,759,303
Non-controlling interests	**2,062**	154
	2,276,586	1,759,457

The accompanying notes on pages 83 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(Amounts expressed in RMB)

		Attributable to shareholders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019		160,510	1,331,913	1,526,670	8,901,433	11,920,526	6,586	11,927,112
Comprehensive income								
Profit for the year		–	–	–	1,750,519	1,750,519	132	1,750,651
Other comprehensive income								
Currency translation differences		–	–	8,784	–	8,784	22	8,806
Total comprehensive income for the year ended 31 December 2019		–	–	8,784	1,750,519	1,759,303	154	1,759,457
Transactions with owners								
Dividend paid								
– 2018 second interim	32	–	–	–	(259,179)	(259,179)	–	(259,179)
– 2019 interim	32	–	–	–	(301,587)	(301,587)	–	(301,587)
Appropriations		–	–	35,948	(35,948)	–	–	–
Utilisation of statutory reserves		–	–	(27,892)	27,892	–	–	–
Total transactions with owners		–	–	8,056	(568,822)	(560,766)	–	(560,766)
Balance at 31 December 2019		160,510	1,331,913	1,543,510	10,083,130	13,119,063	6,740	13,125,803
Balance at 1 January 2020		**160,510**	**1,331,913**	**1,543,510**	**10,083,130**	**13,119,063**	**6,740**	**13,125,803**
Comprehensive income								
Profit for the year		**–**	**–**	**–**	**2,388,016**	**2,388,016**	**2,072**	**2,390,088**
Other comprehensive income								
Currency translation differences		**–**	**–**	**(113,492)**	**–**	**(113,492)**	**(10)**	**(113,502)**
Total comprehensive income for the year ended 31 December 2020		**–**	**–**	**(113,492)**	**2,388,016**	**2,274,524**	**2,062**	**2,276,586**
Transactions with owners								
Dividend paid								
– 2019 second interim	32	**–**	**–**	**–**	**(273,571)**	**(273,571)**	**–**	**(273,571)**
– 2020 interim	32	**–**	**–**	**–**	**(342,782)**	**(342,782)**	**–**	**(342,782)**
Appropriations		**–**	**–**	**183,738**	**(183,738)**	**–**	**–**	**–**
Total transactions with owners		**–**	**–**	**183,738**	**(800,091)**	**(616,353)**	**–**	**(616,353)**
Balance at 31 December 2020		**160,510**	**1,331,913**	**1,613,756**	**11,671,055**	**14,777,234**	**8,802**	**14,786,036**

The accompanying notes on pages 83 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020
(Amounts expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
		For the year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	*33(a)*	**3,637,146**	3,365,940
Interest paid		**(36,071)**	(47,554)
Income tax paid		**(322,906)**	(588,611)
Net cash generated from operating activities		**3,278,169**	2,729,775
Cash flows from investing activities			
Purchase of property, plant and equipment		**(640,474)**	(461,124)
Purchase of land use rights		**(254,660)**	(2,116)
Entrusted loans granted		**(7,763)**	(565,982)
Entrusted loans repayments		**73,605**	21,834
Cash outflow for increase in investments in an associate	*8*	**–**	(515,000)
Interest received from banks		**78,490**	66,035
Interest received from entrusted loans		**3,151**	1,101
Proceeds from disposal of property, plant and equipment	*33(b)*	**90,272**	42,482
Purchase of financial assets at fair value through profit or loss	*3.3(b)*	**(9,987,164)**	(9,777,377)
Proceeds from disposal of financial assets at fair value through profit or loss	*3.3(b)*	**11,249,635**	8,656,146
Payment of bank deposits with maturities over 3 months		**(1,355,884)**	(1,035,000)
Purchase of financial asset at fair value through other comprehensive income	*3.3(b)*	**(500)**	–
Net cash used in investing activities		**(751,292)**	(3,569,001)
Cash flows from financing activities			
Proceeds from bank borrowings	*33(c)*	**1,168,118**	1,411,405
Repayments of bank borrowings	*33(c)*	**(869,368)**	(1,396,937)
Dividends paid to the Company's shareholders	*31*	**(616,353)**	(560,766)
Repayments of convertible bonds		**–**	(844,247)
Lease payment for right-of-use assets excluding land use rights		**(1,204)**	(1,506)
Net cash used in financing activities		**(318,807)**	(1,392,051)
Net increase/(decrease) in cash and cash equivalents		**2,208,070**	(2,231,277)
Cash and cash equivalents at beginning of year	*16*	**1,538,360**	3,769,637
Cash and cash equivalents at end of year	*16*	**3,746,430**	1,538,360

The accompanying notes on pages 83 to 159 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

1. General Information

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

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

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

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

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. They have been approved for issue by the Company's Board of directors on 22 March 2021.

2. Summary of Significant Accounting Policies

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss ("Financial assets at FVPL") and financial assets at fair value through other comprehensive income ("Financial assets at FVOCI") measured at fair value.

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

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definitional of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 9, HKAS39 and HKFRS7 (Amendments)	Interest Rate Benchmark Reform	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 16 (Amendments)	COVID-19-related Rent Concessions	1 June 2020

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018-2020		1 January 2022

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

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

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

(a) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

2.3 Associates

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

2.3 Associates (Continued)

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

Gains or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies (Continued)

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

(d) Disposal of foreign operation and partial disposal

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

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

2.6 Property, plant and equipment

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment (Continued)

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

Buildings	20-50 years
Plant and machinery	10-15 years
Vehicles *(i)*	5/20 years
Office equipment and related software	3-5 years

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

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

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

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

2.7 Land use rights

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

2.8 Intangible Assets

(a) Goodwill

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

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

(b) Licences and other intangible assets

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

2. Summary of Significant Accounting Policies (Continued)

2.8 Intangible Assets (Continued)

(c) Amortisation methods and periods

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

- Licences 10 years
- Other intangible assets 36 years

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

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

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

2.10 Investments and other financial assets

2.10.1 Classification

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

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

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

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

2.10.2 Recognition and derecognition

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

2. Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

2.10.3 Measurement

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

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

2.10.4 Debt instruments

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

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

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

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

2.10.5 Impairment

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

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

2. Summary of Significant Accounting Policies (Continued)

2.11 Offsetting financial instruments

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

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

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

2.12 Financial guarantee contracts

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

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

2.13 Inventories

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

2.14 Trade receivables

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

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

2. Summary of Significant Accounting Policies (Continued)

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified as equity (note 17).

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

2.17 Trade and other payables

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

2.18 Borrowings

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

2.19 Borrowing costs

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

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

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

2.20 Current and deferred income tax

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

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

2. Summary of Significant Accounting Policies (Continued)

2.20 Current and deferred income tax (Continued)

(c) Offsetting

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

2.21 Employee benefits

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

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

2.22 Provisions

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

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

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

2.23 Government grants

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

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

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

2. Summary of Significant Accounting Policies (Continued)

2.24 Revenue recognition

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

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

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

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

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

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

2.25 Leases (Continued)

To determine the incremental borrowing rate, the Group:

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

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

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

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

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

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

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

2.26 Dividend distribution

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

2. Summary of Significant Accounting Policies (Continued)

2.27 Interest income

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

Interest income is presented as finance income where it is earned from bank deposits, entrusted loans (2019: bank deposits, entrusted loans).

2.28 Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

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

3. Financial Risk Management

3.1 Financial risk factors

(a) Foreign exchange risk

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

Exposure

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

	31 December 2020		
	USD	**EUR**	**JPY**
	RMB'000	**RMB'000**	**RMB'000**
Cash and cash equivalents	**952,437**	**243,068**	**14,061**
Trade receivables	**590,064**	**192,896**	**61**
Bank borrowings	**—**	**—**	**(184,288)**
Trade payables	**(5,192)**	**(19,192)**	**(6,864)**

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

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

Amounts recognised in profit or loss and other comprehensive income

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

	2020 RMB'000	2019 RMB'000
Other (losses)/gains — net	(9,514)	43,485
Finance costs — exchange losses	(43,310)	(3,190)
	(52,824)	40,295

As at 31 December 2020, if RMB had strengthened/weakened by 6.3% (2019: 1.9% weakened/strengthened) against the USD with all other variables held constant, the profit before income tax for each year would have changed mainly as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalents, trade receivables, and trade payables. Details of the changes are as follows:

	2020 RMB'000	2019 RMB'000
For the year ended:		
Profit before income tax (decrease)/increase		
— Strengthened by 6.3% (2019: 1.9%)	(103,162)	(16,913)
— Weakened by 6.3% (2019: 1.9%)	103,162	16,913

As at 31 December 2020, if RMB had weakened/strengthened by 2.7% (2019: 0.4% strengthened/weakened) against the EUR with all other variables held constant, the profit before income tax for each year would have changed mainly as a result of foreign exchange gains/losses on translation of EUR denominated cash and cash equivalents, trade and other receivables, and trade payables. Details of the changes are as follows:

	2020 RMB'000	2019 RMB'000
For the year ended:		
Profit before income tax increase/(decrease)		
— Strengthened by 2.7% (2019: 0.4%)	13,980	1,288
— Weakened by 2.7% (2019: 0.4%)	(13,980)	(1,288)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

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

As at 31 December 2020, if RMB had strengthened/weakened by 1.3% (2019: 3.6% weakened/strengthened) against the JPY with all other variables held constant, the profit before income tax for each year would have changed mainly as a result of foreign exchange gains/losses on translation of JPY denominated cash and cash equivalents, trade and other receivables, bank borrowings and trade and other payables. Details of the changes are as follows

	2020 RMB'000	2019 RMB'000
For the year ended:		
Profit before income tax increase/(decrease)		
— Strengthened by 1.3% (2019: 3.6%)	**5,896**	6,970
— Weakened by 1.3% (2019: 3.6%)	**(5,896)**	(6,970)

(b) Fair value and cash flow interest rate risk

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

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

As at 31 December 2020 and 31 December 2019, as for all borrowings have fixed interest rates, interest rate risk is avoided.

(c) Credit risk

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 36 months.

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 and 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the credit rating by country in which it sells its goods to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes.

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

On that basis, the loss allowances as at 31 December 2020 and 31 December 2019 were determined as follows for trade receivables:

31 December 2020	Current RMB('000)	More than 1 year RMB('000)	More than 2 years RMB('000)	More than 3 years RMB('000)	Total RMB('000)
Gross carrying amount — trade receivables	3,080,182	214,141	39,672	37,625	3,371,620
Expected loss rate	0.18%	18.05%	63.85%	95.56%	3.13%
Loss allowance	5,612	38,660	25,331	35,955	105,558

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

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

The Group has policies to place its cash and cash equivalents only with major financial institutions, and limits the amount of credit exposure to any financial institution. As at 31 December 2020, all cash and cash equivalents were deposited in state-owned banks and reputable financial institutions and were hence without significant credit risk.

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

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk

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

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

	Within1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	RMB'000	RMB'000
Group			
At 31 December 2020			
Bank borrowings *(i)*	**1,319,918**	**—**	**—**
Trade and other payables	**5,026,415**	**—**	**—**
Financial guarantee contracts *(ii)*	**649,096**	**—**	**—**
Lease liability	**643**	**300**	**277**
At 31 December 2019			
Bank borrowings *(i)*	1,024,372	—	—
Trade and other payables	3,045,482	—	—
Financial guarantee contracts *(ii)*	657,374	—	—
Lease liability	1,213	642	554

(i) *The interest on borrowings is calculated based on borrowings held as at 31 December 2020 and 2019 without taking account of future events.*

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

3. Financial Risk Management (Continued)

3.2 Capital risk management

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

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

As at 31 December 2020 and 2019, the Group was in a net cash position (total borrowings were less than the total of restricted bank deposits and cash and cash equivalents).

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

The gearing ratio was as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Total borrowings (Note 21)	**1,318,130**	1,021,898
Total equity	**14,786,036**	13,125,803
Gearing ratio	**9%**	8%

The increase in the gearing ratio primarily resulted from the growing bank borrowing.

The Group had access to borrowing facilities which may be drawn at anytime. Such undrawn facilities amounted to approximately RMB6,770 million as at 31 December 2020 (31 December 2019: RMB5,738 million).

3. Financial Risk Management (Continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

The table below presents the Group's financial assets that are measured at fair value at 31 December 2020.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVPL	—	—	4,604,867	4,604,867
Financial assets at FVOCI	—	—	500	500
	—	—	4,605,367	4,605,367

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

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

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

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 2

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

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

Specific valuation techniques used to value financial instruments include:

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

As at 31 December 2020, no resulting fair value estimates are included in level 2.

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2020.

	Financial assets at FVPL RMB'000	**Financial assets at FVOCI** RMB'000
Opening balance	5,664,205	—
Additions	9,987,164	500
Change in value of financial assets	203,133	—
Proceeds received	(11,249,635)	—
Closing balance	4,604,867	500
Total gains or losses for the year realised in profit or loss for assets held at the end of the year, under 'Other gains — net'	203,133	—

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in level 3 (Continued)

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

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

The Group enters into the wealth management products contracts with relatively higher interest rates with certain financial institutions. These are reflected as financial assets at FVPL on the balance sheet. As at 31 December 2020, most of the wealth management products are bought from the major financial institutions in Mainland China and management has exercised due care when make investment decision with focus only on low risk wealth management products.

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in level 3 (Continued)

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

Description	Fair value at 31/12/2020 RMB'000	Valuation technique(s)	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit and loss	4,604,867	Discounted cash flow	Expected return rate	1.36%–7.40% (3.56%)	Higher expected return rate (+50 basis points (bps)) would increase FV by RMB7,857 thousand; lower expected return rate (-50bps) would decrease FV by RMB7,857 thousand
Financial assets at fair value through other comprehensive income	500,000	Discounted cash flow	Expected return rate	2.5%	Higher expected return rate (+50 basis points (bps)) would increase FV by RMB2.5 thousand; lower expected return rate (-50bps) would decrease FV by RMB2.5 thousand

(c) Valuation processes

The finance department of the Group includes a team that performs the valuations of financial assets at FVPL (2019: financial assets at FVPL) required for financial reporting purposes, including level 3 fair values.

The main level 3 inputs used by the Group are return rates of the financial assets at FVPL (2019: financial assets at FVPL), which are derived and evaluated based on the yield rate written in contracts by the counterparties.

4. Critical Accounting Estimates and Judgements

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

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

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

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

(b) Provision for impairment of trade and bills receivable

The Group's management applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivable since 1 January 2018. To measure the expected credit losses, trade and bills receivable have been grouped based on shared credit risk characteristics. For each Group, the expected loss rates were based on the payment profiles of sales over a period of 36 month before 31 December 2020 and 31 December 2019 and corresponding historical credit losses experienced within this period. The historical loss rates were adjusted by taking the time value of money into consideration and to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimations at the end of each reporting period. Management reassesses the provisions at each balance sheet date.

(c) Provision for write-down of inventories

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

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

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

4. Critical Accounting Estimates and Judgements (Continued)

(e) Current income tax and deferred income tax

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

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

(f) Provision for loss on guarantees

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

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

5. Property, Plant and Equipment

	Freehold land* and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 January 2019						
Cost	2,063,918	2,409,994	456,888	127,182	208,102	5,266,084
Accumulated depreciation	(488,305)	(1,008,272)	(130,950)	(85,950)	—	(1,713,477)
Net book amount	1,575,613	1,401,722	325,938	41,232	208,102	3,552,607
Year ended 31 December 2019						
Opening net book amount	1,575,613	1,401,722	325,938	41,232	208,102	3,552,607
Additions	28,382	163,218	7,197	27,841	202,559	429,197
Transfers	86,318	133,770	363	1,164	(221,615)	—
Disposals	(9,330)	(24,883)	(324)	(1,968)	—	(36,505)
Depreciation	(65,687)	(179,494)	(24,218)	(14,258)	—	(283,657)
Exchange differences	(679)	1,524	4,512	169	338	5,864
Closing net book amount	1,614,617	1,495,857	313,468	54,180	189,384	3,667,506
At 31 December 2019						
Cost	2,164,335	2,662,282	459,935	150,098	189,384	5,626,034
Accumulated depreciation	(549,718)	(1,166,425)	(146,467)	(95,918)	—	(1,958,528)
Net book amount	1,614,617	1,495,857	313,468	54,180	189,384	3,667,506
Year ended 31 December 2020						
Opening net book amount	1,614,617	1,495,857	313,468	54,180	189,384	3,667,506
Additions	63,019	57,750	12,769	22,120	515,437	671,095
Transfers	76,201	157,200	26	—	(233,427)	—
Disposals	(88)	(82,890)	(1,760)	(356)	—	(85,094)
Depreciation	(64,594)	(193,792)	(23,370)	(18,705)	—	(300,461)
Exchange differences	(12,497)	(4,029)	(18,196)	(703)	(3,456)	(38,881)
Closing net book amount	1,676,658	1,430,096	282,937	56,536	467,938	3,914,165
At 31 December 2020						
Cost	2,290,086	2,750,649	427,469	168,880	467,938	6,105,022
Accumulated depreciation	(613,428)	(1,320,553)	(144,532)	(112,344)	—	(2,190,857)
Net book amount	1,676,658	1,430,096	282,937	56,536	467,938	3,914,165

* *Freehold lands are located in Brazil, Germany, Turkey, Mexico and India as at 31 December 2020 (31 December 2019: Brazil, Germany, Turkey, Mexico and India). They are stated at cost of RMB45,486 thousand as at 31 December 2020 (31 December 2019: RMB50,434 thousand) and is not subject to depreciation. Those freehold lands are subject to annual impairment test. No sign of impairment of freehold lands is noticed this year.*

5. Property, Plant and Equipment (Continued)

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost of sales	**241,434**	224,707
General and administrative expenses	**53,169**	55,207
Selling and marketing expenses	**5,858**	3,743
	300,461	283,657

6. Leases

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Right-of-use assets		
Land use rights	**719,934**	478,367
Buildings	**1,314**	2,378
Equipments and others	**—**	46
	721,248	480,791
Lease liabilities		
Current	**605**	1,130
Non-current	**550**	1,133
	1,155	2,263

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

Addition to the right-of-use assets during the 2020 financial year were RMB254,725 thousand (2019: RMB5,001 thousand).

6. Leases (Continued)

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

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Depreciation charge		
Land use rights	**(12,784)**	(11,345)
Buildings	**(1,077)**	(895)
Equipment and others	**(46)**	(273)
	(13,907)	(12,513)
Interest expense *(Note 29)*	**(84)**	(178)
Expense relating to short-term leases (included in selling expenses) *(Note 25)*	**(7,176)**	(7,379)

The total cash outflow for leases excluding land use rights in 2020 was RMB8,345 thousand (2019: RMB8,885 thousand).

The Group leases various buildings, equipment and others. Rental contracts are typically made for fixed periods of 1 to 5 years.

7. Subsidiaries

The Group's principal subsidiaries at 31 December 2020 are set out below:

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

7. Subsidiaries (Continued)

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

7. Subsidiaries (Continued)

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

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Haitian Machinery (Thailand) Co., Ltd	Thailand, limited liability company	Thai Baht 12,000,000	—	100%	Sale of plastic injection moulding machines, Thailand
Huayuan (Vietnam) Machinery Co., Ltd.	Vietnam, limited liability company	Vietnam Dong ("VND") 54,848,461,947	—	100%	Manufacture, processing and sale of plastic injection moulding machines, Vietnam
Haitian Machinery Guangdong Co., Ltd. (海天機械(廣東)有限公司)	Mainland China, wholly owned foreign enterprise	RMB250,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Haitian Plastic Processing Machinery Guangzhou Co., Ltd. ("Guangzhou Haitian") (海天塑料機械(廣州)有限公司)	Mainland China, wholly owned foreign enterprise	USD2,400,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Haitian Plastic Machinery Group Co., Ltd. ("Haitian Plastic Machinery") (海天塑機集團有限公司)	Mainland China, wholly owned foreign enterprise	USD276,460,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Hangzhou Keqiang Information Technology Co., Ltd. ("Keqiang Technology") (杭州科強信息技術有限公司)	Mainland China, limited liability company	RMB20,000,000	—	66.5%	Manufacture and sale of intelligence control system, Mainland China
Develop Kind Investment (Hong Kong) Company Limited (展浩投資(香港)有限公司)	Hong Kong, limited liability company	HKD25,500	—	100%	Investment holding, Hong Kong
Mega Power Investment Development Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong
New Choice Investment Development Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong
Niigata Haitian Injection Moulding Machine Co., Ltd.	Japan, limited liability company	JPY30,000,000	—	65%	Research and development of plastic injection moulding machines, Japan
Ningbo Haijie Surface Ltd. (寧波海潔表面處理有限公司)	Mainland China, limited liability company	RMB55,000,000	—	100%	Metal surface treatment, metal heat treatment processing; electroplating processing

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Ningbo Haitian Huayuan Machinery Co., Ltd. ("Haitian Huayuan") (寧波海天華遠機械有限公司)	Mainland China, foreign equity joint venture	USD51,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Beilun Haitao Machinery Ltd. ("Haitao Machinery") (寧波北侖海濤機械有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Manufacture and sale of plastic injection moulding machine parts, Mainland China
Ningbo bonded area Haitian trading co. LTD ("Haitian Trading") (寧波保税區海天貿易有限公司)	Mainland China, limited liability company	RMB50,000,000	—	100%	Logistic, sale of plastic injection moulding machines, Mainland China
Ningbo Guohua Enterprises Co., Ltd. ("Ningbo Guohua") (寧波海天國華機械有限公司)	Mainland China, limited liability company	USD31,311,921	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Ningbo Haitian Intelligent Manufacture Technology Co., Ltd. ("Haitian Software") (寧波海天智造科技有限公司)	Mainland China, limited liability company	RMB6,000,000	—	100%	Sale of software of plastic injection moulding machines, Mainland China
Ningbo Zhafir Plastics Machinery Co., Ltd. ("Ningbo Zhafir") (寧波長飛亞塑料機械製造有限公司)	Mainland China, foreign equity joint venture	USD30,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Over the Rainbow Limited	British Virgin Islands ("BVI"), limited liability company	USD1	—	100%	Special purpose vehicle, BVI
PT. Haitian Huayuan Indonesia Machinery	Indonesia, limited liability company	USD1,250,000	—	100%	Sale of plastic injection moulding machines, Indonesia
Sunnew Investments Limited	British Virgin Islands ("BVI"), limited liability company	HKD1	—	100%	Investment holding, BVI

7. Subsidiaries (Continued)

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

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

8. Investment in an Associate

	2020 RMB'000	2019 RMB'000
Beginning of the year	**517,249**	—
Increase in investment	**—**	515,000
Share of profit	**26,111**	2,249
Dividend	**(58,750)**	—
End of the year	**484,610**	517,249

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

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

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

Summarised financial information for associate

The associate of the Group as at 31 December 2020 is immaterial to the Group. The information disclosed reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Summarised balance sheet

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Current assets		
Cash and cash equivalents	**50,489**	17,720
Other current assets	**637,264**	619,921
Total current assets	**687,753**	637,641
Non-current assets	**249,979**	276,016
Current liabilities		
Financial liabilities (excluding trade payables)	**100,000**	100,000
Other current liabilities	**440,054**	285,423
Total current liabilities	**540,054**	385,423
Net assets	**397,678**	528,234

8. Investment in an Associate (Continued)

	As at 31 December 2020	As at 31 December 2019
Reconciliation to carrying amounts		
Opening net assets	**528,234**	519,237
Profit for the year/the period from 1 August 2019 to 31 December 2019	**104,444**	8,997
Dividend	**(235,000)**	—
Closing net assets	**397,678**	528,234
Group's share in %	**25%**	25%
Group's share in RMB	**99,419**	132,058
Goodwill	**385,191**	385,191
Carrying amount	**484,610**	517,249
Revenue	**815,449**	75,380
Gross profit	**197,457**	10,341
Profit for the period	**104,444**	8,997
Other comprehensive income	**—**	—
Total comprehensive income	**104,444**	8,997

9. Intangible Assets

	Opening net book amount	Amortisation charge	Closing net book amount
Year ended 31 December 2020 (RMB'000)			
Goodwill	**43,086**	**—**	**43,086**
Licences and other intangible assets	**12,050**	**(1,321)**	**10,729**
	55,136	**(1,321)**	**53,815**

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

Amortisation expenses are included in general and administrative expenses amounting to RMB1,321 thousand(2019:RMB1,326 thousand).

9. Intangible Assets (Continued)

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

	Cost	Accumulated amortisation	Net book amount
As at 31 December 2020 (RMB'000)			
Goodwill	**43,086**	**—**	**43,086**
Licences and other intangible assets	**14,036**	**(3,307)**	**10,729**
	57,122	**(3,307)**	**53,815**

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

10. Inventories

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Raw materials	**1,333,584**	989,948
Work-in-progress	**203,753**	177,969
Finished goods	**1,396,999**	1,202,812
	2,934,336	2,370,729

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB7,729,523 thousand (2019: RMB6,670,386 thousand).

As at 31 December 2020, inventories with cost of RMB231,404 thousand (2019: RMB195,785 thousand) was considered obsolete. A provision of RMB204,742 thousand was made as at 31 December 2020 (2019: RMB174,468 thousand).

11. Trade and Bills Receivable

	As at 31 December 2020			As at 31 December 2019		
	Current	**Non-Current**	**Total**	Current	Non-Current	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Trade and bills receivable	**3,240,519**	**131,101**	**3,371,620**	2,638,333	201,283	2,839,616
Less: provision for impairment	**(104,808)**	**(750)**	**(105,558)**	(71,952)	(899)	(72,851)
	3,135,711	**130,351**	**3,266,062**	2,566,381	200,384	2,766,765

As at 31 December 2020, there was no individual customer with outstanding balance exceeding 10% of the Group's total trade and bills receivable (2019: None).

As at 31 December 2020, the carrying amount of the current portion of trade and bills receivable is considered to be the same as their fair value due to the short-term nature.

As at 31 December 2020, the non-current portion of trade and bills receivables was stated for receivables with due date over 1 year. The fair value of the non-current receivables approximates their carrying amounts.

Most of the Group's sales are covered by guarantees from distributors, credit arrangements from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 36 months. The ageing analysis of trade and bills receivable based on invoice date is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Up to1 year	**3,080,182**	2,591,073
1 year to 2 years	**214,141**	194,683
2 years to 3 years	**39,672**	30,177
Over 3 years	**37,625**	23,683
	3,371,620	2,839,616

11. Trade and Bills Receivable (Continued)

Trade and bills receivable are denominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
RMB	**2,254,561**	1,633,182
USD	**590,064**	721,086
EUR	**192,896**	169,184
VND	**123,976**	109,524
Brazilian Real	**48,767**	65,384
Mexico Peso	**88,812**	53,518
Others	**72,544**	87,738
	3,371,620	2,839,616

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

	2020	2019
	RMB'000	RMB'000
At 1 January	**72,851**	67,247
Provision for impairment of trade receivables	**38,542**	4,783
Written off as uncollectible	**(232)**	(325)
Exchange difference	**(5,603)**	1,146
At 31 December	**105,558**	72,851

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

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

The Group does not hold any collateral as security.

12. Other Financial Assets at Amortised Cost

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

	As at 31 December 2020			As at 31 December 2019		
	Current	Non-current	Total	Current	Non-current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Receivables in relation to buyers' credit *(i)*	—	—	—	—	—	—
Loans to employees						
— Loans to key management *(Note 35(c))*	249	—	249	578	—	578
— Loans to other employees *(ii)*	10,336	1,165	11,501	9,394	5,207	14,601
Entrusted loans *(iii)*	7,031	493,109	500,140	30,526	535,456	565,982
Interest receivables	111,197	—	111,197	43,752	—	43,752
Others	27,535	—	27,535	30,866	5,379	36,245
	156,348	494,274	650,622	115,116	546,042	661,158
Less: loss allowance for debt investments at amortised cost *(Note 3.1)*	—	—	—	—	—	—
	156,348	494,274	650,622	115,116	546,042	661,158

Note:

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

(ii) *Loans to other employees are for their housing and car purchasing. The loans are due within six years, with interest bearing at rates ranging from 0% to 3.4% (2019: from 0% to 3.4%) per annum as at 31 December 2020.*

The fair values of loans to other employees are based on cash flows discounted using a rate based on the borrowings rate of 2.88% (2019: 2.75%) and are within level 3 of the fair value hierarchy.

(iii) *As at 31 December 2020, current portion of the entrusted loans of USD 500 thousand (equivalent to RMB3,261 thousand), RMB1,670 thousand and RMB2,100 thousand, with interest rates ranging from 3.00% to 4.66%, were lent to three independent third parties with maturity dates on 15 May 2021, 1 May 2021 and 1 May 2021 respectively. Non-current portion of the entrusted loan equivalent to RMB494,274 thousand were lent to one independent third party in respect of a loan facility in the aggregate amount up to JPY 9,000,000 thousand (equivalent to RMB556,983 thousand) available with maturity date on 30 June 2022.*

As at 31 December 2019, current portion of the entrusted loans of USD 750 thousand (equivalent to RMB5,232 thousand), RMB10,000 thousand and RMB15,294 thousand were lent to two independent third parties with maturity dates on 31 March 2020, 18 September 2020 and 4 November 2020 respectively.Non-current portion of the entrusted loan equivalent to RMB546,042 thousand were lent to one independent third party in respect of a loan facility in the aggregate amount up to JPY 9,000,000 thousand (equivalent to RMB556,983 thousand) available with maturity date on 30 June 2022.

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

13. Prepayments and Other Assets

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Prepayments and deposits		
— for purchases of raw materials	**63,697**	41,867
— for purchases of fixed assets and construction in progress	**1,793**	1,762
Value Added Tax recoverable and refundable	**157,963**	140,114
	223,453	183,743

14. Financial Instruments by Category

	Financial assets at amortised cost RMB'000	Financial assets at FVPL RMB'000	Financial asset at fair value through other comprehensive income RMB'000	Total RMB'000
31 December 2020				
Assets as per balance sheet				
Financial assets at FVPL	—	4,604,867	—	4,604,867
Financial asset at fair value through other comprehensive income	—	—	500	500
Trade and bills receivables and other financial assets at amortised cost	3,916,684	—	—	3,916,684
Restricted bank deposits	31,417	—	—	31,417
Term deposits	2,540,884	—	—	2,540,884
Cash at bank	3,745,493	—	—	3,745,493
Total	10,234,478	4,604,867	500	14,839,845

14. Financial Instruments by Category (Continued)

	Financial liabilities at amortised cost RMB'000	Liabilities at FVPL RMB'000	Total RMB'000
Liabilities as per balance sheet			
Bank borrowings	**1,318,130**	**—**	**1,318,130**
Trade and other payables excluding non-financial liabilities	**4,236,251**	**—**	**4,236,251**
Lease liabilities	**1,155**	**—**	**1,155**
Total	**5,555,536**	**—**	**5,555,536**

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

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

14. Financial Instruments by Category (Continued)

As at 31 December 2020, the Company held financial assets at fair value through profit or loss of approximately RMB4,605 million (the highest amount of investment cost is RMB570 million and the average single investment cost is RMB50 million), particulars of which are set out below:

Categories of Financial Assets (RMB'000)	Number of the Financial Assets	Investment Cost as of 31 December 2020	Fair Value as of 31 December 2020	Percentage in terms of Total Financial assets at FVPL	Weights to Total Assets	Expected date of expiration
Structured Deposit	5	530,276	543,198	11.80%	2.32%	12/3/2021-24/6/2021
Demand Bank Products	40	1,005,500	1,011,888	21.97%	4.33%	Redeemable at any time
Trusts	39	2,309,500	2,324,917	50.49%	9.94%	04/01/2021-04/12/2021
Investment Fund	8	714,200	724,864	15.74%	3.10%	Redeemable at any time or 19/1/2021-14/12/2021
Total	92	4,559,476	4,604,867	100.00%	19.69%	

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

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

15. Dividend Receivable

According to the resolution approved by the board of directors on 25 December 2020, the associate of the Group,Ningbo Anson, declared dividends amounting to RMB235,000,000 to its shareholders.

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Restricted bank deposits — current	**31,417**	51,886
Term deposits — current	**230,884**	190,000
Term deposits — non-current	**2,310,000**	995,000
Total term deposits	**2,540,884**	1,185,000
Cash at bank	**3,745,493**	1,294,950
Cash in hand	**937**	3,057
Short-term bank deposits	**—**	240,353
Cash and cash equivalents	**3,746,430**	1,538,360
	6,318,731	2,775,246

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

As at 31 December 2020, the weighted average effective interest rate on restricted bank deposits and cash and cash equivalents of the Group is 0.32% (2019: 0.52%) per annum.

The restricted bank deposits have maturities of 6 to12 months at inception (2019: maturities of 6 to12 months at inception). The short-term bank deposits have maturities ranging from 1 week to 3 months at inception.

16. Restricted Bank Deposits, Term Deposits and Cash and Cash Equivalents (Continued)

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
RMB	**4,969,169**	1,957,242
USD	**952,437**	487,486
EUR	**243,068**	87,626
Indian Rupee	**81,709**	180,797
Others	**72,348**	62,095
	6,318,731	2,775,246

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

17. Share Capital

	Authorised share capital		
	Number of shares '000	**Amount** HKD'000	**Amount** RMB'000
As at 31 December 2019, and 31 December 2020 (shares with a par of HKD0.1 per share)	5,000,000	500,000	502,350

	Issued and fully paid		
	Number of shares '000	**Amount** HKD'000	**Amount** RMB'000
As at 31 December 2019, and 31 December 2020 (shares with a par of HKD0.1 per share)	1,596,000	159,600	160,510

18. Reserves

	Share premium RMB'000	Other reserves: Merger reserve RMB'000	Statutory reserves RMB'000 (i)	Translation differences RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019	1,331,913	152,573	1,235,987	138,110	8,901,433	11,760,016
Change of accounting policy	—	—	—	—	—	—
Profit for the year	—	—	—	—	1,750,519	1,750,519
Appropriations	—	—	35,978	(30)	(35,948)	—
Utilisation of statutory reserves	—	—	(27,892)	—	27,892	—
Dividend paid						
— 2018 second interim *(Note 32)*	—	—	—	—	(259,179)	(259,179)
— 2019 interim *(Note 32)*	—	—	—	—	(301,587)	(301,587)
Currency translation differences	—	—	—	8,784	—	8,784
At 31 December 2019	1,331,913	152,573	1,244,073	146,864	10,083,130	12,958,553
Change of accounting policy	—	—	—	—	—	—
Profit for the year	—	—	—	—	2,388,016	2,388,016
Appropriations	—	—	183,738	—	(183,738)	—
Utilisation of statutory reserves	—	—	—	—	—	—
Dividend paid						
— 2019 second interim *(Note 32)*	—	—	—	—	(273,571)	(273,571)
— 2020 interim *(Note 32)*	—	—	—	—	(342,782)	(342,782)
Currency translation differences	—	—	—	(113,492)	—	(113,492)
At 31 December 2020	1,331,913	152,573	1,427,811	33,372	11,671,055	14,616,724

(i) Statutory reserves

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

18. Reserves (Continued)

(i) Statutory reserves (Continued)

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

	Statutory reserve fund RMB'000	**Enterprise expansion fund** RMB'000	**Discretionary reserve fund** RMB'000	**Total** RMB'000
At 1 January 2019	32,841	1,104,990	98,156	1,235,987
Additions	11,180	24,798	—	35,978
Transfer out	(12,698)	(15,194)	—	(27,892)
At 31 December 2019	31,323	1,114,594	98,156	1,244,073
Additions	660	183,078	—	183,738
Transfer out	—	—	—	—
At 31 December 2020	31,983	1,297,672	98,156	1,427,811

19. Trade and Bills Payable

	As at 31 December	
	2020 **RMB'000**	2019 RMB'000
Trade payables	**2,129,936**	1,450,431
Bills payable	**1,569,315**	1,215,457
Trade and bills payable	**3,699,251**	2,665,888
Due to related parties *(Note 35(b))*	**413,306**	293,730
	4,112,557	2,959,618

19. Trade and Bills Payable (Continued)

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Up to 1 year	**4,106,219**	2,956,943
1 year to 2 years	**4,386**	2,646
Over 2 years	**1,952**	29
	4,112,557	2,959,618

Trade and bills payable are denominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
RMB	**4,035,176**	2,901,384
Indian Rupee	**19,706**	14,929
EUR	**19,192**	14,201
Others	**38,483**	29,104
	4,112,557	2,959,618

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

20. Accruals, Other Liabilities and Contract Liabilities

	As at 31 December	
	2020 **RMB'000**	2019 RMB'000
Welfare payables	**13,054**	31,934
Salaries, wages and bonus payables	**195,386**	99,269
Accrued sales commission	**790,164**	663,946
Customers deposits	**35,308**	34,519
Payable for purchase of property, plant and equipment	**66,575**	35,954
Accrued operating expenses	**53,155**	42,365
Legal claim *(i)*	**137,286**	66,809
Value Added Tax payables	**160,416**	28,159
Deferred income — current portion *(Note 22)*	**8,349**	6,382
Interest payables	**1,788**	2,474
Other payables	**55,331**	47,436
Accruals and other payables	**1,516,812**	1,059,247
Contract liabilities *(ii)*	**964,110**	710,047
	2,480,922	1,769,294

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

Note:

(i) *The legal claim represent the ongoing allegation by India Customs authority in relation to the anti-dumping lawsuit for Haitian Huayuan Machinery (India) Private Limited. The recognised provision amounting to Indian Rupee 1,540,112 thousand (equivalent to RMB137,284 thousand) reflects the managements' best estimate of the most likely outcome, after taking appropriate legal advice.*

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

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

The Group did not have unsatisfied long — term contracts. As permitted under HKFRS15, the transaction price allocated to these unsatisfied contracts is not disclosed.

21. Bank Borrowings

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Unsecured	**1,318,130**	1,021,898

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
At fixed rate		
— in RMB	**1,133,842**	830,000
— in JPY	**184,288**	191,898
	1,318,130	1,021,898

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

	2020	2019
RMB	**3.2%**	3.9%
JPY	**0.3%**	0.3%

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

22. DEFERRED INCOME

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Deferred government grants	**65,941**	51,885
Less: Current portion included in current liabilities *(Note 20)*	**(8,349)**	(6,382)
	57,592	45,503

22. Deferred Income (Continued)

Movements are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**51,885**	33,420
Addition	**21,000**	24,440
Amortised as income *(Note 26)*	**(6,678)**	(5,900)
Exchange differences	**(266)**	(75)
At 31 December	**65,941**	51,885

23. Deferred Income Tax

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Deferred income tax assets to be recovered within 12 months	**157,542**	143,001
Deferred income tax liabilities to be settled after more than 12 months	**353,108**	251,592
Deferred income tax liabilities to be settled within 12 months	**27,480**	27,480
	380,588	279,072

(i) Deferred tax assets

	As at 31 December	
	2020 RMB'000	2019 RMB'000
The balance comprises temporary differences attributable to:		
Provisions and accruals	**105,344**	92,228
Unrealised profit on inventories	**40,854**	41,252
Deferred income-government grants	**11,344**	9,521
Total deferred tax assets	**157,542**	143,001

23. Deferred Income Tax (Continued)

(i) Deferred tax assets (Continued)

The movements in deferred income tax assets are as follows:

	Provisions and accruals RMB'000	Unrealised profit on inventories RMB'000	Government grants RMB'000	Total RMB'000
At 1 January 2019	80,632	33,338	6,143	120,113
Recognised in the consolidated statement of profit or loss	11,596	7,914	3,378	22,888
At 31 December 2019	92,228	41,252	9,521	143,001
Recognised in the consolidated statement of profit or loss	13,116	(398)	1,823	14,541
At 31 December 2020	105,344	40,854	11,344	157,542

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB26,177 thousand (2019: RMB22,829 thousand) in respect of losses amounting to RMB99,039 thousand (2019: RMB91,124 thousand) that can be carried forward against future taxable income. In 2020, there is no invalid tax loss. (2019:nil).

(ii) Deferred tax liabilities

	As at 31 December	
	2020 RMB'000	2019 RMB'000
The balance comprises temporary differences attributable to:		
Financial assets at FVPL	**5,985**	11,852
Withholding tax	**300,283**	213,043
Accelerated tax depreciation	**72,722**	52,381
Revaluation	**1,598**	1,796
Total deferred tax liabilities	**380,588**	279,072

23. Deferred Income Tax (Continued)

(ii) Deferred tax liabilities (Continued)

The movements in deferred income tax liabilities are as follows:

	Withholding tax RMB'000	Accelerated tax depreciation RMB'000	Financial assets at FVPL RMB'000	Revaluation RMB'000	Total RMB'000
At 1 January 2019	144,343	39,376	6,602	1,993	192,314
Recognised in the consolidated statement of profit or loss	68,700	13,005	5,250	(197)	86,758
At 31 December 2019	213,043	52,381	11,852	1,796	279,072
Recognised in the consolidated statement of profit or loss	87,240	20,341	(5,867)	(198)	101,516
At 31 December 2020	300,283	72,722	5,985	1,598	380,588

Withholding tax is levied on dividends to be declared to foreign investors from the foreign investment enterprises established in Mainland China in respect of earnings earned after 31 December 2007. The Group's subsidiaries in Mainland China are held by Guo Hua Enterprises Group Limited, which is a company incorporated in Hong Kong and the beneficial owner of these subsidiaries, and the applicable withholding tax rate is 5% (2019: 10%).

The Group provide for the deferred income tax liabilities on the unremitted earnings except for those amount expected to be reinvested. Unremitted earnings that deferred income tax liabilities have not been recognised totally RMB5,665,395 thousand at 31 December 2020 (2019: RMB5,516,645 thousand). As at 31 December 2020, deferred income tax liabilities of RMB283,270 thousand (2019: RMB551,665 thousand) have not been recognised for the withholding tax that would be payable on such unremitted earnings of certain subsidiaries.

24. Revenue and Segment Information

	For the year ended 31 December	
	2020 RMB'000	2019 RMB'000
Sales of plastic injection moulding machines and related products	**11,800,052**	9,809,716

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

24. Revenue and Segment Information (Continued)

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Mainland China	**8,281,512**	6,328,151
Hong Kong and overseas countries	**3,518,540**	3,481,565
	11,800,052	9,809,716

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Total non-current assets other than term deposits, trade and bills receivables, other financial assets at amortised cost, financial assets at FVOCI and deferred income tax assets		
— Mainland China	**4,451,741**	4,104,664
— Hong Kong and overseas countries	**722,097**	616,018
	5,173,838	4,720,682

25. Expenses by Nature

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Depreciation and amortisation *(Notes 5, 6 and 9)*	**315,689**	297,496
Raw materials and consumables used	**6,980,639**	5,594,204
Changes in inventories of finished goods and work in progress	**(246,763)**	183,776
Sales commission and after-sales service expenses	**449,432**	446,687
Provision for impairment of trade receivables *(Note 11)*	**38,542**	4,783
Provision for write-down of inventories *(Note 10)*	**30,274**	40,660
Employment costs *(Note 28) (i)*	**1,153,212**	980,489
Litigation costs	**80,568**	59,792
Freight charges	**71,991**	68,461
Utilities	**94,582**	97,294
Travelling expenses	**19,498**	32,035
Auditor's remuneration		
— Audit services	**2,487**	3,346
Others	**286,013**	343,294
Total cost of sales, selling and marketing expenses and general and administrative expenses	**9,276,164**	8,152,317

(i) For the year ended 31 December 2020, the employment costs related to the research and development activities were RMB154,388 thousand (2019: RMB151,068 thousand).

26. Other Income

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Government grants *(i)*	**135,532**	227,755
Amortisation of deferred income *(Note 22)*	**6,678**	5,900
	142,210	233,655

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

27. Other Gains – Net

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net fair value gains on financial assets at FVPL	**203,133**	193,358
Net foreign exchange (losses)/gains	**(9,514)**	43,485
Gains on disposals of property, plant and equipment, net	**5,178**	5,977
Others	**8,299**	9,517
	207,096	252,337

28. Employment Costs

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries, wages and bonus	**982,092**	801,388
Pension cost — defined contribution plans *(a)*	**44,136**	47,210
Other benefits *(b)*	**126,984**	131,891
	1,153,212	980,489

(a) Pension cost — defined contribution plans

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

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

28. Employment Costs (Continued)

(b) Other benefits

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three (2019: three) directors whose emoluments are reflected in the analysis presented in Note 37. The emoluments payable to the remaining two (2019: two) individuals during the year are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, wages and bonus	**2,948**	1,898
Other benefits	**94**	530
	3,042	2,428

The emoluments fall within the following bands:

	Number of individuals	
	2020	2019
Nil — HKD1,000,000 (equivalent to approximately RMB842,000)	**—**	3
HKD1,000,001 (equivalent to approximately RMB842,000) — HKD1,500,000 (equivalent to approximately RMB1,262,000)	**2**	1
HKD1,500,001 (equivalent to approximately RMB1,262,000) — HKD2,000,000 (equivalent to approximately RMB1,683,000)	**3**	1

(d) During the year ended 31 December 2020, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil).

29. Finance Income/Costs

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Finance costs:		
Interest expense	**(35,385)**	(48,726)
Net foreign exchange losses	**(43,310)**	(3,190)
Interest and finance charges paid/payable for lease liabilities	**(84)**	(178)
	(78,779)	(52,094)
Finance income:		
Change in fair value of convertible bonds		
— resulted from change in exchange rate	**—**	11,937
— resulted from change in bond value	**—**	(3,416)
Interest income on restricted bank deposits, term deposits and cash and cash equivalents	**126,696**	76,269
Interest income on entrusted loans	**22,390**	5,855
	149,086	90,645
Finance income, net	**70,307**	38,551

30. Income Tax Expense

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(a) Income tax expense		
Current tax		
Current tax on profits for the year	**495,916**	379,403
Adjustments for current tax of prior periods	**(3,367)**	(9,733)
Total current tax expense	**492,549**	369,670
Deferred income tax		
Increase in deferred tax assets *(note 23)*	**(14,541)**	(22,888)
Deferred tax liabilities recognised in the consolidated statement of profit or loss *(note 23)*	**101,516**	86,758
Total deferred tax expense	**86,975**	63,870
Income tax expense	**579,524**	433,540
Income tax expense is attributable to:		
Profit from continuing operations	**579,524**	433,540
	579,524	433,540

Haitian Plastic Machinery Group Limited ("Haitian Plastic Machinery") renewed its status as a High and New Technology Enterprises ("HNTE") in 2020. Wuxi Haitian Machinery Co., Ltd. ("Wuxi Haitian") renewed its HNTE in 2018. Ningbo Zhafir Plastic Machinery Co., Ltd. ("Ningbo Zhafir") renewed its HNTE status in 2019. Zhejiang Keqiang Intelligence Control System Co., Ltd. ("Zhejiang Keqiang") renewed its HNTE status in 2019. These entities were entitled to a reduced income tax rate of 15% for three years commencing from the first year when these entities were granted the HNTE status. They are required to re-apply for preferential tax treatment after the current preferential tax periods expire.

The other major operating subsidiaries of the Group in Mainland China are subject to enterprise income tax rate of 25% for the year 2020 (2019: 25%).

30. Income Tax Expense (Continued)

(a) Income tax expense (Continued)

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the taxable income for the year 2020 (2019: 16.5%).

Taxation on overseas (other than Mainland China and Hong Kong) profits has been calculated on the estimated assessable profits for the year 2020 at the applicable rates of taxation prevailing in the countries in which the Group operates.

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit before income tax expense, after excluding share of profit of an associate	**2,943,501**	2,179,912
Tax at the Hong Kong tax rate of 16.5% (2019:16.5%)	**485,678**	359,685
Effect of different tax rates	**5,942**	14,568
Research and development expenditure supper deduction	**(19,668)**	(15,485)
Expensed not deductible for tax expense	**20,350**	17,653
Adjustments for current tax of prior year	**(3,367)**	(9,733)
Deferred tax not accounted for taxable losses	**5,279**	3,228
Effect of withholding tax on certain unremitted profits of subsidiaries in Mainland China	**87,240**	68,700
Utilize of previously unrecognised taxable losses	**(1,930)**	(5,076)
Income tax expense	**579,524**	433,540

31. Earnings Per Share

The calculation of basic earnings per share for the year is based on the profit attributable to the shareholders of the Company of approximately RMB2,388,016 thousand (2019: RMB1,750,519 thousand) and on the weighted average number of 1,596,000 thousand (2019: 1,596,000 thousand) ordinary shares in issue during the year.

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit attributable to shareholders of the Company	**2,388,016**	1,750,519
Weighted average number of ordinary shares in issue (thousands)	**1,596,000**	1,596,000
Basic EPS (RMB per share)	**1.50**	1.10

Diluted earnings per share is not presented as there were no dilutive ordinary shares. (Note 17).

32. Dividends

	2020	2019
	RMB'000	RMB'000
Interim dividend paid of HK 24.0 cents (2019: HK 21.0 cents) per ordinary share	**342,782**	301,587
Second interim dividend of HK 65.0 cents (2019: HK 19.0 cents) per ordinary share	**870,742**	273,571
Special interim dividend of HK75.0 cents (2019: Nil) per ordinary share	**1,004,702**	—
	2,218,226	575,158

On 22 March 2021, the Board of Directors of the Company has declared payment of a second interim dividend of HK65.0 cents per share (2019: HK19.0 cents per share) and a special interim dividend of HK75.0 cents per share (2019: Nil) for the year ended 31 December 2020. Such dividend has been approved by the Board which has complied with the related regulations in Cayman Island. The second interim dividend and special interim dividend have not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2021.

33. Notes to the Consolidated Statement of Cash Flows

(a) Cash generated from operations

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit before income tax	**2,969,612**	2,184,191
Adjustments for:		
— share of profit of an associate *(Note 8)*	**(26,111)**	(2,249)
— depreciation of property, plant and equipment *(Note 5)*	**300,461**	283,657
— amortisation of intangible assets *(Note 9)*	**1,321**	1,326
— amortisation of deferred income *(Note 22)*	**(6,678)**	(5,900)
— depreciation of right-of-use assets *(Note 6)*	**13,907**	12,513
— gains on disposal of property, plant and equipment and land use right *(Note 27)*	**(5,178)**	(5,977)
— provision for impairment of trade receivables *(Note 25)*	**38,542**	4,783
— provision for write-down of inventories *(Note 25)*	**30,274**	40,660
— interest income from financial assets at FVPL *(Note 27)*	**(203,133)**	(193,358)
— finance income — net *(Note 29)*	**(70,307)**	(38,551)
Changes in working capital:		
— decrease in restricted bank deposits	**20,469**	193,104
— (increase)/decrease in trade and other receivables	**(565,409)**	289,603
— (increase)/decrease in inventories	**(593,881)**	296,622
— increase in trade and bills payables	**1,152,939**	290,428
— increase in accruals and other payables	**580,318**	15,088
Cash generated from operations	**3,637,146**	3,365,940

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net book amount *(Note 5)*	**85,094**	36,505
Gains on disposal of property, plant and equipment *(Note 27)*	**5,178**	5,977
Proceeds from disposal of property, plant and equipment	**90,272**	42,482

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

(c) Net debt reconciliation

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

	2020 RMB'000	2019 RMB'000
Borrowings – repayable within one year (including overdraft)	**(1,318,130)**	(1,021,898)
Lease liabilities	**(1,155)**	(2,263)
Net debt	**(1,319,285)**	(1,024,161)

	Bank borrowings RMB'000	**Convertible bonds** RMB'000	**Lease liabilities** RMB'000	**Total** RMB'000
As at 1 January 2019	1,009,397	852,768	591	1,862,756
Cash flows				
— Inflow from financing activities	1,411,405	—	—	1,411,405
— Outflow from financing activities	(1,396,937)	(844,247)	(1,506)	(2,242,690)
Non-cash changes				
— Acquisition — leases	—	—	2,885	2,885
— Fair value loss	—	3,416	—	3,416
— Currency translations	(1,967)	(11,937)	293	(13,611)
As at 31 December 2019	1,021,898	—	2,263	1,024,161
Cash flows				
— Inflow from financing activities	1,168,118	—	—	1,168,118
— Outflow from financing activities	(869,368)	—	(1,204)	(870,572)
Non-cash changes				
— Acquisition — leases	—	—	65	65
— Currency translations	(2,518)	—	31	(2,487)
As at 31 December 2020	1,318,130	—	1,155	1,319,285

34. Commitments

(a) Capital commitments

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Acquisition of property, plant and equipment — Contracted but not provided for	**420,757**	340,623

35. Related Party Transactions

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

The Group is controlled by Sky Treasure Capital Limited (the immediate holding company), a company incorporated in the British Virgins Islands, which owns 59.77% of the Company's shares. The Company's directors regard Sky Treasure Capital Limited as being the ultimate holding company.

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

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

35. Related Party Transactions (Continued)

(a) Transactions with related parties:

The following material transactions were carried out with related parties:

		For the year ended 31 December	
		2020	2019
		RMB'000	RMB'000
(i)	Purchases of goods from:		
	Ningbo Anson	**670,263**	508,085
	Ningbo STF	**167,377**	109,748
	Hilectro Precision	**56,976**	48,190
	Ningbo SPP	**2,405**	515
	Hilectro Power	**—**	133
		897,021	666,671
(ii)	Purchase of equipment from:		
	Haitian Precision	**9,850**	15,714
	Hilectro Power	**416**	2,185
		10,266	17,899
(iii)	Rental fees paid to:		
	HDS	**2,642**	2,636
	Haitian Co	**512**	—
		3,154	2,636
(iv)	Purchase shares of an associate from an entity controlled by directors of the Group		
	HDS Hong Kong	**—**	515,000

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

35. Related Party Transactions (Continued)

(b) Balances with related parties:

The Group had the following significant balances with its related parties as at 31 December 2020 and 2019:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Payables arising from purchase of goods:		
— Ningbo Anson	**307,446**	226,795
— Ningbo STF	**79,112**	46,768
— Hilectro Precision	**26,218**	19,634
— Haitian Precision	**—**	—
— Hilectro Power	**324**	324
— Ningbo SPP	**206**	209
	413,306	293,730
Payables arising from purchase of equipment:		
— Haitian Precision	**9,493**	1,812
— Hilectro Power	**1,484**	1,244
	10,977	3,056

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

(c) Loans to key management

	2020	2019
	RMB'000	RMB'000
At 1 January	**578**	358
Loans advanced during the year	**157**	804
Loan repayments received	**(486)**	(584)
At 31 December	**249**	578

35. Related Party Transactions (Continued)

(c) Loans to key management (Continued)

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

Name of key management	Outstanding amount at beginning of year RMB'000	Outstanding amount at end of year RMB'000	Maximum outstanding during this year RMB'000	Fallen due but not been paid RMB'000	Provisions for doubtful/ bad debts made	Term	Interest rate	Security
2020								
Mr Zhang Jianming	300	—	300	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianfeng	278	249	278	—	—	Repayable on demand	Nil	Nil
2019								
Mr Zhang Jianming	143	300	304	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianfeng	215	278	715	—	—	Repayable on demand	Nil	Nil

(d) Key management compensation:

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries and bonus	**9,834**	7,109
Pension costs	**96**	67
Other benefits	**235**	179
	10,165	7,355

(e) Related party commitments:

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Capital commitment for acquisition of property, plant and equipment		
— Haitian Precision	**210,817**	22,765

36. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

		As at 31 December	
		2020	2019
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**796,501**	796,501
Due from subsidiaries		**—**	72,774
		796,501	869,275
Current assets			
Due from subsidiaries		**2,031,210**	2,031,210
Cash and cash equivalents		**176**	185
		2,031,386	2,031,395
Total assets		**2,827,887**	2,900,670
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**160,510**	160,510
Share premium	*i*	**1,331,913**	1,331,913
Other reserves	*i*	**314,789**	314,789
Retained earnings	*i*	**780,121**	852,169
Total equity		**2,587,333**	2,659,381

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

Balance sheet of the Company (Continued)

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
LIABILITIES			
Current liabilities			
Due to subsidiaries		**240,536**	241,271
Other payables		**18**	18
		240,554	241,289
Total liabilities		**240,554**	241,289
Total equity and liabilities		**2,827,887**	2,900,670

(i) Reserve movement of the Company

	Share premium RMB'000	**Contributed surplus** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2019	1,331,913	314,789	839,088	2,485,790
Profit for the year	—	—	573,847	573,847
Dividend paid				
— 2018 second interim *(Note 32)*	—	—	(259,179)	(259,179)
— 2019 interim *(Note 32)*	—	—	(301,587)	(301,587)
At 31 December 2019	1,331,913	314,789	852,169	2,498,871
Profit for the year	—	—	544,305	544,305
Dividend paid				
— 2019 second interim *(Note 32)*	—	—	(273,571)	(273,571)
— 2020 interim *(Note 32)*	—	—	(342,782)	(342,782)
At 31 December 2020	1,331,913	314,789	780,121	2,426,823

37. Benefits and Interests of Directors

(a) Directors' emoluments

The remuneration of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
Name of Director	**Fees**	**Salaries**	**Pension cost**	**Estimated value of other benefits**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2020					
Executive directors					
— Mr. Zhang Jingzhang	—	880	—	—	880
— Mr. Zhang Jianming (CEO)	—	1,250	11	26	1,287
— Mr. Zhang Jianfeng	—	1,150	11	26	1,187
— Mr. Zhang Bin	—	800	11	26	837
— Mr. Chen Weiqun	—	1,000	11	26	1,037
	—	5,080	44	104	5,228
Non-executive directors					
— Professor Helmut Helmar Franz*	—	73	—	—	73
— Mr. Zhang Jianguo*	—	90	—	—	90
— Ms. Chen Ningning*	—	150	—	—	150
— Mr. Guo Mingguang	—	—	—	—	—
— Mr. Liu Jianbo	—	—	—	—	—
	—	313	—	—	313
Independent non-executive directors					
— Mr. Guo Yonghui	78	—	—	—	78
— Mr. Lou Baijun	78	—	—	—	78
— Mr. Lo Chi Chiu	78	—	—	—	78
— Dr. Yu Junxian	78	—	—	—	78
— Mr. Jin Hailiang*	8	—	—	—	8
	320	—	—	—	320
	320	5,393	44	104	5,861

* *Professor Helmut Helmar Franz, Mr. Zhang Jianguo and Ms. Chen Ningning have resigned as non-executive directors, and Mr. Jin Hailiang has resigned as the independent non-executive directors since 27 March 2020.*

37. Benefits and Interests of Directors (Continued)

(a) Directors' emoluments (Continued)

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

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

37. Benefits and Interests of Directors (Continued)

(a) Directors' emoluments (Continued)

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiary undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking		Total	Total
2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
331	387	**5,541**	5,066	**5,872**	5,453

Mr. Guo Mingguang and Mr. Liu Jianbo have waived the emoluments during the years ended 31 December 2019 and 2020. None of other directors waived any emoluments waived any emoluments during the year ended 31 December 2020 (2019: None).

During the year ended 31 December 2020, no emoluments paid or receivable in respect of a person's services as a director (whether of the Company or its subsidiary undertaking) other than those disclosed in above tables, such as discretionary bonuses, housing allowance, or remunerations paid or receivable in respect of accepting office as director incurred (2019: None), and no emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking incurred (2019: None).

(b) Directors' retirement benefits

During the year ended 31 December 2020, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2019: None).

(c) Directors' termination benefits

During the year ended 31 December 2020, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2019: None).

37. Benefits and Interests of Directors (Continued)

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

During the year ended 31 December 2020, no consideration was provided to or receivable by third parties for making available director's services (2019: None).

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

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities other than those disclosed in Note 35(c) (2019: None).

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: None).

Financial Summary

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

	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Results					
Revenue	**11,800,052**	9,809,716	10,851,245	10,186,066	8,098,053
Profit before income tax	**2,969,612**	2,184,191	2,362,413	2,467,541	1,913,662
Income tax expenses	**(579,524)**	(433,540)	(446,181)	(462,241)	(362,787)
Profit attributable to shareholders of the company	**2,388,016**	1,750,519	1,916,883	2,005,394	1,550,891
Assets					
Non-current assets	**8,266,505**	6,605,109	4,392,657	4,027,292	3,264,794
Current assets	**15,125,355**	12,698,235	14,399,888	14,266,615	11,835,495
Total assets	**23,391,860**	19,303,344	18,792,545	18,293,907	15,100,289
Liabilities					
Non-current liabilities	**438,730**	325,708	222,600	1,193,273	1,638,859
Current liabilities	**8,167,094**	5,851,833	6,642,833	6,539,281	4,342,352
Total liabilities	**8,605,824**	6,177,541	6,865,433	7,732,554	5,981,211
Total equity	**14,786,036**	13,125,803	11,927,112	10,561,353	9,119,078
Capital and reserves attributable to shareholders of the Company	**14,777,234**	13,119,063	11,920,526	10,560,853	9,118,468

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

TIANJIAN PLASTICS MACHINERY

HAITIAN PLASTICS MACHINERY

ZHAFIR PLASTICS MACHINERY