XINGDA
兴达

XINGDA INTERNATIONAL HOLDINGS LIMITED
興達國際控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code : 1899)

ANNUAL REPORT 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LIU Jinlan *(Chairman)*
Mr. LIU Xiang
Mr. TAO Jinxiang
Mr. ZHANG Yuxiao

Independent Non-executive Directors

Mr. KOO Fook Sun, Louis
Mr. William John SHARP *(Vice Chairman)*
Ms. XU Chunhua

AUDIT COMMITTEE

Mr. KOO Fook Sun, Louis *(Chairman)*
Mr. William John SHARP
Ms. XU Chunhua

REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE

Mr. William John SHARP *(Chairman)*
Mr. KOO Fook Sun, Louis

NOMINATION COMMITTEE

Mr. LIU Jinlan *(Chairman)*
Mr. KOO Fook Sun, Louis
Ms. XU Chunhua

COMPANY SECRETARY

Mr. CHENG Kam Ho, *CPA*

AUTHORISED REPRESENTATIVES

Mr. ZHANG Yuxiao
Mr. CHENG Kam Ho

LEGAL ADVISORS

As to Hong Kong Law:
Deacons

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway
Hong Kong

INVESTOR RELATIONS

Strategic Financial Relations (China) Limited
Unit 02, 24th Floor, Admiralty Centre I
18 Harcourt Road
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE

6th Floor, No. 20, Lane 599
Yunling Road (East)
Putuo District
Shanghai 200062
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit S03, 7/F, Low block
Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
China Construction Bank
Bank of China (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

SHARE REGISTRARS AND TRANSFER OFFICES

Principal:

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

Hong Kong Branch:

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F., 148 Electric Road
North Point
Hong Kong

STOCK CODE

01899

WEBSITE

www.irasia.com/listco/hk/xingda/index.htm

FINANCIAL HIGHLIGHTS

	2019	2018	Change
	RMB in million	*RMB in million*	
OPERATING RESULTS			
Revenue	**7,582.7**	7,558.4	+0.3%
Gross profit	**1,471.2**	1,322.5	+11.2%
EBITDA (1)	**1,106.7**	1,057.2	+4.7%
Profit for the year	**410.7**	371.9	+10.4%
Profit attributable to owners of the Company	**288.8**	263.7	+9.5%
Earnings per share – basic (RMB fen)	**19.09**	17.82	+7.1%
Earnings per share – diluted (RMB fen)	**18.99**	17.79	+6.7%

	2019	2018	Change
	RMB in million	*RMB in million*	
FINANCIAL POSITION			
Total assets	**13,807.4**	12,788.6	+8.0%
Total liabilities	**6,000.1**	5,240.1	+14.5%
Net assets	**7,807.3**	7,548.5	+3.4%
Equity attributable to owners of the Company	**5,661.4**	5,451.2	+3.9%

	2019	2018
KEY RATIOS		
Gross profit margin (2)	**19.4%**	17.5%
EBITDA margin (3)	**14.6%**	14.0%
Return on equity (4)	**5.1%**	4.8%
Current ratio (5)	**1.21**	1.48
Gearing ratio (6)	**15.7%**	10.1%
Net debts to equity ratio (7)	**29.6%**	3.5%

Notes:

(1) It is arrived at profit for the year before finance costs, income tax expense, depreciation and amortisation.

(2) Gross profit divided by revenue.

(3) EBITDA divided by revenue.

(4) Profit for the year attributable to owners of the Company divided by equity attributable to owners of the Company.

(5) Current assets divided by current liabilities.

(6) Total debts (bank borrowings) divided by total assets.

(7) Total debts (bank borrowings) less cash and bank balances divided by equity attributable to owners of the Company.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the audited annual results of Xingda International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group" or "Xingda") for the year ended 31 December 2019.

During the year under review, the Group's revenue increased modestly by 0.3% to RMB7,583 million when compared with the preceding year. The increase was mainly due to a moderate increase in total sales volume of the product. Gross profit increased by 11.2% year-on-year to RMB1,471 million mainly due to the drop on both materials prices and production costs per tonne helped boost gross profit margin by 1.9 percentage points to 19.4%. Profit attributable to owners of the Company amounted to RMB289 million, representing an increase of 9.5% year-on-year. Basic and diluted earnings per share were RMB19.09 fen and RMB18.99 fen respectively. The Board recommended the payment of a final dividend of 15.0 HK cents per share (2018: 15.0 HK cents per share) for the year ended 31 December 2019.

In 2019, global economic growth decelerated, more risks and challenges emerged in China and overseas, while trade negotiations between China and the US were tortuous. Furthermore, the US Federal Reserve revised its policy on balance sheet reduction and cut its benchmark funds rate three times to stimulate economic and consumption growth. Despite subject to enormous external pressure, the economic growth of China remained stable, with areas including employment, consumption, export and property investment performing well. As one of the largest manufacturers of radial tire cords in the country, Xingda has adhered to its development philosophy of "Pursuing Progress While Ensuring Stability". We have also adapted to the new normal of economic development and seized opportunities that have emerged, resulting in stable business development during the year.

Faced with a complicated and changing macro-economic environment in China, the superb quality of our products enabled us to maintain a competitive edge in the domestic radial tire cord market. For overseas markets, our brand has been widely recognized internationally and our foreign customers have utmost faith in us, hence the reason why orders have gradually risen over the years. Owing to the effective implementation of our international strategies, the Group's factory in Thailand has started trial operations, and is expected to commence scale production in the second half of 2020. This project will be able to satisfy steadily increasing market demand in the pan-Asia Pacific region, thus, represents an important milestone in our global layout.

During the year under review, the Group repurchased 15,113,000 shares on the Hong Kong Stock Exchange at an average price of approximately HK$2.12 per share, or in total, approximately HK$32.1 million (after deducting related expenses). I have also purchased a total of 2,831,000 shares on the Hong Kong Stock Exchange during the year to demonstrate my confidence in the development of the Company going forward.

On 6 June 2019, the Group announced the scrip dividend scheme. Shareholders of the Company may opt to receive an allotment of new shares at HK$0.1 each in the share capital of the Company ("Scrip Shares") in lieu of a final dividend of 15.0 HK cents per share ("Share") for 2018 in cash. The issue price of the Scrip Shares is HK$1.87 per Share. Under the scheme, the Company's controlling shareholders opted to receive the 2018 final dividend partly in Scrip Shares and partly in cash, resulting ultimately in the allotment of 23,812,299 Scrip Shares. They chose to receive Scrip Shares once again, reflecting their confidence in Xingda's long-term business prospects.

CHAIRMAN'S STATEMENT

At the beginning of 2020, the novel coronavirus broke out in Wuhan, China, and subsequently spread around the world. It has stagnated social consumption and affected the construction and manufacturing industries in China, especially in the first quarter, but it is believed that the generally stable direction of the economy will not change. In addition, the global economy is facing a difficult time and various uncertainties under rising coronavirus concerns. The Group will ramp up our efforts and well equipped to facing the challenge. We will closely monitor developments and strive to maintain a steady and healthy development for the Group, all the while maintaining a broad vision. We will expedite development of our factory in Thailand so that it is fully operational, strengthen marketing and sales globally, enhance business development and expand our customer base in emerging markets. Such efforts are consistent with our goal to diversify market risk by mapping out our operations globally. We have also been improving product quality, stabilizing sales growth overseas, and prudently responding to the changing environment.

In the future, the Group will actively combat the epidemic and in the meantime, conceive and initiate more corporate social responsibility programs for our valuable staff. Various strict measures and contingency plans will be in place to ensure the smooth operation of the Group and safeguard the health of all staff.

On behalf of the Board, I would like to take this opportunity to thank shareholders, the management and all staff members for their contributions to the Group. Xingda will reinforce its existing businesses and develop steadily, so as to further consolidate its leading market presence, effectively tap market trends and lead the development of the industry.

Liu Jinlan
Chairman
Shanghai, China, 8 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2019, a slowdown in GDP growth in China and the Sino-US trade dispute added uncertainties to overall economy which provides a challenging environment to tire industry. The on-going internationalization of the tire industry leads to more radial tire production capacities and utilization shifted from China to overseas. As a result, according to 2019 data issued by China Rubber Industry Association, China's tire output increased slightly by 0.6% to approximately 652 million units, of which approximately 616 million were radial tires, representing a year-on-year increase of 1.1% and tire radialization rate increased to 94.5% (2018: 94.0%). Radial tire output for trucks decreased 0.8% to approximately 132 million units while radial tire output for passenger cars increased 1.7% to approximately 484 million units during the year.

However, continuous growth of the car parc in China, the optimization of the logistics network and the development of China's infrastructure ensured stable demand for the replacement of radial tires and radial tire cords. Statistics compiled by China's Ministry of Public Security showed that the car parc in China reached RMB260 million, representing 8.8% growth. The persistent tires replacement demand in China supported the Group to record stable sales figures of radial tire cords.

BUSINESS REVIEW

During the year, the Group was able to lead its market coverage by capitalizing on its extensive business network, conducting in-depth analysis of radial tire cord market trends and setting practical operation approaches based on prevailing market conditions. In 2019, the Group recorded total sales volume of 818,300 tonnes, up 2.2% year-on-year. Sales volume of radial tire cords rose moderately by 1.5% year-on-year to 676,600 tonnes, making up 82.7% of the Group's total sales volume (2018: 83.3%). Sales volume of bead wires and other wires also increased by 5.7% to 141,700 tonnes, and accounted for 17.3% of the Group's total sales volume (2018: 16.7%).

In terms of market segments, the sales volume of radial tire cords for trucks declined modestly by 3.2% to 426,100 tonnes against the corresponding period last year. A drop in sales volume of radial tire cords for trucks which was mainly due to a slight decline in domestic radial tire output. As for the sales volume of radial tire cords for passenger cars, an increase of 10.6% year-on-year to 250,500 tonnes was achieved, mainly due to the continuous rise in overseas orders. This is also a reflection of the widespread recognition that the Xingda brand enjoys from more overseas customers, as well as the confidence that they have owing to the Group's high-quality products.

Sales Volume

	2019	2018	Change
	Tonnes	*Tonnes*	
Radial tire cords	**676,600**	666,600	+1.5%
– *For trucks*	***426,100***	*440,100*	*-3.2%*
– *For passenger cars*	***250,500***	*226,500*	*+10.6%*
Bead wires and other wires	**141,700**	134,100	+5.7%
Total	**818,300**	800,700	+2.2%

BUSINESS REVIEW – *CONTINUED*

During the year under review, the sales volume of the Group's radial tire cords in China slightly increased by 0.7% to 501,400 tonnes (2018: 498,100 tonnes) under the overall stable market and orders. Thanks to the Group's efforts in building its reputation and offering excellent products and services, sales of radial tire cords in overseas markets increased by 4.0% year-on-year to 175,200 tonnes (2018: 168,500 tonnes). Orders of related products from overseas markets including Thailand, Brazil, Germany, Slovakia etc also continued to grow steadily. Sales volume in domestic and overseas markets constituted 74.1% and 25.9%, respectively, of the Group's total sales volume of radial tire cords (2018: 74.7% and 25.3%).

As at 31 December 2019, the Group's annual production capacity of radial tire cords rose to 730,500 tonnes, with Jiangsu and Shandong factories accounting for up to 627,000 tonnes and 103,500 tonnes respectively. The Group continued to implement its internationalization strategy and followed the development direction of the "Belt and Road" countries. It has completed plant construction in Thailand and started trial operation. The Thailand plant is expected to be capable of producing 70,000 tonnes of radial tire cords per annum in the second half of year 2020, allowing the Group to diversify geopolitical risks amid the Sino-US trade war. The annual production capacity of bead wires and other wires rose to 170,000 tonnes. Overall capacity utilization rate of the Group's plants further increased to a high level of 91.4% (2018: 90.0%).

	2019 Production Capacity *(Tonnes)*	**2019 Utilization Rate**	2018 Production Capacity *(Tonnes)*	2018 Utilization Rate
Radial tire cords	**730,500**	**93%**	728,000	91%
Bead wires and other wires	**170,000**	**84%**	155,000	87%
Overall	**900,500**	**91%**	883,000	90%

To meet different needs and offer customized radial tire cords to customers, the Group has focused on product research and development and technology reforms. Currently, the Group provides a wide range of products, including 368 types of radial tire cords and 156 types of bead wires and other wires.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue breakdown by product category is as follows:

RMB in million	**2019**	**Proportion**	2018	Proportion	Change
Radial tire cords	**6,680.7**	**88%**	6,670.2	88%	+0.2%
– *For trucks*	***4,286.7***	***56%***	*4,488.1*	*59%*	*-4.5%*
– *For passenger cars*	***2,394.0***	***32%***	*2,182.1*	*29%*	*+9.7%*
Bead wires and other wires	**902.0**	**12%**	888.2	12%	+1.6%
Total	**7,582.7**	**100%**	7,558.4	100%	+0.3%

During the year under review, the Group's revenue slightly increased by 0.3% year-on-year to RMB7,582.7 million (2018: RMB7,558.4 million), mainly due to the growth of sales volume of radial tire cords.

Gross profit and gross profit margin

The Group's gross profit increased by 11.2% year-on-year to RMB1,471.2 million (2018: RMB1,322.5 million), with gross profit margin at 19.4% (2018: 17.5%), 1.9 percentage points higher year-on-year, owing to a decrease in raw material prices and production costs per tonne under higher utilization rate together with the slight increment of sales volume.

Other income

Other income decreased by 7.5% to RMB126.4 million (2018: RMB136.7 million), mainly due to the decrease in waiver of trade payable and sales of scrap materials was partially offset by the increase of bank interest income which derived from placing fixed bank deposits and bank balances.

Government grants

Government grants for the year decreased by 0.7% to RMB13.7 million (2018: RMB13.8 million), due to the decrease in recurring subsidies from the local government.

Distribution and selling expenses

Distribution and selling expenses increased by 6.6% to RMB546.6 million (2018: RMB512.6 million), which was mainly attributable to the higher sales volume and it led to higher costs of transport and storage and tariffs relating to export sales to the United States of America were increased in year 2019 on a year-on-year basis.

Administrative expenses

Administrative expenses increased by 5.6% to RMB382.2 million (2018: RMB361.9 million), mainly due to an increase in overall administrative costs incurred on overseas subsidiaries and pension provision.

FINANCIAL REVIEW – *CONTINUED*

Other gain and losses, net

Other gains and losses, net increased by RMB11.9 million or 61.3% from net gain of RMB19.4 million in 2018 to net gain of RMB31.3 million in 2019. It was mainly attributable to the gain on change in fair value of financial assets at fair value through profit or loss of RMB24.4 million which was partially offset by an increase in loss on disposal of property, plant and equipment.

Impairment loss recognised on trade and other receivables

Impairment loss recognised on trade and other receivables increased by RMB10.2 million or 67.5% to RMB25.3 million (2018: RMB15.1 million). It was mainly attributable to certain debts were turned to be long outstanding and aged which were defaulted in repayment in year 2019. Those aged debts were individually impaired as losses for the year ended 31 December 2019.

Research and development expenditure

Research and development expenditure, increased by RMB31.8 million or 42.2% to RMB107.1 million (2018: RMB75.3 million). Because the Group has allocated more resources to boost technology advancement on both production technique and emission reduction as well as developing more new products to meet the needs of customers.

Finance costs

Excluding the capitalized cost of RMB32.3 million (2018: RMB8.9 million) for qualifying assets, finance costs rose by 35.7% to RMB73.0 million (2018: RMB53.8 million). The increase was mainly due to the rise of average balance of bank borrowings.

Income tax expense

The Group's income tax expense increased by 17.4% to RMB130.0 million (2018: RMB110.7 million) and with an effective tax rate is 24.0% (2018: 22.9%). The increase in income tax expense was mainly caused by the increase in withholding tax on earnings distributed by the Group's PRC subsidiaries. If the withholding tax was excluded, the income tax charge would have decreased by RMB32.3 million (2018: RMB16.7 million) and the effective tax rate would become 18.1% (2018: 19.5%). A decrease in effective tax rate was mainly due to the increase in portion of income contributed by a major subsidiary of the Group, Jiangsu Xingda Steel Tyre Cord Co. Ltd., which enjoys a lower income tax rate as compared with other operating subsidiaries of the Group.

Net profit

Taking the above factors into account, the Group's net profit for the year ended 31 December 2019 increased by 10.4% to RMB410.7 million (2018: RMB371.9 million).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, CAPITAL RESOURCES AND CAPITAL STRUCTURE

During the year under review, there was no significant change in the Group's funding and treasury policy. The principal source of liquidity and capital resources was the cash flow generated from operating activities and financing activities whereas the principal uses of cash were for the expansion of production capacity and placement of fixed bank deposits.

Bank balances and cash including bank deposits of the Group decreased by RMB606.5 million from RMB1,104.4 million as at 31 December 2018 to RMB497.9 million as at 31 December 2019. The decrease was mainly due to the cash has been used in investment activities of RMB1,694.0 million exceeding the cash generated from operating activities of RMB500.3 million, financing activities of RMB581.2 million and effect of foreign exchange rate changes of RMB6.0 million.

Borrowings increased by RMB878.5 million or 67.9% to RMB2,172.9 million as at 31 December 2019 from RMB1,294.4 million as at 31 December 2018. The borrowings carried interest at market rates from 2.92% to 5.20% (2018: 2.92% to 4.79%). Borrowings of RMB1,872.9 million are repayable within one year from 31 December 2019 and the remaining borrowings of RMB300.0 million are repayable after one year from 31 December 2019.

As at 31 December 2019, the Group's current assets decreased by 8.4% to RMB6,868.5 million (31 December 2018: RMB7,498.6 million). Current liabilities increased by 12.0% to RMB5,685.9 million (31 December 2018: RMB5,077.8 million). The Group's current ratio (being defined as current assets over current liabilities) decreased to 1.21 times (31 December 2018: 1.48 times). The decrease was mainly caused by the increase of borrowings which are due within one year and a decrease in bank balances and cash. The gearing ratio (being defined as total debts to total assets) as at 31 December 2019 was 15.7% (31 December 2018: 10.1%).

FOREIGN EXCHANGE RISK

The Group's sales and purchases were principally denominated in Renminbi, US dollars and Euros. Part of the sales proceeds of US dollars and Euros have been used to purchase imported raw materials in the same currencies, while the exchange rate fluctuation of renminbi did not have a significant adverse effect on the operating results of the Group in 2019.

Apart from certain bank and debtors' balances in US dollars, Euros, Hong Kong dollars and Thai baht, most of the assets and liabilities of the Group were denominated in Renminbi. Therefore, the Group was not exposed to significant foreign exchange risk. The Group did not enter any financial derivative instruments to hedge against foreign exchange currency risk during the year under review. However, the Group is closely monitoring the impact of change in value of the Renminbi on its operations and may consider appropriate hedging solutions, if required.

CAPITAL EXPENDITURE

For the year ended 31 December 2019, capital expenditure for property, plant and equipment amounted to RMB1,187.9 million (2018: RMB592.1 million).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had made a capital commitment of approximately RMB350.9 million (31 December 2018: RMB400.9 million) for acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements. The Group did not make any capital commitment for acquisition of property, plant and equipment authorised but not contracted as at 31 December 2019 and 31 December 2018 respectively.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2019 and 31 December 2018.

PLEDGE OF ASSETS

As at 31 December 2019, the Group had fixed bank deposits of RMB420.0 million (2018: nil) pledged to banks to secure bank borrowings. As at 31 December 2018, the Group has fixed bank deposits of RMB52.0 million to secure bill payables of the Group.

SIGNIFICANT INVESTMENTS

Pursuant to the placing letter signed by the Company on 2 October 2018, the Company has agreed to subscribe for 11,993,000 shares of Prinx Chengshan (Cayman) Holding Limited ("Prinx Chengshan", stock code: 01809), whose shares are listed on the Main Board of the Stock Exchange, at HK$5.89 per share in cash under the initial public offering. The total subscription money, after expenses, of approximately HK$71.4 million was satisfied by the internal resources of the Group. The above mentioned investment still exists and a gain on change in fair value of financial assets at fair value through profit or loss of RMB24.4 million was recorded during the year ended 31 December 2019 (2018: loss of RMB2.5 million). Save as disclosed above, the Group had no other significant investments for the years ended 31 December 2019 and 2018 respectively.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As at 31 December 2019, Faith Maple International Ltd. ("Faith Maple"), a direct wholly-owned subsidiary of the Company, has injected a total of RMB689,745,000 in cash to subscribe for 212,229,323 new shares issued by Jiangsu Xingda. Meanwhile, Faith Maple transferred 90% equity interests in Jiangsu Xingda Special Cord Co., Ltd. ("Jiangsu Xingda Special Cord") to Jiangsu Xingda at a consideration of RMB676,345,300 before 31 December 2019. Accordingly, the Group's effective interest in Jiangsu Xingda Special Cord has been decreased from approximately 96.95% to approximately 73.31% whereas the Group's effective interest in Jiangsu Xingda has been increased from approximately 69.54% to approximately 73.31%.

HUMAN RESOURCES

As at 31 December 2019, the Group had approximately 7,200 full time employees (31 December 2018: approximately 6,800). Total staff costs including directors' remuneration for the year ended 31 December 2019 was approximately RMB733.7 million (2018: approximately RMB726.0 million). Salaries are generally reviewed with reference to employees' merit, qualifications and competence. The calculation of bonuses was based on an evaluation of individual efforts and contributions to the financial performance of the Group. The Group also continues to provide training programs for staff to enhance their technical and product knowledge as well as awareness of industry quality standards.

In addition to salaries and bonuses, the Group also provides various benefits to employees through the Labour Union of Xingda ("Xingda Labour Union"). Each year, Jiangsu Xingda and Shandong Xingda contributes 2% of the total salary of staff ("Union Fee") to support operation of the Xingda Labour Union. The Union Fee, together with other funds obtained by the Xingda Labour Union are used to provide a variety of welfare benefits and services to employees of the Group, including provision of staff quarters which employees may choose to purchase. For the year ended 31 December 2019, the amount of Union Fees contributed by Jiangsu Xingda and Shandong Xingda to the Xingda Labour Union was RMB11.6 million (2018: RMB11.1 million).

According to the Social Insurance Regulations published by the State Council of China on 14 January 1999, the Group is required to make contributions to pension funds and insurance policies for its employees. Full-time employees of the Group in China are covered by the contributory pension scheme managed by the government entitling them to a monthly pension after they retire. The PRC government is responsible for crediting the pension to the retired and the Group is required to make annual contributions to the retirement scheme run by the Xinghua Municipality at a specified rate. The contribution is booked in due course as an operating expense of the Group. Under the scheme, no forfeited contributions are available to reduce the existing level of contributions. Apart from pension funds, the Group has provided medical, personal accident and unemployment insurance policies for its employees.

In 2009, the Board adopted a share award scheme to retain elite employees and encourage them to achieve performance goals by aligning their interests to the shareholders through share ownerships. Shares are to be purchased by the trustee in the market out of cash contributed by the Company and be held in trust for the selected employees until such shares are vested in them in accordance with the provisions of the scheme.

HUMAN RESOURCES – *CONTINUED*

In 2010, 5,000,000 shares of the Company (the "First Batch Shares") were purchased by the trustee on the public market. In 2011, another 5,000,000 shares of the Company (the "Second Batch Shares") were purchased by the trustee on the public market. In 2013, 10,481,000 shares of the Company were purchased by the trustee on the public market, of which 5,000,000 shares were added to the Second Batch Shares and the remaining 5,481,000 shares were classified as the Third Batch Shares (the "Third Batch Shares"). In 2014, 4,519,000 shares of the Company were purchased by the trustee on the public market and were added to the Third Batch Shares. In 2016, 7,282,000 shares of the Company were purchased by the trustee on the public market (the "Fourth Batch Shares"). In 2017, 601,011 scrip shares allotted under the scrip dividend scheme of the Company as dividend derived from the shares held upon the trust in relation to the share award scheme were added to the Fourth Batch Shares. In 2018, 506,266 scrip shares allotted under the scrip dividend scheme of the Company as dividend derived from the shares held upon the trust in relation to the share award scheme were added to the Fourth Batch Shares. In 2019, 418,899 scrip shares allotted under the scrip dividend scheme of the Company as dividend derived from the shares held upon the trust in relation to the share award scheme were added to the Fourth Batch Shares. Meanwhile, 4,900,000 shares of the Company were purchased by the trustee on the public market, of which 1,075,824 shares were added to the Fourth Batch Shares and the remaining 3,824,176 shares as the Fifth Batch Shares (the "Fifth Batch Shares"). As at 31 December 2019, the balance of the Fourth Batch Shares and Fifth Batch Shares were 6,684,000 shares and 3,824,176 shares respectively.

As at 31 December 2019, all the First Batch Shares, the Second Batch Shares, the Third Batch Shares and one-third of the Fourth Batch Shares have been vested with selected employees. Two-third of the Fourth Batch Shares and the Fifth Batch Shares are expected to be vested with selected employees in a five-year period from 2020 to 2024.

PROSPECTS

At the beginning of 2020, the COVID-19 coronavirus outbreak has rapidly spread across the country. In order to contain coronavirus outbreak, the Group responded the call by PRC government on the delay of work resumption after Chinese New Year holiday. Jiangsu Xingda plant and Shandong Xingda plant have resumed production in the second and third week of February, respectively. As of the date of this report, both factories operate on the normal level of productivity. The Group expects the epidemic situation will cause uncertainties in global economy but the Group has not been able to assess the financial impact in view of the changing circumstances. The Group will keep close monitoring on the possible impact of the epidemic on the financial position and operating results of the Group, and will make appropriate and feasible measures timely in response to the outbreak.

PROSPECTS – *CONTINUED*

Xingda will strive to grow stronger and capitalize on trends to move forward in the face of adversity. It will continue to adhere to its development principle of seeking progress while maintaining stability, accurately leverage market conditions, push ahead with its globalization strategy and maintain good cash flow and healthy financial structure, in a bid to respond to uncertainties and challenges in the market.

In view of an acceleration in the internationalization of the tire industry in recent years and the upgrade of the consumer market, the industry has been bolstering production efficiency by increasing automation, informatization and use of smart technologies, as well as through investments in environmental protection. Xingda will keep abreast of developments pertaining to the downstream industry chain products and markets, expedite efforts on technological innovation, keeps on reducing production costs and production capacities utilization on a high level, continuously enhance the quality and output ratio of its products, and establish an overseas production base and marketing network. Furthermore, it will constantly explore new opportunities so that it is equipped to overcome change, as well as meet the demands of radial tire cord customers around the world. Xingda will do its utmost to further reinforce the Group's leading positionally creating sustainable returns to all shareholders.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. LIU Jinlan (劉錦蘭), aged 70, has been a Director and the chairman of the Board since April 2005 and was in August 2005 designated as an executive Director. He has also been a director of Faith Maple International Ltd. ("Faith Maple") since 16 June 2004, a director of 興達國際(上海)特種簾線有限公司 (Xingda International (Shanghai) Special Cord Co., Ltd.*) ("Xingda International (Shanghai)") since 18 September 2006, a director of 江蘇興達特種金屬複合線有限公司 (Jiangsu Xingda Special Cord Co., Ltd.*) ("Xingda Special Cord") since 13 June 2007 and a director of 山東興達鋼簾線有限公司 (Shandong Xingda Steel Tyre Cord Co., Ltd.*) ("Shandong Xingda") since 27 June 2011. Both Faith Maple and Xingda International (Shanghai) are wholly-owned subsidiaries of the Company whereas Xingda Special Cord is a non-wholly owned subsidiary of the Company. He joined Xingda Steel Tyre Cord Group, the predecessor of 江蘇興達鋼簾線股份有限公司 (Jiangsu Xingda Steel Tyre Cord Co., Ltd.*) ("Jiangsu Xingda") since May 1994 and has been a director of Jiangsu Xingda since its establishment in 1998. He is also the sole director of Great Trade Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Liu was awarded 國家科學技術進步獎二等獎 (the State Science and Technology Improvement Award (Second Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by the State Council in 2005. He was recognized as 中國橡膠工業科學發展帶頭人 (Leader in Technology Development in China Rubber Industry*) by the China Rubber Industry Association in April 2005 and was awarded 科技進步獎一等獎 (the Technology Improvement Award (First Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by 中國石油和化學工業協會 (China Petroleum and Chemical Industry Association*) in December 2003 and 全國五一勞動節獎章 (the National 1 May Labor medal*) by 中華全國總工會 (All China Federation of Trade Unions*) in April 2003. He is a senior engineer. Mr. Liu has more than 24 years of experience in the radial tire cord manufacturing industry. He is the father of Mr. Liu Xiang, who is an executive Director of the Company.

Mr. LIU Xiang (劉祥), aged 43, has been an executive Director since August 2005. He has also been a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He has been the general manager and a director of Jiangsu Xingda since January 2003 and is responsible for the overall operation of Jiangsu Xingda with a particular focus on production. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in late 1995 and served in the supply and marketing department. He is also the sole director of In-Plus Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr. Liu Xiang obtained a bachelor degree in computer science and technology from 西安通信學院 (Xi'an Tongxin Xueyuan*) of 中國人民解放軍 (the People's Liberation Army*) in 2004. In 2009, he graduated from Fudan University with a master's degree in business administration. Mr. Liu has approximately 24 years of experience in the radial tire cord manufacturing industry. He is the son of Mr. Liu Jinlan, who is an executive Director of the Company.

EXECUTIVE DIRECTORS – *CONTINUED*

Mr. TAO Jinxiang (陶進祥), aged 57, has been an executive Director since August 2005. He has also been a director of Xingda International (Shanghai) since 18 September 2006, a director of Xingda Special Cord since 13 June 2007 and a director of Shandong Xingda since 6 June 2016. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in May 1994, and since the establishment of Jiangsu Xingda in 1998, he has been a vice president and a director of the sales and marketing department of Jiangsu Xingda with the overall responsibility of formulating sales and marketing plans. He is also the sole director of Perfect Sino Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. He attended senior sales and marketing executives training classes organized by 職業經理訓練中心 (Executives Training Centre*) of Tsinghua University and obtained a certificate in May 2004. Mr. Tao has more than 24 years of experience in the radial tire cord manufacturing industry.

Mr. ZHANG Yuxiao (張宇曉), aged 50, has been an executive Director and Chief Financial Officer of the Company since August 2005. He has also been a director of Jiangsu Xingda since 25 January 2003, a director of Xingda International (Shanghai) since 18 September 2006, a director of Xingda Special Cord since 13 June 2007 and a director of Shandong Xingda since 27 June 2011. He joined Jiangsu Xingda in January 2000 and has been a vice president of Jiangsu Xingda since then. He is responsible for accounting and finance and international market development. From 1995 to 2000, he was the vice president of Clemente Capital (Asia) Limited and was responsible for investment management. Mr. Zhang obtained a bachelor's degree in sciences from Fudan University in July 1991. Mr. Zhang has more than 19 years of experience in the radial tire cord manufacturing industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KOO Fook Sun, Louis (顧福身), aged 63, has been an independent non-executive Director since August 2005. Mr. Koo is the managing director of Hercules Capital Limited. He was the managing director and head of corporate finance department of a major international bank, and a director and chief executive officer of a company listed on the Main Board of the Hong Kong Stock Exchange. Mr. KOO was the independent non-executive director of Midland Holdings Limited from September 2004 to June 2017. Mr. Koo also serves currently as an independent non-executive director of Good Friend International Holdings Inc., Li Ning Company Limited and Winfull Group Holdings Limited (all of which are companies listed on the Main Board of the Hong Kong Stock Exchange). While Mr. Koo has served as an independent non-executive Director for more than 9 years since August 2005, the Board believes that he is able and will continue to exercise independent and professional judgment in relation to matters and affairs of the Company, as he has displayed his competence in serving as an independent non-executive director in various public listed companies. Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley in the United States of America and is a certified public accountant.

INDEPENDENT NON-EXECUTIVE DIRECTORS – *CONTINUED*

Mr. William John SHARP, aged 78, has been an independent non-executive Director since August 2005. He has been appointed as the Vice Chairman of the Board with effect from 1 January 2016. Mr. Sharp is the president of Global Industrial Consulting, a consulting firm. He is also an independent director of China Zenix Auto International Limited, an NYSE-listed manufacturer of commercial vehicle wheels. He joined The Goodyear Tire & Rubber Company in 1964 and was the President of its North American Tire group between 1999 and 2000. Prior to that, he was the President of its Global Support Operations between 1996 and 1999, and the President of Goodyear Europe from 1992 to 1996. While Mr. Sharp has served as an independent non-executive Director for more than 9 years since August 2005, the Board believes that he is able and will continue to exercise independent and professional judgement in relation to matters and affairs of the Company, as he has displayed his competence in serving as an independent director in another public listed company. Mr. Sharp graduated with a bachelor's degree of science, majoring in industrial engineering, from The Ohio State University in 1963 and has more than 52 years of experience in the tire manufacturing industry.

Ms. XU Chunhua (許春華), aged 76, has been an independent non-executive Director since August 2005. She has served in various positions in Beijing Research and Design Institute of Rubber Industry since 1965. She was the deputy dean in charge of technology research and development between 1995 and 2003. She was also the person in charge of the "高速、低滾動阻力子午線輪胎系列產品生產技術開發" (Development of Production Techniques for Radial Tyre Products of High Speed and Low Rolling Resistance*) project, one of the "九五"國家重點科技攻關項目 (Key Technologies Research and Development Program for the Ninth "Five-Year Plan"*) in 1995. Ms. Xu has been the deputy chairman of the China Rubber Industry Association since 2004. She has been the head of 骨架材料專業委員會 (the skeleton materials committee*) and 橡膠助劑專業委員會(the rubber chemicals committee*) since 2002 and 2001, respectively. Since May 2007, she has served as an independent director of China Sunsine Chemical Holdings Ltd., a company listed on the Singapore Exchange Limited. While Ms. Xu has served as an independent non-executive Director for more than 9 years since August 2005, the Board believes that she is able and will continue to exercise independent and professional judgment in relation to matters and affairs of the Company, as she has displayed her competence in serving as an independent director in another public listed company. She completed her studies in the macromolecular curriculum of the chemistry faculty of Fudan University in 1965 and has more than 52 years of experience in technology research relating to rubber chemicals.

COMPANY SECRETARY

Mr. CHENG Kam Ho (鄭錦豪), aged 44, is the company secretary of the Company. Mr. Cheng joined the Company as a member of its senior management in July 2008. He has more than 20 years of experience in finance, accounting and auditing. Mr. Cheng worked in accounting firms in Hong Kong from July 1998 to June 2008 before joining the Company. He has been a member of the Hong Kong Institute of Certified Public Accountants since 19 July 2005. Mr. Cheng graduated from The Hong Kong Polytechnic University with the degree of Bachelor of Arts in Accountancy in 1998.

* *denotes an unofficial English translation of a Chinese name*

DIRECTORS' REPORT

The directors of the Company ("Directors") are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and trading of radial tire cords, bead wires and other wires. The Company acts as an investment holding company. The principal activities of the principal subsidiaries of the Company are set out in note 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and comprehensive income on page 77 of the annual report.

A final dividend of 15.0 HK cents per share for the year ended 31 December 2018 was paid to the shareholders of the Company during the year ended 31 December 2019.

The Board has recommended the payment of a final dividend of 15.0 HK cents (approximately RMB13.4 fen) per share for the financial year ended 31 December 2019 with the shareholders of the Company being given an option to elect to receive such proposed final dividend all in new shares, or all in cash, or partly in new shares and partly in cash (the "Scrip Dividend Scheme"). The proposed final dividend will be paid to the shareholders whose names appear on the register of members of the Company on Monday, 29 June 2020.

The Scrip Dividend Scheme is subject to (1) the approval of the proposed final dividend at the forthcoming annual general meeting; (2) The Stock Exchange of Hong Kong Limited ("Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant thereto; and (3) where necessary, the white wash waiver granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his/her delegate.

A circular containing full details of the Scrip Dividend Scheme together with the form of election will be sent out to the shareholders on or around Thursday, 9 July 2020. It is expected that the final dividend for the new shares or cash (as appropriate) will be dispatched to the shareholder on or around Tuesday, 4 August 2020.

DIVIDEND POLICY

On 28 December 2018, the Board adopted a dividend policy ("Dividend Policy") to provide stable and sustainable returns to the shareholders of the Company. According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account a number of factors including but not limited to:

(i) the general financial condition of the Group;

(ii) the Group's actual and future operations and liquidity position;

(iii) the Group's expected working capital requirements and future expansion plans;

(iv) the Group's debt to equity ratios and debt level;

(v) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(vi) the retained earnings and distributable reserves of the Company and each of the members of the Group;

(vii) the shareholders' and the investors' expectation and industry's norm;

(viii) the general market conditions; and

(ix) any other factors that the Board considers to be applicable from time to time.

The declaration and payment of dividend by the Company is subject to any restrictions under the Laws of Cayman Islands, the Bye-Laws of the Company and any applicable laws rules and regulations.

The Dividend Policy will be continuously reviewed from time to time. There can be no assurance from the Company that a dividend will be proposed or declared in any given period.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the section headed "Management Discussion and Analysis" on pages 6 to 14 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in China while the Company itself is listed on the Stock Exchange. The Group has complied with all the relevant laws and regulations in China and Hong Kong during the year ended 31 December 2019.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's environmental policies and performance for the year ended 31 December 2019 are set out in the section headed "2019 Environmental, Social and Governance Report" on pages 53 to 71 of this annual report.

PERMITTED INDEMNITY PROVISION

The Company's articles of association (the "Articles of Association") provides that every Director shall be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses as a result of any act or failure to act in carrying out his/her functions.

During the year the Company has maintained Directors' liability insurance.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 12 June 2020 to Wednesday, 17 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting to be held on Wednesday, 17 June 2020, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 11 June 2020.

The proposed final dividend for the year ended 31 December 2019 is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting to be held on Wednesday, 17 June 2020. The register of members of the Company will be closed from Wednesday, 24 June 2020 to Monday, 29 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for receiving the final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 23 June 2020.

DONATION

During the year under review, the Group did not make any charitable donations.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the consolidated financial statements, is set out on pages 179 and 180 of this annual report. This summary does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year ended 31 December 2019 are set out in notes 16 and 19 to the consolidated financial statements, respectively.

USE OF PROCEEDS

The net proceeds from the Company's offering of new shares at its listing on the Main Board of the Stock Exchange amounting to approximately HKD1,087 million are intended to be applied for the following purposes:

- approximately HKD550 million is intended for the expansion of the production capacity of the production facilities;
- approximately HKD70 million is intended for the installation of a manufacturing execution system (MES) and logistics management system;
- approximately HKD250 million is intended for implementing the overseas expansion strategies through acquisition of suitable business targets;
- approximately HKD180 million is intended for the set-up of international development departments; and
- the remaining balance of approximately HKD37 million is intended to be used as general working capital.

USE OF PROCEEDS – *CONTINUED*

Up to 31 December 2019, the Group has utilised approximately HKD698 million of the net proceeds and the details are as follows:

	Proposed uses of fund as stated in the Company's prospectus dated 8 December 2006	Actual utilized funds as at 31 December 2019	Balance of net proceeds as at 31 December 2019
	HKD'000	*HKD'000*	*HKD'000*
Expansion of the production capacity of the production facilities	550,000	550,000	–
Installation of a manufacturing execution system (MES) and logistics management system	70,000	17,930	52,070
Implementing the overseas expansion strategies through acquisition of suitable business targets	250,000	–	250,000
Set-up of international development departments	180,000	93,051	86,949
Working capital	37,000	37,000	–
Total	1,087,000	697,981	389,019

The remaining amount of approximately HKD389 million was placed in short term deposits with licensed banks in Hong Kong and the People's Republic of China. The Group intends to apply the use of proceeds in accordance with that as disclosed in the Company's prospectus dated 8 December 2006 (the "Prospectus").

The net proceeds from the placing and top-up subscription arrangement completed in September 2010 amounted to approximately HKD740,700,000. As at 31 December 2019, all the net proceeds were utilised for enhancing the production facilities of a non-wholly owned subsidiary of the Group and financing the working capital.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 31 to the consolidated financial statements. During the year ended 31 December 2019, 53,395,151 shares were issued on election of scrip in lieu of cash dividends pursuant to the Company's Scrip Dividend Scheme for the 2018 final dividend. Further details of the issue of scrip dividends are set out in the Company's circular dated 21 June 2019.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on pages 80 and 81 of this annual report and note 40 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserves available for distribution represent the share premium and contributed surplus net of retained losses which in aggregate amounted to approximately RMB739.7 million (2018: RMB775.8 million). Under the Companies Law, Cap. 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Articles of Association, dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2019 are set out in note 29 to the consolidated financial statements and the section headed "Management Discussion and Analysis" of this annual report.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors:

Mr. LIU Jinlan *(Chairman)*
Mr. LIU Xiang
Mr. TAO Jinxiang
Mr. ZHANG Yuxiao

Independent Non-executive Directors:

Mr. KOO Fook Sun, Louis
Mr. William John SHARP *(Vice Chairman)*
Ms. XU Chunhua

Pursuant to Article 87 of the Articles of Association, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Koo Fook Sun, Louis will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The biographical details of the Directors and senior management of the Group are set out on pages 15 to 17 of this annual report.

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Company considers that, as at the date of this annual report, all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years. Thereafter, the term will continue subject to termination by the Company by giving three months' prior written notice to the relevant Director.

Each of the independent non-executive Directors has signed a letter of appointment for a term of three years which is determinable by either party at any time by giving to the other not less than three months' prior written notice. Thereafter, the term shall continue subject to termination by either party by giving to the other not less than three months' prior written notice.

None of the Directors being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

RELATED PARTY TRANSACTIONS

Certain related party transactions were entered into by the Group during the year ended 31 December 2019, the details of which are set out in note 36 to the consolidated financial statements. None of these related party transactions constitutes connected transaction or continuing connected transaction which is required to be disclosed under the Listing Rules. Save as disclosed herein, no other related party transactions were entered into by the Group during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of such controlling shareholder's subsidiaries subsisted during the year ended 31 December 2019. There was also no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Director of Listed Companies ("Model Code") contained in the Listing Rules, were as follows:

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

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of issued share capital of the Company as at 31 December 2019 *(note 5)*
Liu Jinlan	Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 1)*	653,691,299	42.546%
Liu Xiang	Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 2)*	653,691,299	42.546%
Tao Jinxiang	Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 3)*	653,691,299	42.546%
Zhang Yuxiao	Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 4)*	653,691,299	42.546%
Koo Fook Sun, Louis	Beneficial owner	336,794	0.022%
William John Sharp	Beneficial owner	283,000	0.018%
Xu Chunhua	Beneficial owner	50,000	0.003%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – *CONTINUED*

(1) Long positions in shares, underlying shares and debentures of the Company – *CONTINUED*

Notes:

1. Mr. Liu Jinlan held 13,200,000 shares in his own name as at 31 December 2019. Mr. Liu Jinlan owned 100% of the issued share capital of Great Trade Limited for and on behalf of the 98 Owners (as defined in the Prospectus) (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement (as defined in the Prospectus). As at 31 December 2019, Great Trade Limited held 250,148,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Liu Jinlan was deemed to be interested in the shares held by Great Trade Limited. Mr. Liu Jinlan was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

2. Mr. Liu Xiang held 15,732,299 shares in his own name as at 31 December 2019. Mr. Liu Xiang owned 100% of the issued share capital of In-Plus Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2019, In-Plus Limited held 143,614,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Liu Xiang was deemed to be interested in the shares held by In-Plus Limited. Mr. Liu Xiang was also a party to the Five Parties' Agreement, and was deemed to be interested in shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

3. Mr. Tao Jinxiang held 5,064,000 shares in his own name as at 31 December 2019. Mr. Tao Jinxiang owned 100% of the issued share capital of Perfect Sino Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2019, Perfect Sino Limited held 114,259,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Tao Jinxiang was deemed to be interested in the shares held by Perfect Sino Limited. Mr. Tao Jinxiang was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

4. Mr. Zhang Yuxiao held 2,267,000 shares in his own name as at 31 December 2019. Mr. Zhang Yuxiao owned 100% of the issued share capital of Power Aim Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2019, Power Aim Limited held 42,725,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Zhang Yuxiao was deemed to be interested in the shares held by Power Aim Limited. Mr. Zhang Yuxiao was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

5. The percentages disclosed above were based on the total number of issued shares of the Company as at 31 December 2019, i.e. 1,536,436,223 shares.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – *CONTINUED*

(2) Long position in shares and underlying shares of the associated corporation of the Company

Name of Director	Capacity	Associated corporation	Number of ordinary shares in associated corporation	Approximate percentage of registered capital of the associated as at 31 December 2019
Zhang Yuxiao	Beneficial Owner	Jiangsu Xingda Steel Tyre Cord Co., Ltd.	1,114	0.000065%

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors and Chief Executive's interests and Short Positions in Shares, Underlying Shares and Debentures" and for the share award scheme adopted by the Company, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by means of an acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate. Details of movements of the shares granted under the share award scheme for the year ended 31 December 2019 are set out in note 32 to the consolidated financial statements.

DEED OF NON-COMPETITION

On 4 December 2006, (i) Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Mr. Hang Youming, Great Trade Limited, In-Plus Limited, Perfect Sino Limited, Power Aim Limited and Wise Creative Limited (together as a controlling shareholder), (ii) the then Directors, and (iii) the 98 Owners (as defined in the Prospectus) (not being controlling shareholders) (collectively the "Covenantors"), as Covenantors, entered into a deed of non-competition ("Non-competition Deed") in favour of the Company pursuant to which each of the Covenantors has undertaken to the Company (for itself and for the benefits of its subsidiaries) that, among other matters, it shall not, and shall procure that his/her/its associates will not, directly or indirectly be interested or involved or engaged in or acquire or hold any right or interest in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business of the Group. Details of the terms of the Non-competition Deed have been set out in the paragraph headed "Deed of non-competition entered into by the controlling shareholder" under the section headed "Controlling shareholder and substantial shareholders" of the Prospectus.

The Company has received the annual declaration from Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Mr. Hang Youming, Great Trade Limited, In-Plus Limited, Perfect Sino Limited, Power Aim Limited and Wise Creative Limited (together as a controlling shareholder) in respect of their respective compliance with the terms of the Non-competition Deed.

The Directors have confirmed that they have not engaged in any business which competes or is likely to compete with the business of the Group, and the Directors are not aware that any of the Covenantors or their respective associates has engaged in any business which competes or is likely to compete with the business of the Group.

The independent non-executive Directors have reviewed the annual declaration and are not aware that any of the Covenantors or their respective associates has engaged in any business which competes or is likely to compete with the business of the Group.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2019, the interests of the persons (other than the Directors or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions and short positions in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of ordinary shares	Long position/ Short position	Approximate percentage of issued share capital of the Company as at 31 December 2019 *(note 4)*
Great Trade Limited	Beneficial owner	250,148,000	Long position	16.28%
In-Plus Limited	Beneficial owner	143,614,000	Long position	9.35%
Perfect Sino Limited	Beneficial owner	114,259,000	Long position	7.44%
Hang Youming	Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 1)*	653,691,299	Long position	42.55%
JP Morgan Chase & Co.	Interests of controlled corporations, approved lending agent *(note 2)*	74,827,368 1,550,447 72,957,068	Long position Short position Lending pool	4.87% 0.10% 4.75%
FIL Limited	Interests of controlled corporations *(note 3)*	107,551,624	Long position	7.00%
Pandanus Associates Inc.	Interests of controlled corporations *(note 3)*	107,551,624	Long position	7.00%
Pandanus Partners L.P.	Interests of controlled corporations *(note 3)*	107,551,624	Long position	7.00%
Brown Brothers Harriman & Co.	Agent	77,361,735 77,361,735	Long position Lending pool	5.04% 5.04%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO – *CONTINUED*

Long positions and short positions in shares and underlying shares of the Company – *CONTINUED*

Notes:

1. As recorded in the register of substantial shareholders maintained by the Company, Mr. Hang Youming held 21,617,000 shares in his own name as at 31 December 2019. Mr. Hang Youming owned 100% of the issued share capital of Wise Creative Limited for and on behalf of the 98 Owners (as defined in the Prospectus) (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement (as defined in the Prospectus). As at 31 December 2019, Wise Creative Limited held 45,065,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Hang Youming was deemed to be interested in the shares held by Wise Creative Limited. Mr. Hang Youming is also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao) were interested for the purpose of Part XV of the SFO.

2. For the purpose of Part XV of the SFO, JP Morgan Chase & Co. was deemed to be interested in the 1,870,300 shares in the Company and short positions in the 1,550,447 shares in the Company which its controlled corporations were interested in as at 31 December 2019. Further, JPMorgan Chase & Co. was also interested in 72,957,068 shares in lending pool.

3. Pandanus Associates Inc. owned 100.00% of the issued share capital of Pandanus Partners L.P., which in turn owned 40.07% of the issued share capital of FIL Limited. FIL Limited owned 100% of the issued share capital of FIL Asia Holdings Pte Limited, which in turn owned (i) 100% of the issued share capital of FIL Investment Management (Singapore) Limited; and (ii) 100% of the issued share capital of FIL Investment Management (Hong Kong) Limited. As at 31 December 2019, FIL Investment Management (Singapore) Limited and FIL Investment Management (Hong Kong) Limited held 95,362,624 and 12,189,000 shares in the Company respectively. For the purpose of Part XV of the SFO, Pandanus Associates Inc., Pandanus Partners L.P., FIL Limited and FIL Asia Holdings Pte Limited are deemed to be interested in (i) the shares in the Company held by FIL Investment Management (Singapore) Limited; and (ii) FIL Investment Management (Hong Kong) Limited.

4. The percentages disclosed above were based on the total number of issued shares of the Company as at 31 December 2019, i.e. 1,536,436,223 shares.

Save as aforesaid and as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has not been notified of any interest or short position in the shares or underlying shares of the Company as at 31 December 2019 which are required to be recorded in the register maintained under section 336 of the SFO.

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

Guided by the principle of maximizing return for shareholders and without material prejudice to the Company's working capital and gearing ratio, the Company repurchased 15,113,000 shares through the Stock Exchange at a total consideration, after expenses, of approximately RMB28.2 million for the year ended 31 December 2019. Such shares have been cancelled up to the date of this annual report. Details of repurchases are as follows:

	Number of	Average repurchase price per share		Aggregate consideration paid	
	ordinary shares	Highest	Lowest		*Equivalent to*
Month of repurchase	**repurchased**	***HK$***	***HK$***	***HK$Million***	***RMB Million***
September 2019	1,242,000	2.09	2.07	2.6	2.4
October 2019	6,422,000	2.10	2.08	13.5	11.5
November 2019	5,421,000	2.14	2.10	11.6	10.4
December 2019	2,028,000	2.14	2.11	4.4	3.9
Total	15,113,000			32.1	28.2

Save as disclosed above and apart from the Company's shares purchased under the share-award scheme of the Company, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Department on the basis of their merit, qualifications and competence and reviewed by the executive Directors. The Company operates a share award scheme, details of which are set out in note 32 to the consolidated financial statements.

The ordinary remuneration of the Directors is subject to approval by the shareholders of the Company in general meetings. The Remuneration and Management Development Committee (the "Remuneration Committee") comprising two independent non-executive Directors has been established to make recommendations to the board of Directors on the Group's policy and structure for all remuneration of Directors and senior management of the Group. The Remuneration Committee will consult the chairman of the board of Directors in respect of their recommendations in determining the remuneration of the Directors and senior management of the Group. No individual Director would be involved in deciding his/her own remuneration.

EMOLUMENT POLICY – *CONTINUED*

In determining or recommending the remuneration packages of the Directors and senior management, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. In reviewing and approving performance-based remuneration, reference will be made by the Remuneration Committee to the Group's corporate goals and objectives resolved by the board of Directors from time to time.

The recommended remuneration package comprises salaries, directorship fees, bonuses, discretionary bonuses, benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of office or appointment.

HIGHEST PAID INDIVIDUALS

The relevant information of the five individuals with the highest remuneration in the Group for the year ended 31 December 2019 is disclosed in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group contributed approximately 35% of the Group's total revenue and the largest customer contributed approximately 8% of the Group's total revenue for the year ended 31 December 2019. The five largest suppliers represented approximately 88% of the Group's total purchases and the largest supplier represented approximately 82% of the Group's total purchases for the year ended 31 December 2019.

None of the Directors, their close associates or any shareholders of the Company which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient prescribed public float under the Listing Rules.

AUDITOR

Messrs. Deloitte Touche Tohmatsu will retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
LIU Jinlan
Chairman

8 May 2020

CORPORATE GOVERNANCE PRACTICES

To promote high level of transparency, accountability and independence in the interests of the shareholders, the Company is committed to maintaining high standards of corporate governance.

The Company has applied the principles in and complied with the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2019, except for the following:–

Code provision A.2.1 provides, among other things, that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The chairman of the Board, Mr. Liu Jinlan, provides overall leadership for the Board and takes the lead to ensure that the Board acts in the best interest of the Company. The Company does not have the position of chief executive and the daily operation of the Group is assigned among the executive Directors. In addition to the fact that the responsibilities of the chairman are shared by the remaining executive Directors, the Executive Committee of the Company which has been established for determining, approving and overseeing the day-to-day control over the allocation of the Group's resources also segregates the duties of Mr. Liu Jinlan.

In compliance with the code provisions of the Corporate Governance Code, the Company has set up the Audit Committee, the Remuneration and Management Development Committee and the Nomination Committee, and the Board has been responsible for performing the corporate governance duties as set out in the code provisions.

CORPORATE GOVERNANCE REPORT

THE BOARD

Composition and responsibilities

The Board is responsible for formulation and execution of the Company's long term strategies and determination of the direction of future development, setting of financial and operational targets, approval of material transactions and significant investment as well as evaluation of the performance of the senior management. The Board has reserved its decision over the major acquisitions and disposals, annual budgets, interim and annual results, recommendations on directors' appointment or re-appointment, approval of major capital investment and other significant operational and financial matters of the Group. The Board has to act in the best interest of the Company and its shareholders as a whole.

The Board is also responsible for performing the relevant functions set out in the Corporate Governance Code, including developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, reviewing and monitoring the code of conduct and compliance manual applicable to the Directors and employees, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code (as applicable) and disclosures in the Company's corporate governance report. The Board, under the leadership of its chairman, adopted appropriate efforts and measures to ensure the Company's corporate governance policies and practices, training and continuous professional development of the Directors and company secretary are in compliance with the code provisions of the Corporate Governance Code.

In addition to providing sufficient time and attention to the affairs of the Group, all Directors disclosed to the Company the number and nature of the offices held in other public companies and updated the Company on any subsequent changes in a timely manner.

The Board currently comprises seven members, including four executive Directors and three independent non-executive Directors. The executive Directors are Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao. The independent non-executive Directors are Mr. Koo Fook Sun, Louis, Mr. William John Sharp and Ms. Xu Chunhua. The biographical details of the Directors are set out on pages 15 to 17 of the annual report. Mr. Liu Jinlan, being the chairman of the Board and an executive Director, is the father of Mr. Liu Xiang, an executive Director. Save for the aforesaid, there is no financial, business, family or other material or relevant relationships among the members of the Board.

The executive Directors are responsible for business management of the Group, formulation and implementation of business strategies, daily business decision and co-ordination of overall business operation. Mr. Liu Jinlan and the other three executive Directors, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao, have many years of experience in the radial tire cord manufacturing industry.

THE BOARD – *CONTINUED*

Composition and responsibilities – *CONTINUED*

The independent non-executive Directors, who possess wide expertise, bring relevant experience and knowledge in various aspects to the Board. The Company has received confirmation from each independent non-executive Director about his/her independence as set out in Rule 3.13 of the Listing Rules and considers each of them to be independent. One of the independent non-executive Directors possesses appropriate professional qualifications in accounting or related financial management expertise as required under the Listing Rules.

A list of directors and their role and function has been uploaded and maintained on the websites of the Company and the Stock Exchange.

Meetings

The Board will meet regularly at least four times a year at approximately quarterly intervals. For the year ended 31 December 2019, the Board held four meetings to discuss and approve various important matters. The table below sets out the attendance of each Director at the AGM and the meetings of the Board and other Board committees held during the year ended 31 December 2019:

	AGM	Board	Audit Committee	Remuneration and Management Development Committee	Nomination Committee	Executive Committee	Manufacturing and Operations Committee	Investment and International Development Committee
Executive Directors								
Mr. LIU Jinlan	1/1	4/4	N/A	N/A	1/1	1/1	1/1	1/1
Mr. LIU Xiang	1/1	4/4	N/A	N/A	N/A	N/A	1/1	N/A
Mr. TAO Jinxiang	1/1	4/4	N/A	N/A	N/A	N/A	1/1	1/1
Mr. ZHANG Yuxiao	1/1	4/4	N/A	N/A	N/A	1/1	N/A	1/1
Independent non-executive Directors								
Mr. KOO Fook Sun, Louis	1/1	4/4	3/3	2/2	1/1	N/A	N/A	N/A
Mr. William John SHARP	0/1	4/4	3/3	2/2	N/A	N/A	N/A	N/A
Ms. XU Chunhua	0/1	4/4	3/3	N/A	1/1	N/A	N/A	N/A

THE BOARD – *CONTINUED*

Meetings – *CONTINUED*

The management of the Company shall submit all relevant materials for the discussion in the meeting in advance. Notice convening the meeting shall be sent to the members of the Board or the Board committees at least fourteen days before the Board meeting or no later than seven working days before the date of the Board committee meeting so that they can make necessary arrangement to attend the meeting either in person or by telephone. Documents and all relevant materials required for the meeting shall be sent to the members of the Board or the Board committees at least three days (or other agreed period) in advance, which ensures enough time is given to them to review the documents and get prepared for the meeting.

The matters processed by the Board in the meetings are all recorded and kept pursuant to relevant laws and regulations. All Directors have full access to the minutes and papers of the Board meetings and Board committee meetings and all other relevant information of the Group. Minutes of the Board meetings and Board committee meetings recorded in sufficient detail the matters considered in the meetings and the decisions reached. Draft and final versions of minutes of the meetings of the Board and Board committees are sent to all Directors or committee members for comments and records respectively within a reasonable time after the relevant meeting. The Directors have separate and independent access to the company secretary of the Company at all times for discussion. The Directors are also entitled to receive independent professional advice in performing their Directors' duties at the Company's expenses.

During the year, a meeting was held between the Chairman and the independent non-executive Directors. The purpose of the meeting was to discuss the performance of the Board members and the management.

Appointment and Re-election

Each of the independent non-executive Directors has signed a letter of appointment for a term of three years which is determinable by either party at any time by giving to the other not less than three months' prior written notice. Thereafter, the term shall continue subject to termination by either party by giving to the other not less than three months' prior written notice. In 2019, all independent non-executive Directors have served the Company for more than 9 years and their further re-appointment shall be subject to a separate resolution to be approved by shareholders in accordance with the requirements under Code Provision A.4.3 of the Corporate Governance Code.

Pursuant to Article 87 of the Articles of Association, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. KOO Fook Sun, Louis will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

THE BOARD – *CONTINUED*

Training and continuous professional development

The Directors acknowledge the need to develop and refresh their knowledge and skills by participating in training and continuous professional development courses. During the year, the Company arranged and provided suitable in-house training courses for all Directors to update them about the amendments to the Listing Rules and the proposals on certain corporate governance requirements. The training records kept and provided by the Directors in the year 2019 are as follows:–

	Participating in in-house training courses
Executive Directors	
Mr. LIU Jinlan	Yes
Mr. LIU Xiang	Yes
Mr. TAO Jinxiang	Yes
Mr. ZHANG Yuxiao	Yes
Independent non-executive Directors	
Mr. KOO Fook Sun, Louis	Yes
Mr. William John SHARP	Yes
Ms. XU Chunhua	Yes

During the year ended 31 December 2019, the Company updated all Directors on the Company's monthly performance, position and prospects by providing them with financial data including monthly management accounts and production plan.

The Company provided all Directors with the latest version of "A Guide on Directors' Duties" issued by the Companies Registry of Hong Kong and "Guidelines for Directors" issued by the Hong Kong Institute of Directors. For the independent non-executive Directors, they have been provided with the "Guide for Independent Non-executive Directors"published by the Hong Kong Institute of Directors.

Indemnification of directors and officers

The Company has arranged for appropriate Directors' and officers' liability insurance throughout the year ended 31 December 2019 to indemnify the Directors and officers for their liabilities arising out of corporate activities. The insurance coverage and premium is reviewed on an annual basis.

BOARD COMMITTEES

As part of good corporate governance practice, the Board has established six committees, namely the Audit Committee, the Remuneration and Management Development Committee, the Nomination Committee, the Executive Committee, the Manufacturing and Operations Committee and the Investment and International Development Committee, and two sub-committees under the Manufacturing and Operations Committee, namely the Manufacturing Sub-committee and the Operations Sub-committee, with respective terms of reference and the Board has delegated certain authorities to the committees. To further reinforce independence, the Audit Committee and the Remuneration and Management Development Committee all consist of independent non-executive Directors only.

Audit Committee

The Company established the Audit Committee on 23 August 2005. The Audit Committee consists of three independent non-executive Directors, namely Mr. William John Sharp, Mr. Koo Fook Sun, Louis and Ms. Xu Chunhua. The chairman of the Audit Committee is Mr. Koo Fook Sun, Louis.

The major roles and functions of the Audit Committee are summarized as follows:

(a) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(c) to develop and implement policy on the engagement of an external auditor to supply non-audit services;

(d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and to review significant financial reporting judgements contained in them;

(e) to review the Company's financial controls, internal control and risk management systems;

(f) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

(g) to review the financial and accounting policies and practices of the Company and its subsidiaries;

(h) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

BOARD COMMITTEES – *CONTINUED*

Audit Committee – *CONTINUED*

(i) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(j) to report to the Board on the matters set out in the terms of reference for the Audit Committee; and

(k) to review the employees' concerns of any possible improprieties in financial reporting, internal control or other matters and to ensure appropriate follow-up actions were properly took up, and to establish a whistleblowing policy and system for employees and those who deal with the Company or its subsidiaries to raise concern about possible improprieties.

During the year ended 31 December 2019, the Audit Committee had three meetings and out of these, two meetings were held with the external auditor. During the meetings held, the Audit Committee had performed the following work:

- reviewing the audited financial statements for the year ended 31 December 2018 and the unaudited financial statements for the six months ended 30 June 2019;
- reviewing and discussing the management letter issued by the external auditor;
- recommending the Board on the remuneration and terms of engagement of the external auditor in respect of the auditing services for the year ended 31 December 2019;
- reviewing any improprieties raised by the employees under the whistleblowing system regularly and ensuring proper independent investigation was followed; and
- reviewing the risk management and internal control systems of the Group.

On 24 March 2020, the Audit Committee met with the external auditor to review the management accounts for the year ended 31 December 2019. On 8 May 2020, the Audit Committee reviewed the audited financial statements for the year ended 31 December 2019.

The terms of reference of the Audit Committee have been published on the websites of the Company and the Stock Exchange.

BOARD COMMITTEES – *CONTINUED*

Remuneration and Management Development Committee

The Company established the remuneration committee on 23 August 2005, which was then re-designated as the Remuneration and Management Development Committee (the "Remuneration Committee") on 30 September 2005. The major roles and functions of the Remuneration Committee are to evaluate the performance of all Directors and senior management of the Group and make recommendations to the Board on the Group's corporate goals, policy and structure for all remuneration of Directors and senior management, to make recommendations of remuneration packages of executive Directors and senior management, to make recommendations of remuneration for non-executive Directors to the Board, to ensure that no Director or any of his associates is involved in deciding his own remuneration and to monitor the operation of the share award scheme of the Company. The purposes of the share award scheme are to encourage and retain employees to work with the Group and to provide incentive for them to achieve performance goals with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the employees directly to the shareholders of the Company through ownership of its shares.

The Company has adopted the model whereby the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of their office(s) or appointment(s).

The Remuneration Committee consists of two independent non-executive Directors, namely Mr. William John Sharp and Mr. Koo Fook Sun, Louis. The chairman of the Remuneration Committee is Mr. William John Sharp.

The Remuneration Committee met two times during the year ended 31 December 2019. A summary of work performed by the Remuneration Committee during the year is set out below:

- recommending to the Board on the remuneration packages of the Directors and senior management of the Group for the year ended 31 December 2018;
- evaluating and making recommendations to the Board on the remuneration policy of the Directors and senior management of the Group for the year ended 31 December 2019 with reference to the remuneration package of the Board in 2018 and the Group's estimated financial performance for the year ended 31 December 2019;
- approving the granting of share awards to the employees of the Group under the share award scheme of the Company;
- approving the vesting of share awards to the employees of the Group upon the achievement of financial performance target of the Group; and
- proposing to engage an external consultant in year 2021 to conduct a study for the purpose of evaluating the remuneration of the directors and senior management of the Group.

BOARD COMMITTEES – *CONTINUED*

Remuneration and Management Development Committee – *CONTINUED*

Subsequent to the year ended 31 December 2019, the Remuneration Committee held another meeting on 28 February 2020. At such meeting, the Remuneration Committee:

- considered the performance of the executive Directors and the Group and the total remuneration and compensation of the executive Directors for the year ended 31 December 2019;

- evaluating and making recommendations to the Board on the remuneration policy of the executive Directors and senior management of the Group for the year ending 31 December 2020 with reference to the remuneration package of the Directors in 2019 and the Group's estimated financial performance for the year ending 31 December 2020;

- resolved that the total remuneration and compensation of the Directors and senior Management paid for the year ended 31 December 2019 was approved, ratified and recommended to the Board; and

- approving the vesting of share awards to the employees of the Group upon the achievement of financial performance target of the Group in the year 2019.

The terms of reference of the Remuneration Committee have been published on the websites of the Company and the Stock Exchange.

Details of annual remuneration paid to members of key management fell within the following bands:

	Number of individuals
RMB1,000,000 or below	8
RMB1,000,001–RMB2,000,000	4
RMB4,000,001–RMB5,000,000	1
RMB5,000,001–RMB6,000,000	1
RMB7,000,001–RMB8,000,000	2
RMB11,000,001–RMB12,000,000	1

BOARD COMMITTEES – *CONTINUED*

Nomination Committee

The Company established the Nomination Committee on 23 August 2005. The Nomination Committee consists of three Directors, namely Mr. Liu Jinlan, an executive Director, Mr. Koo Fook Sun, Louis and Ms. Xu Chunhua, both being independent non-executive Directors. The chairman of the Nomination Committee is Mr. Liu Jinlan.

The major roles and functions of the Nomination Committee are summarised as follows:–

(a) to evaluate the credentials of the candidates for directorship, to make recommendations to the Board regarding candidates to fill vacancies on the Board and to ensure that no Director or any of his associates is involved in approving his/her or any of his/her associates' nomination;

(b) to review the structure, size and composition (including the skills, knowledge and experience required) of the Board regularly;

(c) to carry out the process of selecting and recommending candidates for directorship with reference to the selection guidelines which include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills;

(d) to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for Directors, in particular the chairman of the Company;

(e) to assess the independence of independent non-executive Directors, having regards to the requirements under the Listing Rules; and

(f) to review its own performance, constitution and terms of reference on a regular basis.

The terms of reference of the Nomination Committee have been published on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2019, the Nomination Committee reviewed the structure, size and composition of the Board in the meeting held. There was no nomination of Directors to fill Board vacancies in the year ended 31 December 2019.

BOARD COMMITTEES – *CONTINUED*

Nomination Committee – *CONTINUED*

Board Diversity Policy

The Company is committed to equality of opportunity in all aspects of its business. The Group adopted the Board Diversity Policy (the "Policy") in September 2013. The Company embraces the benefits of having a diverse Board can strengthen the performance of the Board and promote better corporate governance.

"Board Diversity" can be achieved through consideration of a number of factors and measure objectives, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. In informing its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time.

During the year ended 31 December 2019, the Nomination Committee members have reviewed the structure, size, composition and diversity of the Board and the Policy to ensure its effectiveness.

Nomination Policy

According to the Nomination Policy adopted by the Company, the Nomination Committee shall nominate suitable candidates to the Board. The selection criteria used in assessing the suitability of a candidate include:

a. the candidate's reputation for integrity;

b. the candidate's accomplishment and experience in the radial tire cord industry;

c. the candidate's commitment in respect of available time and relevant interest;

d. the candidate's diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

e. whether the candidate is in compliance with the criteria of independence (in respect of an appointment as an independent non-executive Director) under the Listing Rules; and

f. any other factors that the Nomination Committee considers appropriate in exercising its discretion to nominate any person to be a Director.

BOARD COMMITTEES – *CONTINUED*

Nomination Committee – *CONTINUED*

Nomination Policy – CONTINUED

The Nomination Committee shall identify and select candidates as Directors pursuant to the criteria as set out above, and shall make recommendations for the Board's consideration and approval. In relation to the nomination of an independent non-executive Director, the Nomination Committee shall also consider and assess the candidate's independence in accordance with the Corporate Governance Code and the Listing Rules. The Nomination Committee may use any process it deems appropriate to evaluate the candidates including assessment on the personal information and any additional written information and documents submitted by the candidates, if considered necessary.

A shareholder can serve a notice to the Company Secretary within the lodgement period of its intention to propose a resolution to elect a certain person as a Director, without the Board's recommendation or the Nomination Committee's nomination, other than those candidates set out in the shareholder circular in accordance with the Company's Articles of Association. The details of procedures for shareholders to propose a person for election as a director are set out in the section headed "Procedures for shareholders to propose a person for election as a Director" of this report. The particulars of the candidates so proposed will be sent to all shareholders for information by a supplementary circular.

For proposing candidates including retiring Director to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

Executive Committee

The Company established the Executive Committee on 30 September 2005. The principal functions and responsibilities of the Executive Committee are to determine, approve and oversee the day-to-day control over the allocation of the resources of the Group. The Executive Committee consists of two Directors, namely Mr. Liu Jinlan and Mr. Zhang Yuxiao. The chairman of the Executive Committee is Mr. Zhang Yuxiao. The Executive Committee had one meeting during the year ended 31 December 2019.

Manufacturing and Operations Committee

The Company established the Manufacturing and Operations Committee (with the Manufacturing Sub-committee and the Operations Sub-committee) on 30 September 2005. The principal functions and responsibilities of the Manufacturing and Operations Committee and the respective sub-committees are to consider, approve and oversee the Group's day-to-day manufacturing and operations related strategic development and allocations of resources and make recommendations on new initiatives to the Board for approval. The Manufacturing and Operations Committee consists of three Directors, namely Mr. Liu Jinlan, Mr. Liu Xiang and Mr. Tao Jinxiang. The chairman of the Manufacturing and Operations Committee is Mr. Liu Jinlan. The Manufacturing and Operations Committee had one meeting during the year ended 31 December 2019.

BOARD COMMITTEES – *CONTINUED*

Investment and International Development Committee

The Company established the Investment and International Development Committee on 30 September 2005. The principal functions and responsibilities of the Investment and International Development Committee are to consider, approve and oversee the Group's international market development and investment related initiatives and allocations of resources, and make recommendations on new development initiatives to the Board for approval. The Investment and International Development Committee consists of three Directors, namely Mr. Liu Jinlan, Mr. Zhang Yuxiao and Mr. Tao Jinxiang. The chairman of the Investment and International Development Committee is Mr. Zhang Yuxiao. The Investment and International Development Committee had one meeting during the year ended 31 December 2019.

COMPANY SECRETARY

The Company Secretary, Mr. Cheng Kam Ho, took no less than 15 hours of relevant professional training for the year ended 31 December 2019. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and his biography is set out in the section headed "Directors and Senior Management" on page 17 of this annual report. For the year under review, Mr. Cheng provided his working report to the chairman of the Board, Mr. Liu Jinlan, directly. Mr. Cheng also reported to the Board members on the amendments to the Listing Rules and corporate governance practices particularly relating to director's duties and responsibilities in a timely manner.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum of Association and Articles of Association in the year ended 31 December 2019. A copy of an up-to-date consolidated version of the Memorandum of Association and Articles of Association has been uploaded and maintained on the websites of the Company and the Stock Exchange.

SHAREHOLDERS RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

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

SHAREHOLDERS RIGHTS – *CONTINUED*

Procedures for shareholders to put forward proposals at a general meeting

Shareholders may suggest proposals relating to the Company to be discussed at a general meeting by sending written requisition to the Board or the company secretary of the Company and following the procedures set out in the paragraph headed "Procedures for shareholders to convene an extraordinary general meeting" above to convene an extraordinary general meeting for any business specified in such written requisition.

The contact details of the Board and the company secretary of the Company are as follows:

Address: Unit S03, 7/F, Low block, Grand Millennium Plaza, 181 Queen's Road Central, Central, Hong Kong
Fax: 852-2120 5207

Procedures for shareholders to propose a person for election as a director

Subject to applicable laws and regulations, including Companies Law, Cap.22 (as revised and amended) of the Cayman Islands and the Listing Rules, and the Memorandum of Association and Articles of Association of the Company as amended from time to time, the Company may by ordinary resolution in general meeting elect any person to be a director of the Company either to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. A shareholder of the Company may propose a person for election as a director of the Company by lodging a written notice to that effect at the head office and principal place of business of the Company in Hong Kong for the attention of the Company Secretary or at the branch register of members of the Company.

In order for the Company to inform shareholders of the Company of that proposal, the written notice must state the full name of the person proposed for election as a director of the Company, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The minimum length of the period during which such a written notice is given shall be at least seven days and that (if the notice is submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgement of such a written notice shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may direct their queries to the Board and may at any time make a request for the Company's information to the extent such information is publicly available through the company secretary of the Company whose contact details are as follows:

Address: Unit S03, 7/F, Low block, Grand Millennium Plaza, 181 Queen's Road Central, Central, Hong Kong
Fax: 852-2120 5207

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges the responsibilities of overseeing the preparation of the financial statements for the year ended 31 December 2019, which give a true and fair view of the state of affairs of the Group for that year. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on the on-going concern basis. The statement of the external auditor about their reporting responsibilities is set out in the Independent Auditor's Report on pages 72 to 76 of this annual report.

AUDITOR'S REMUNERATIONS

For the year ended 31 December 2019, the Group paid approximately RMB1,955,000 and RMB361,000 to the external auditor in respect of audit services and non-audit services, respectively. The non-audit services provided by the external auditor during the year were for performing review on the interim financial statements of the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

In order to facilitate and implement the risk control effectively, the risk management policies and procedures were designed and approved by the Board. The risk management covers four aspects including strategic, financial, operational and compliance controls. According to the adopted policies, the Board delegated the Audit Committee to assess the risk management and internal control systems on an on-going basis (at least annually) to ensure they are effective, efficient and adequate. The results of the assessment would be passed to the Board for discussion and review.

As at the date of the report, the Audit Committee and Board have assessed the risk management and internal controls of the Group for the year ended 31 December 2019. The assessment result reflects that no significant weakness was found in the risk management system and internal control system of the Group and the risk management and internal control systems are effective and adequate.

The Board acknowledges that it is responsible for the Group's systems of internal control and risk management and reviewing their effectiveness, and is committed to the ongoing development of an effective internal control system to safeguard assets against unauthorized use, to ensure the maintenance of proper accounting records for the provision of reliable financial information and to enhance risk management and compliance with applicable laws and regulations. The Group has adopted a set of internal control procedures and policies to safeguard the Group's assets and to ensure the reliability of financial reporting. The internal control systems are designed to ensure that the financial and operational functions, compliance control, asset management and risks management functions are in place and are functioning effectively. In order to monitor the systems effectively, the Group established an internal audit department in January 2007. The internal audit department is responsible for performing regular reviews on the internal control systems of the Group to provide reasonable assurance on the effectiveness, soundness, adequacy and completeness of the Group's internal control systems.

RISK MANAGEMENT AND INTERNAL CONTROL – *CONTINUED*

In addition to the internal audit department, the Group also engaged an independent professional body to assist in assessing and reviewing the Group's internal control system on a regular basis with an aim to ensure sufficient resources are employed and people with adequate qualification and experience take part in the internal control systems review. The Board will continue to conduct reviews on the internal control systems and will take all necessary measures to safeguard the Group's assets and the interests of shareholders, customers and employees.

Process used to identify, evaluate and manage significant risks

The first step of the risk assessment process is that the responsible personnel of the operating units should be responsible to ascertain and identify the risk events relating to the operating units from the perspective of the different risk categories. After that, the identified risks would be ranked and classified to different risk levels where reference would be made to the potential impact upon the Group and the likelihood of occurrence of the risk concerned. Those identified risks with different risk levels are recorded in the risk register. The well-defined risk monitoring plan with detailed steps of action and timing of implementation clearly stated is designed by the responsible personnel of each operating unit and then finally submitted to the Board for review and approval.

Main features of Risk Management and Internal Control Systems

The establishment of a risk register is the main feature of the risk management and internal control systems of the Group. The risk register is used to record the identified risks for the management to keep track and evaluate on such risks. The responsible personnel of the operating units regularly update the risk register and risk monitoring plan on an on-going basis to ensure that all key risks faced by the Group are effectively handled by the Group. The internal control systems and procedures would also be regularly evaluated by the Audit Committee and the Board to ensure that the identified risks are handled in an efficient manner.

The Group adopted an ongoing risk assessment approach to identify and assess the key inherent risks that affect the achievement of its objectives. The assessment of risks level refers to the likelihood of occurrence of the risk concerned and the potential impact upon the Group. The likelihood of risk occurrence which can be classified into five classes including: Rare (1), Unlikely (2), Possible (3), Likely (4) and Almost Certain (5). The potential impact upon the Group can be classified into five classes: Insignificant (1), Minor (2), Moderate (3) Major (4) and Catastrophic (5). Based on different levels of likelihood of occurrence of the risk concerned and the potential impact upon the Group, the Group would decide on the level of attention and effort required to monitor the identified risks.

RISK MANAGEMENT AND INTERNAL CONTROL – *CONTINUED*

Risks handling approach

All business units are obligated to design the risk monitoring plans and to carry out the actions required to avoid/mitigate/transfer the risks in accordance with the priority list of the risks identified and assessed. The Board acknowledges that the risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Process used to review the effectiveness of the Risk Management & Internal Control Systems and to resolve material internal control defects

In order to comply with the Code Provision C.2 of the Corporate Governance Code, the enterprise risk assessment and internal control systems review are conducted by the Group during the year ended 31 December 2019. The four aspects of risk assessment and control systems including strategic, financial, operational and compliance are reviewed by Audit Committee and Board. Both the Audit Committee and the Board are satisfied that there has been no major and significant deficiency nor defects noted in the areas of the Group's risk management and internal controls systems. The Board considered that the effectiveness of both risk management system and internal control system are ensured.

Procedures and internal controls for the handling and dissemination of inside information

The Company established the Policy and Procedures on Disclosure of Inside Information in order to handle and disseminate inside information. The Policy and Procedures on Disclosure of Inside Information provided the guidelines on:

1. the officers' obligations;

2. preservation of confidentiality of inside information before it is fully disclosed to the public;

3. handling of media speculations, market rumours and analysts' report;

4. circumstances that disclosure is prohibited;

5. disclosure of inside information to the public; and

6. communications with media and investors.

The officers of the Company must take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement. The officers are required to notify the Executive Committee about any possible inside information which will in turn notify the Board as soon as reasonably practicable to decide on the appropriate prompt actions that should be taken with the aid of the legal advice provided by the independent legal adviser.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. After having made specific enquiry with all Directors, the Company has received confirmations from all Directors that they have complied with the required standards set out in the Model Code during the year ended 31 December 2019.

The Company has also adopted procedures on terms no less exacting than the Model Code in respect of the securities transactions of the employees who are likely to be in possession of unpublished inside information.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company values its relationship with investors and shareholders and communications with them is a high priority. The Company announces interim and annual results as early as possible to update shareholders of the Group's financial performance in a timely manner. Apart from that, the Company has assigned its chief financial officer and the manager of investment department to be the spokespersons of the Company and be responsible for meeting with financial analysts and institutional investors.

In addition to the annual general meeting which is opened to all shareholders and members of the press, the Company holds analysts briefings through various channels to maintain communications between the shareholders and the management of the Company. During the year ended 31 December 2019, the management conducted numerous one-on-one meetings with, and company visits for, various institutional investors and shareholders to assist them to have a better understanding of the Group as well as the global steel cords industry through publicly disclosed information. Comments and advice from the investors were communicated to the management for providing responses in a timely manner. In order to strengthen the communication and interaction with the investors, the Company will continue to focus on enhancing communications with investors through various means by organizing more non-deal roadshows, company visits and meetings in the future.

On 28 May 2019, the Chairman of the Board, as well as Chairman of each of the Board Committees, or in their absence, at least one member of the respective Committees attended the annual general meeting to answer any questions raised by the shareholders. During that day, the external auditor was also available to answer any questions from the shareholders about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and the auditor's independence.

In order to promote effective communication with the public including investors and shareholders, the Company also maintains a website to disclose comprehensive information including the company presentations, press releases, announcements, circulars and annual and interim reports. The address of this website is http://www.irasia.com/listco/hk/xingda/index.htm.

2019 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Since the advancement into the tire cords industry in 1992, Xingda has become an outstanding and leading manufacturer of radial tire cords in Mainland China over nearly three decades of endeavor and development, and its products have got into the international market. In 2019, the Group's plant in Thailand was completed and trial production was commenced, helping the Group further expand its global strategy. By virtue of advanced production technology, strong research and development competences and strict quality supervision of the Group, business of Xingda continues to expand. Being a successful company, we are more obliged to fully fulfill our social responsibilities and make contribution to environmental protection. Therefore, Xingda continued to reduce emission, make full use of resources and give back to society while taking the initiative to guarantee the rights of shareholders.

The success of Xingda relies on the joint effort of all the employees, so the Group attaches great importance to benefits of the employees, learning and caring for their every need through various channels. As such, we formulated comprehensive policies to safeguard their rights, ensure safety of the working environment and provide adequate training and promotion opportunities for them. Xingda believes that excellent corporate culture, good working environment and suitable training opportunities can increase employees' sense of belonging and improve their performance and hence can take the technology and business of Xingda to a higher level.

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION

Emission reduction

The Group's subsidiary, Jiangsu Xingda, is mainly engaged in production, and Shandong Xingda is also responsible for part of production. The production base in Thailand was completed in 2019 and trial production has commenced on 26 September of the same year.

We strictly complies with relevant environment laws and regulations in countries and regions we operate. Such laws include the Environmental Protection Law of China and the Enhancement and Conservation of the National Environmental Quality Act of Thailand. Meanwhile, we have formulated comprehensive emission reduction policies for different production bases, including setting objectives with high standards in accordance with relevant national and industrial standards and closely monitoring a range of emission indicators on a continual basis. Such measures ensure that the adverse impacts of our manufacturing operation on the environment is minimal.

Every year, we set environmental targets and various relevant indicators for the Group for the whole year. We have also introduced a number of relevant measures in accordance with emission reduction objectives of various gases, sewage and solid waste and formulated clear internal guidelines for promoting the full cooperation among all levels of the Company actively.

The production of radial tire cords, bead wires and other wires involves the emission of certain substances, including carbon dioxide as the main greenhouse gas. At the same time, since production base of Jiangsu Xingda had its own power plant for electricity generation, with a 150-tonne/hour high temperature and high pressure pulverized coal boiler and a 25MW generator system, several emissions were emitted in the course of power generation.

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION – *CONTINUED*

Emission reduction – *CONTINUED*

Carbon dioxide is the main greenhouse gas emitted from the three production bases. Carbon dioxide emission of Jiangsu Xingda, Shandong Xingda and Thailand Xingda was 1,117,717 tonnes, 129,577 tonnes and 3,208 tonnes respectively. From 26 September 2019 to the end of the reporting period, Thailand Xingda had been at the stage of trial production and therefore it has a relatively low emission.

All of our three production bases are committed to reducing greenhouse gas emission to the minimum, so as to make contribution to cope with climate change. Both Jiangsu Xingda and Thailand Xingda reduced average energy consumption through the implementation of a comprehensive energy saving upgrade and reconstruction scheme. On the other hand, Shandong Xingda utilized a residual heat recovery system which diverted the smoke generated by direct-fire heaters for its reuse by a boiler system, so as to reduce natural gas consumption and greenhouse gas emission.

Other waste gas emissions including hydrogen chloride gas, soot, sulphur dioxide and nitrogen oxides are also emitted by factories in the course of production of the bases. Respective discharge volumes of various emissions by Jiangsu Xingda and Shandong Xingda in 2019 are set forth as below. From 26 September 2019 to the end of the reporting period, Thailand Xingda had been at the stage of trial production. Its relevant emission during the reporting period was negligible and accordingly such information was not disclosed.

Other waste gas emissions	**Discharge volume of Jiangsu Xingda**	**Discharge volume of Shandong Xingda**
Hydrogen chloride gas	4.50 tonnes	2.06 tonnes
Soot	1.49 tonnes	0.53 tonne
Sulphur dioxide	27.16 tonnes	1.16 tonnes
Nitrogen oxides	32.91 tonnes	2.28 tonnes

Other than greenhouse gases and waste gases, sewage is also discharged from the production process, indicators of which mainly include COD and ammonia nitrogen. For the solid wastes, the harmful substances are finish sludge and hydrochloric acid waste, while non-harmful substances are packaging wastes and cords wastes. Respective discharge volumes of various sewage and solid wastes by each production base in 2019 are set forth as below. From 26 September 2019 to the end of the reporting period, Thailand Xingda had been at the stage of trial production. Its relevant emission during the reporting period was negligible and accordingly such information was not disclosed.

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION – *CONTINUED*

Emission reduction – *CONTINUED*

Sewage	**Discharge volume of Jiangsu Xingda**	**Discharge volume of Shandong Xingda**
COD	47.00 tonnes	3.49 tonnes
Ammonia nitrogen	0.42 tonne	0.08 tonne
Hazardous solid waste		
Finish sludge	9,233 tonnes	709 tonnes
Hydrochloric acid	9,005 tonnes	1,755 tonnes
Waste engine oil	25.47 tonnes	0.78 tonne
Waste lead storage battery	43.78 tonnes	5.96 tonnes
Non-hazardous solid waste		
Packaging materials	3,000 tonnes	215.55 tonnes
Cords	5,501 tonnes	1,300 tonnes

Several emission reduction measures were implemented pertinently in accordance with different situations and needs of the three production bases, so as to reduce emissions to meet environmental standards. These measures have achieved remarkable and encouraging results so far.

In respect of waste gas, the reconstruction project of the power plant of Jiangsu Xingda was completed in 2019, with the addition of ultra-low emission desulfurization, denitrification and dust removal facilities and a unit of boiler powered by natural gas in order to reduce the use of coal in power generation. In 2019, emission of soot, sulphur dioxide and nitrogen oxides decreased by 37.6%, 56.3% and 61.3% respectively as compared to 2018.

On the other hand, Shandong Xingda utilized a residual heat recovery system which diverted the smoke generated by direct-fire heaters to a residual heat boiler system for reuse. In addition, the Group conducted regular and proper maintenance of direct-fire heaters to effectively reduce smoke emission generated by direct-heat heaters. In 2019, discharge volume of sulphur dioxide and nitrogen oxides of Shandong Xingda decreased by 7.9% and 31.5% respectively as compared to 2018.

In addition, Jiangsu Xingda and Shandong Xingda both adopted twin-tower series treatment technology. Among which, primary spraying purification tower uses purified water to absorb cyclically. The concentration of hydrochloric acid reaches 200-220g/L before purified water is used in the workshop again. Secondary spraying purification tower adopts alkaline liquor spraying treatment. This technology has reduced the density of hydrogen chloride emitted to less than 5 milligrams per cubic meter in both of the two production bases, far below the Chinese national standard of 30 milligrams per cubic meter.

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION – *CONTINUED*

Emission reduction – *CONTINUED*

Regarding the sewage, Thailand Xingda, which was completed in 2019, utilized evaporation crystallization treatment technology to improve its wastewater treatment efficiency, so as to reduce the emission of pollutants. Through recycling and reusing treated wastewater, the overall wastewater discharge was further reduced. On the other hand, Jiangsu Xingda improved treatment technology of lubricant waste in sewage station to improve the efficiency of wastewater discharge and control discharge volume of pollutants. Benefited by the upgrade of the environmental protection facilities and improvement in sewage treatment efficiency, the discharge volume of ammonia nitrogen in 2019 decreased significantly by 46.2% as compared to 2018.

Shandong Xingda also implemented multiple measures to reduce wastewater discharge. Such measures included the recycling of domestic wastewater to reuse for toilets and greenery in the plant area, so as to reduce domestic wastewater discharge. Discharge volume of COD in 2019 increased by 8.9% as compared to 2018. To tackle wastewater with copper content, other than controlling the use of water in the workshops, Shangdong Xingda retrofitted copper ion absorbers to the electroplating lines to reduce the copper ion in wastewater. Discharge of wastewater with copper content was successfully reduced by 80%, achieving a remarkable result in reducing emission.

For solid waste, all kinds of solid waste were collected from each production base, with non-hazardous wastes being sold out, and domestic wastes being disposed of by the sanitation department. As for hazardous wastes, we already have formulated a set of strict internal guidelines for handing them over to qualified relevant entities to prevent external leakage from posing a threat to the environment.

Through recycling packaging materials and boosting the yield rate of products, we are committed to reducing the amount of non-hazardous solid waste including packaging materials and cords wastes discharged by each production bases. Regarding dangerous waste, Jiangsu Xingda took the initiative to replace obsolete filter press with new program-control filter press for harmful finish sludge to reduce the water content of the sludge and the amount of sludge generated effectively. Shandong Xingda also conducted sludge drying after the filter press thereby reducing the overall disposal volume of finish sludge.

Besides, Jiangsu Xingda recycled acid waste through phosphoric acid regeneration equipment and hydrochloric acid waste treatment center for integrated utilization, reducing the amount of phosphoric acid waste discharged and the amount of phosphoric acid and hydrochloric acid used, lowering the consumption of phosphoric acid and hydrochloric acid. For the treatment of acid mist, Jiansu Xingda also launched an electroplating acid mist recycling project to reuse the hydrochloric acid generated in the process of production in the workshops, which further reduced the discharge of hydrochloric acid.

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION – *CONTINUED*

Application of resources

The Group understands that resources of the earth are not inexhaustible, we therefore spare no effort in energy conservation and water conservation, and promote the sustainable development of our business across different regions. The Group strictly abided by the Law of the People's Republic of China on Conserving Energy, Regulations of Jiangsu Province on Conserving Energy, Regulations of Shandong Province on Conserving Energy, Energy Conservation Promotion Act of Thailand and related laws and regulations and regularly accepted inspections by the relevant supervision authorities of the government. There was no violation committed by the Group in this aspect.

In terms of production, the main raw material for radial tire cords and bead wires used to manufacture radial tires was high carbon steel. In 2019, Jiangsu Xingda, Shandong Xingda and Thailand Xingda consumed 746,000 tonnes, 94,000 tonnes and 891 tonnes of wire rods respectively in the course of production. From 26 September 2019 to the end of the reporting period, Thailand Xingda had been at the stage of trial production and therefore it has a relatively low consumption. We strive to improve production capacity and one-time production yield rate, and reduce the use of raw materials and disposal of waste. We also promote recycling of resources actively by, for instance, introducing system of circulating electroplating fluid as a supplement into the electroplating progress.

Besides raw materials for production, various types of resources are directly or indirectly consumed in the course of production, including natural gas, diesel, coal, standard coal, and packaging materials. Respective consumption of electricity, water and various resources by Jiangsu Xingda and Shandong Xingda in 2019 are set forth as below:

Resources	**Consumption of Jiangsu Xingda**	**Consumption of Shandong Xingda**
Electricity	10.8 TWh	1.4 TWh
Water	1,940,000 tonnes	207,000 tonnes
Natural gas	35.069 million cubic meters	5.709 million cubic meters
Diesel	302 tonnes	26.4 tonnes
Coal	172,000 tonnes	Not applicable
Packaging materials		
Spools	23.332 million	2.844 million
Partition plates	2.281 million	0.249 million
Plastic pallets	441,000	71,000
Carton box	483,000 sets	72,000 sets

Note: Shandong Xingda does not have power plant, so no coal was used.

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION – *CONTINUED*

Application of resources – *CONTINUED*

From 26 September 2019 to the end of the reporting period, Thailand Xingda had been at the stage of trial production. During the reporting period, its electricity consumption and water consumption for construction, equipment installation and commissioning of sample production were 4,087,000 kWh and 40,000 tonnes respectively, and the uses of other fuels and packaging materials were negligible.

The Group enacts energy conservation plans for its business every year. In 2019, Jiangsu Xingda aimed to save 7,000 tonnes of standard coal and to reduce electricity consumption in unit by 1.5%. Through the joint efforts of all units throughout the year, standard coal was saved up to 10,000 tonnes for Jiangsu Xingda alone, representing a decrease of 3.4% in consumption as compared to 2018, while the electricity consumption in unit significantly decreased by 2.8%. Both indicators surpassed the goal set at the beginning of year.

Our major power-saving measures include enhancement and application of high efficiency permanent magnet synchronous motors, improvement and enhancement of water pumps of production lines and certain utilities to reduce power consumption, and to actively encourage the use of high efficiency LED energy-saving lighting equipment with automatic power adjustment in all departments.

Among which, Shandong Xingda completed the modification of 45 solar street lamps during the year, reduced the power consumption by increasing the application of new energy, and improved the operation efficiency of 100 sets of wet-drawing machine pulleys to conserve electricity. Thailand Xingda has implemented a number of measures to reduce resources consumption, including frequency conversion control and energy-saving transformation plan for motors, and the use of underground ventilation system to improve the comfort level of the plant, thereby reducing the electricity consumption for air conditioning.

For water consumption, Shandong Xingda recycled the treated domestic sewage for workshop toilets and greenery, and used the high-salinity concentrated water generated from the water purification process for circulating water replenishment, saving approximately 3,000 and 1,500 tonnes of water per month respectively, representing a 8% decrease in water consumption in 2019 as compared with 2018. Thailand plant also made use of the local climate conditions with high rainfall, and installed a siphonic drainage system on the roof of the plant to collect and use the rainwater, so as to reduce the water consumption of the plant. Furthermore, we are committed to adopting the plan of recycling cooling water and improve water consumption efficiency and lower the consumption.

For utilizing fuel resources, both of the two production bases adopted waste heat recovery technology, so as to actively reduce the use of natural gas, steam and coal. It did not only saved valuable resources, but also reduced emissions from the burning of these resources. Shandong Xingda also reduced the use of diesel forklift by switching to electric forklifts to transport goods weighing less than 1.5 tonnes in the workshop. For packaging materials, recycling is our main strategy. We have recycled spools, partition plates, plastic pallets and carton box actively and reused them if possible, so as to reduce the consumption of packaging materials.

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION – *CONTINUED*

Application of resources – *CONTINUED*

Our efforts in resource conservation were recognized by independent third-parties, among which, Jiangsu Xingda launched the energy-saving technological transformation project of bead wire plating workshop, which was verified by the energy conservation center of Jiangsu Province for saving 4,105 tonnes of standard coal, and was awarded the Jiangsu Province energy conservation certificate.

The Group recognizes that the success in energy saving and water saving depends on implementation throughout the Group at all levels, hence we have established a leading group for clean production, which served as the leading unit in saving energy and water. The leading group was responsible to formulate benchmarks for various resources, corresponding measures and plans. Implementation groups for clean production have also been set up respectively in each subsidiary and department. Such groups have served to formulate targeted energy saving plans according to the specific condition of different departments to ensure the goals set were achieved gradually. This comprehensive execution structure enabled thorough implementation of all environmental protection and resources policies.

We also implemented a series of performance, incentive and education measures to encourage the employees to achieve energy-saving and water-saving goals and put forward innovative ideas, such as linking energy-saving achievements with wages based on various performance indicators including electricity, steam and natural gas. We have also set up a proposal incentive system to provide fixed incentives to effective energy-saving proposals, and selected technological transformation and innovation projects with remarkable results at the end of the year to provide corresponding incentives to participating employees. Energy-saving measures are widely promoted through internal platforms and information channels, so as to enhance employees' awareness on energy-saving policies comprehensively.

The Group also regularly reviewed effectiveness of various measures and completed relevant evaluation reports, striving for excellence and continuous improvement.

Environment and natural resources

The Group has been in strict compliance with the relevant laws and regulations of China and Thailand, and has closely monitored various indicators of emission and use of resources. For example, the Group monitored the water quality of each plant throughout the whole process and installed online pH monitoring and electric gates at each discharge port to ensure that no wastewater was leaked.

In addition, we formulated projects for the promotion and transformation of the environmental protection facilities, as well as energy conservation policies for the company, which actively eliminated obsolete energy consuming equipment, replaced the equipment by the new advanced equipment and technology, improved energy efficiency and reduced emissions, such as by the multiple towers which treated exhaust gas in series, and strictly monitored the emission concentration of various gases to achieve ultra-low emissions. In addition, soundproof and acoustic materials were installed on the walls of each plant, with soundproof curtains at the entrance as well. At the same time, we regularly commissioned a third-party agency to conduct inspections to ensure that the sound volume met relevant standards, so as to reduce noise pollution to the environment.

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION – *CONTINUED*

Environment and natural resources – *CONTINUED*

In 2019, none of our operations at each location had significant effects on the environment and natural resources.

In addition to formulating and implementing effective environmental policies, the Group also organized employees to participate in relevant training activities to enhance employees' awareness of environmental protection and resource conservation, ensuring that our philosophy and measures are implemented at different levels within the Group. Our efforts in environmental protection were universally recognized, and we have won the honor as a green enterprise under environmental protection credit level evaluation awarded by the Department of Ecology and Environment of Jiangsu Province and obtained the environmental management system certification.

Prior to the construction of the Thailand plant, in accordance with the Enhancement and Conservation of the National Environmental Quality Act of Thailand and other laws and regulations, the Group commissioned a third-party environmental assessment organization to prepare an EIA report. After the EIA report was approved, the Group applied for the construction permit for the plant in accordance with relevant laws. In the process of construction, all matters related to the environment were conducted in strict accordance with the EIA report, and the Group commissioned a qualified third-party environment organization to carry out onsite inspection and assessment, and to prepare the environment supervision report of the construction stage; after the plant was put into operation in 2019, we also entrusted qualified third-party environmental units to carry out inspection and assessment, and prepared the environmental impact assessment report for the operation phase to provide a solid basis for environmental management and related indicators during the operation phase of the plant. Thailand plant has strictly complied with applicable laws and regulations and industry regulations from the process of construction to trial production, and there was no significant impact caused to the environment and natural resources.

In general, although we have successfully introduced a number of environmental protection measures for emission reduction and energy conservation over the years and all types of indicators have been in line with national regulations and industry standards, we understand any measures have room for improvements. We will continue our efforts to protect the environment and prudently use natural resources in all aspects to facilitate and maintain the sustainability of our business, so as to spare no effort in minimizing the impact of the Group's business on the environment.

EMPLOYEE POLICIES

Rights and interests of employees

Employees are important assets of the Group, and we strike to provide them with comprehensive welfare and protection. In addition to strict compliance with national and local labor laws and regulations in regions we operate. such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, and the Labor Protection Act (1998) of Thailand. We also formulated a number of internal policies to improve the relevant systems. For example, the Employee Handbook compiled for our employees sets forth in detail the Group's policies on salary, recruitment, termination and promotion, and sets forth clearly the working hours, holidays and all benefits.

Besides, we formatted relevant guidelines for different business sectors, such as the Management Measures of Remuneration of the Company, the Labor Contract Management System, the Employee Resignation Management System, the Management System on Employee Recruitment, the Employee Career Planning and Management Implementation Measures, the Leave Management System for Employees, the Employee Overtime Management System, Management Regulations on Anti-Discrimination, Anti-Harassment, and Anti-Abuse, to provide comprehensive protection to the employees and prevent any situation of inequality.

Meanwhile, we have paid four aspects of insurance in accordance with national regulations four our factories in Jiangsu and Shandong, namely for the pension, medical care (including maternity), work-related injuries, and unemployment. In addition, we have also provided the employees with commercial insurance for welfare security to grant them additional protection and to ensure all employees are protected by insurance. As for plant workers in Thailand, we formulated labor contracts, established corresponding remuneration, benefit and promotion systems and paid social insurance and personal income tax for the employees in accordance with the labor laws and regulations of the Thai government.

For Chinese employees who are dispatched to the plant in Thailand, we have obtained working visas in accordance with applicable laws and regulations and work permit for foreigners in Thailand, and arranged registration and filing according to the requirements of the immigration department. In order to provide more comprehensive safety protection to employees, the plant in Thailand is negotiating with the insurance company to insure additional group insurance for employees. Employees will be compensated for accidents happening outside working hours after the confirmation of the insurance.

The Group implements the policy of equal pay for equal work to protect all employees from gender discrimination, and attaches great importance to the safety and rights of female employees. We do not arrange female employees to work in areas in relatively poor condition, such as high temperature or work-at-height, with higher risk in occupational injury or to take up tasks which require high physical strength. In order to take care of the physical needs of female employees, we strictly comply with the legal requirements to grant maternity leave to female employees, arrange leaves and rests according to their needs during pregnancy, breast-feeding period, and menstruation period, and also make appropriate adjustments to their job positions.

EMPLOYEE POLICIES – *CONTINUED*

Rights and interests of employees – *CONTINUED*

The Group places great emphasis on employees' opinions and encourages equal dialogue between employees at all ranks through various channels, including the Company's intranet, emails, pre-duty meetings, seminars, regular interviews and so on. Various units also make use of proposal conferences and other gatherings, meetings and events to strengthen interaction and communication between the management and the employees from basic level, so as to improve mutual understanding and trust.

On the other hand, we set up information bulletin board and published the Xingda Newspaper, so that employees can receive the latest news of the Group, and we also listened to employees' requirements and suggestions through conducting opinion surveys. The Group has the letter box of the general manager and a letter box for employee's complaints. Employees can directly express their opinions to the management in the form of short messages and through the WeChat official account "Xingda Shares". Complaints lodged through the opinion boxes and mailing letters are verified and dealt with by special personnel.

The plant in Thailand set up a welfare committee, which meets at least once every three months to provide a fixed communication platform for employers' and employees' representatives to discuss matters related to employee benefits on a regular basis. Employees can also submit questions or suggestions through the suggestion box located in the plant at any time. The leader or plant supervisor reviews the questions or suggestions regularly to arrange meetings with relevant staff in order to solve the problems. In addition, the plant in Thailand produced a manual for Chinese-Thai interpreting, and arranged local management personnel to receive training in Thai language so as to reduce language barriers between Chinese and Thai employees as well as to ensure effective communication between front-line employees and supervisors. The relevant person-in-charge of the Thailand plant also keeps close contact with the management of the Group to ensure that the relevant information channels are always open.

The Group advocates management to put themselves in employees' position, think from the perspective of employees, understand the work and life needs of employees, and actively and promptly solve various problems raised by employees from the practical perspective, and strive to improve the satisfaction and morale of employees. The internal communication and grievance mechanism have been effective.

We attach great importance to the work-life balance of our employees and provide them with a wide range of recreational facilities and activities to promote physical and mental health as well as to enhance their cultural accomplishment. Among which, the Jiangsu plant has a large fitness room that can accommodate 60 people at the same time as well as a basketball court, badminton hall, table tennis hall, swimming pool and so on. In 2019, Jiangsu Plant also organized a series of recreational and sports activities for employees, such as the 6th table tennis competition, badminton competition and speech competition for employees, which not only enriched the leisure life of employees, but also created opportunities for them to connect with each other during their spare time.

EMPLOYEE POLICIES – *CONTINUED*

Rights and interests of employees – *CONTINUED*

Xingda Labour Union provided employees with various benefits, such as "Creating Employment in Spring", "Cooling in Summer", "Giving out Mooncakes in Mid-Autumn Festival" and "Giving out Big Gifts before the Chinese New Year", and put forward various schemes to support disadvantaged employees such as to subsidize their rentand house-purchasing expenses at the same time. The Labour Union also organized a number of employee trainings, various competitions on employees' skills, and recommended the winners to participate in other larger competitions on skills outside the Company.

In 2019, the Group paid the union fee of RMB11.597 million in total for the Xingda Labor Union.

As of 31 December 2019, Jiangsu plant, Shandong plant, and Thailand plant of the Group had 6,126, 753, and 273 employees respectively, and the ration of male to female were 2.21 to 1, 2.42 to 1, and 6 to 1 respectively. Among the employees of the Thailand plant, 154 Thai employees were employed locally, 119 Chinese employees were dispatched there, and no employees of other nationalities. The employee turnover rate of Jiangsu plant, Shandong plant and Thailand plant was 1.76%, 2.00% and 7.24% respectively. The staff departed were mainly front-line operators and those who held technical and management position.

Basic information of employees at Jiangsu plant in terms of position and age is set out in detail as below:

By position

Middle and senior management		Technicians		Grassroots management		Assistants and operating staff	
Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
158	2.58%	188	3.07%	212	3.46%	5,568	90.89%

By age

Under 20		20-35		36-50		Above 50	
Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
21	0.34%	2,951	48.17%	2,803	45.76%	351	5.73%

Note: Percentages are rounded and they may not add up to 100%.

EMPLOYEE POLICIES – *CONTINUED*

Rights and interests of employees – *CONTINUED*

Basic information of employees at Shangdong plant in terms of position and age is set out in detail as below:

By position

Middle and senior management		Technicians		Grassroots management		Assistants and operating staff	
Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
9	1.20%	134	17.80%	30	3.98%	580	77.02%

By age

Under 20		20-35		36-50		Above 50	
Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
0	0.00%	442	58.70%	263	34.93%	48	6.37%

Note: Percentages are rounded and they may not add up to 100%.

Basic information of employees at Thailand plant in terms of position and age is set out in detail as below:

By position

Middle and senior management		Assistants and operating staff	
Number	Percentage	Number	Percentage
24	8.79%	249	91.21%

Under 20		20-35		36-50		Above 50	
Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
0	0.00%	202	73.99%	67	24.54%	4	1.47%

Note: Percentages are rounded and they may not add up to 100%.

EMPLOYEE POLICIES – *CONTINUED*

Occupational safety

The Group attaches great importance to the safety and health of its employees and strictly complies with national and local relevant laws and regulations where the plants are located, including Work Safety Law of the People's Republic of China, the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, the Occupational Safety, Health and Environment Act of Thailand applicable to the plant in Thailand, and other regulations. We have also formulated a number of related policies to protect our employees' occupational safety, including the Safety Production Responsibility System, Safety Production Five Simultaneous Management System, Fire Control Management System, Occupational Disease Prevention Management System, Labor Protective Equipment Management System, Safety Protection Equipment and Facilities Management System, 2019 Regulations of Occupational Health, Safety and Environment for Thailand Xingda implemented in the plant in Thailand and so on.

In order to effectively monitor and implement the Group's occupational safety policies and measures, we established safety production teams in the plants in Jiangsu and Shandong to implement the requirements of national policies, laws and regulations, and other relevant requirements regarding safe production. We also implemented various types of safety work comprehensively in a systematic manner through management systems including occupational health and safety promotion management system, standardization of safe production and double-prevention mechanism for enterprises, so as to ensure safe production. Jiangsu Xingda has an emergency management department responsible for safety affairs, whereas Shandong Xingda has established a safety and environmental protection office to conduct regular environment examination on plants. Equipment department regularly sends staff to carry out repair and maintenance work at the plants, and each department will arrange self-inspection on a regular basis.

Thailand Xingda has established a safety committee internally, which is responsible for building a comprehensive occupational health, safety and environmental system for the plant, and supervising various daily safety inspections, including reporting and exchange of legal provisions and improvement suggestions related to occupational health, safety and environment, organizing work safety-related activities and conducting monthly meetings to supervise and conduct data analysis on work safety matters in the plant.

Each production base has implemented various safety measures, such as installing dust removal and demisting equipment including suspended hood and purification towers in the operation sites, and adding lighting and ventilation design on the roof of the plants to enhance the lighting and ventilation effect in the plants, which effectively control the concentration of dust and hazardous substances, so that fulfillment of relevant safety standards was ensured. Regarding high-risk job positions and locations, we regularly monitored the concentration of harmful substances, and arranged body check for relevant employees.

EMPLOYEE POLICIES – *CONTINUED*

Occupational safety – *CONTINUED*

We understand that the key to safeguarding production safety is to keep employees alert at all times, therefore, occupational hazard notice boards are set up at the workshops to remind employees to be careful and perform protective measures. At the same time, we have posted relevant safety warning signs and emergency evacuation maps in the key spots of the operation sites, and provide detailed guidelines on standard operational procedures and standards for safe technical operation to employees at the construction sites, so that they can understand clearly and be aware of the risk factors in their respective positions. In addition, we have distributed personal protective equipment to our employees as required for their positions, including dust masks, earplugs, safety glasses, safety shoes and waist supports, which are supervised by relevant on-site personnel for proper use. The plants are equipped emergency kits, emergency lighting, firefighting equipment and other emergency tools.

The Group adheres to the work safety policy of "prevention-oriented". Through continuous safety training and education, Xingda Institute and all production bases strive to raise their safety awareness and improve their operational level. For positions with higher operational risk, employees must pass the safety training and assessment before working to avoid accidents. In 2019, we conducted various internal safety trainings for employees at all levels, including Three-level Safety Education, Laws and Regulations for Safe Production, Risk Identification and Knowledge of Screening, Identification and Control of Hazards of Double Prevention System, etc. Xingda Institute also organized external training on occupational health management system, knowledge of X-ray protection, emergency rescue and safety training to enhance employees' understanding of different aspects of production safety.

Development, training and evaluation

Viewing employees as the important asset of the Group, we always attach importance to the development and utilization of human resources, and adhere to employment standard of "talent-oriented and virtue-based" and the employment philosophy of "people-oriented and mutual development" to attract and retain talents through comprehensive recruitment, training, remuneration and benefits, and performance assessment system, consolidating a solid basis for our business development.

The Group formulated the Training Procedures Document for staff training, as well as relevant materials such as Xingda Staff Training Management System and Human Resources Center Training Management Manual. With regards to overall planning, Jiangsu Xingda was under the responsibility of Xingda Institute, whereas the training programs of Shangdong Xingda and Thailand Xingda were developed by the relevant human resources department. Some of the textbooks were provided by Xingda Institute, and the training mediums and methods were also referred to Xingda Institute.

Request of training was made by each department and subsidiary in accordance with its development needs, annual business targets, duty requirements and career development planning, then formulated tailor-made annual training plans for employees at all levels of the Company in forms of theoretical teaching, case studies, online tutorials and practical operations, etc, with implementation after approval by the general manager or plant director. Trained employees would be assessed after the training for the review of training effect and training improvement, relevant assessment and training performance would be pegged to job promotion and compensation.

EMPLOYEE POLICIES – *CONTINUED*

Development, training and evaluation – *CONTINUED*

In 2019, we organized a number of internal trainings in different plants, covering courses like management, safety production, quality standard, and various technical operations. Jiangsu Xingda alone held 1,212 trainings, while Shandong Xingda arranged relevant trainings on internal management system, control measures on disqualified products. In addition, we arranged external trainings for middle and senior management, special position personnel, and key position personnel, among which Xingda Institute organized a total of 33 external trainings and other internal trainings held by external parties in 2019, covering management, occupational safety, and technology, etc. Shangdong Xingda also arranged experimental courses on hydraulic transmission for electro-mechanical technicians to strengthen their professional skills.

Thailand plant also organized a number of trainings to start its production, its internal trainings mainly include orientation training, safety education, processes and operations, and management systems. It also invited tutors from a safety training organization that is accredited by the Thai government to conduct training on mechanical training and fire safety drills, which ensured that the employees have obtained the relevant certifications and have a comprehensive understanding of the procedures and requirements of production.

In 2019, Jiangsu Xingda's training hour was 30.57 hours per person, exceeding the annual target of 20 hours; Shandong Xingda's training hour was 1.82 hours per person monthly, exceeding the monthly target of 1.75 hours per person; Thailand Xingda's training hour was 2.05 hours per person monthly, and the average training program completion for the year achieved 95.4%. The series of trainings have improved the skills and attitudes of employees at all levels, enhanced the quality and efficiency of work, and ensured that special position personnel have the necessary qualifications and knowledge to meet the needs of the Company's business development.

In order to assess the performance of employees and encourage their continuous improvement, the Group has formulated Performance Management Manual, Xingda Performance Assessment Management Measures, and other relevant systems, and has established successor training programs to perform qualification screening and performance assessment on second-line personnel at irregular intervals, sort out the professional skills that employees in different positions need to improve according to the job nature and the competency requirements of the positions, organize and formulate targeted and systematic learning programs, and carry out successor training work for second-line personnel. Shandong Xingda has also formulated career planning tables for university graduates and outstanding employees from time to time to understand the intentions and needs of their personal development, and actively cooperate with the implementation of the career planning of outstanding employees, so as to strengthen the talent reserve for business development.

EMPLOYEE POLICIES – *CONTINUED*

Labor standards

The Group strictly complies with the national and local laws on labor standards in China and Thailand and has formulated internal policies and regulations such as the Company Recruitment Management System, Prohibition of Child Labor Management Measures, Prohibition of Forced Labor Management Measures and Policy, Management Regulations on Anti-Discrimination, Anti-Harassment, and Anti-Abuse, Employee Handbook, in order to strictly monitor and prevent the emergence of child labor and forced labor. In 2019, there were no child labor and forced labor at the three production bases.

All employees must be at least 18 years of age and there is verification of their valid identity documents upon commence of employment. Even during employment, we will check the identity information from time to time to ensure the accurateness. In regard to forced labor, we conduct investigations at various subsidiaries from time to time and encourage employees to voluntarily report any suspicious forced labor through channels such as democratic life meetings and the benefit committee. Once the problem of child labor or forced labor is discovered, we have also established a comprehensive follow-up system to safeguard the right of the parties to receive compulsory education and support the harmed workers and make arrangements for the aftermath.

OPERATION CONVENTION

Supply-chain management

The Group has established the Code of Conduct for Suppliers which is applicable to all suppliers, to ensure the suppliers are in line with our values in terms of their conducts in ethics, labor and human rights, safety and environment, management system and sustainable development. Among which, the code requires suppliers to comply with all applicable health, safety and environmental regulations, provide training to management and relevant employees on the content of the code and applicable laws and regulations, and provide appropriate monitoring measures, safety work procedures and personal protective equipment, etc, to reduce health and safety risks in the workplace.

In addition, suppliers are required to conduct assessment in accordance with the Supplier Social Responsibility Assessment Form formulated by us, covering areas including business ethics (such as respect for intellectual property rights), prohibition of child labor and implementation of anti-discrimination policies, workplace health and safety measures (such as the sufficiency of fire extinguishers, automatic fire extinguishing systems and safety exits), environmental management measures such as emission control and use of new energy, and whether a sustainable development plan has been formulated, etc. Suppliers of Group have been strictly reviewed and screened, so that their business does not pose any risk to the environment and society.

OPERATION CONVENTION – *CONTINUED*

Product responsibility

Products of the Group are all in strict compliance with laws and regulations, while its effective management system has also passed the IATF 16949 quality system certification. We have established a documented quality control system in accordance with the latest IATF 16949 standard and a strict product liability policy, under which the quality center monitors health safety of our products, implements product safety training for responsible personnel, and execute the labeling standards in accordance with Management System of Identification and Traceability.

Among which, the Group developed a monitoring plan for each production procedure, which specifies the inspection items, frequency, methods and responsible personnel for the process parameters, process products and end products, and a guidebook for inspection work is prepared for each project. All the measuring tools used in product testing are regularly examined and calibrated in the measurement room and by the examination and determination organization entrusted by us.

The Group did not have any products recalled due to safety or health issues last year. The 58 feedbacks received from customers were handled by the market service department by communicating with the customers, while further referral will be made to quality, technology, manufacturing and other relevant departments to adequately fulfill our commitment to quality. The improved products will be verified by the customers under the arrangement by technical service personnel if necessary. If the same issue does not appear after the customer has used two batches of the improved products and as confirmed again by the quality center and technical service department, the relevant quality issue is considered as resolved to ensure that the needs of our customers are met comprehensively.

In addition, the intellectual property rights management department has formulated strict policies guarding for privacy security, such as the Employee Confidentiality Regulations and Information Management System; whereas the intellectual product management department comprehensively protects and manages intellectual property rights in accordance with the Intellectual Property Rights Management Policy.

OPERATION CONVENTION – *CONTINUED*

Anti-corruption

Since its establishment, the Group has strictly complied with the relevant laws and regulations, including the Criminal Law of the People's Republic of China and Anti-Unfair Competition Law of the People's Republic of China. As of 31 December 2019, the Group and its employees have not been given criminal sanctions due to a violation of the Criminal Law of the People's Republic of China or the relevant laws and regulations in Thailand.

As a large-scale enterprise, preventing commercial bribery is our keynote of anti-corruption, and we are committed to creating a management atmosphere with fair competition, honesty, openness and transparency. All employees are required to view honesty, trustworthiness and corruption-free operation as the primary code of conduct, hence we formulated internal systems such as the Employee Handbook of Business Ethics and Employee Handbook, and strictly prohibited all employees of the Company from engaging in activities including corruption, misappropriation, theft of the Company's fund or trade secret infringement, employees violating the rules will be penalized in accordance with the internal systems. If violation of laws is involved, the case will be delivered to the judicial organs according to law.

We have established a number of measures, including formulating the regulation of "three prohibits" – all employees are prohibited from receiving or sending any form of money or gifts, exercising their powers to obtain personal benefits, or using festive gifts as an excuse for promoting business relationships. Xingda has established an independent audit department to strictly prevent employees from engaging in illegal activities such as bribery, extortion and fraud through internal control system, such as the system discipline inspection department of the CPC Committee and the assessment office of Human Resources Center. The Group also encourages employees to report any corruption directly to the Audit Committee, and did not receive any reports in 2019.

The Group has set up the initiative interest declaration mechanism for employees, and ensured that employees fully understand our anti-corruption policy via various channels, such as clearly signing the Employee Handbook with relevant corruption-free management policies upon the entry of new employees, and promoting awareness of anti-corruption among employees at regular intervals through the monthly publicity meetings, so as to strive to enhance employees' awareness of integrity and compliance continuously and comprehensively. These measures are our efforts in normalizing behaviors of all employees, promote noble morality and establish an honest corporate culture.

CONTRIBUTION TO THE SOCIETY

Xingda deeply understands that as a member of society, supporting public welfare is definitely a responsibility and an obligation to be fulfilled, and a good development environment for the enterprise will also be created. Therefore, based on the concept of "people-oriented, and contributing to the society", we actively participated in diverse charitable activities, the charitable activities we supported included charity assistance, disease prevention, poverty alleviation and disaster relief, and social development.

The manufacturing business of the Group is located throughout China and Thailand, and the well-being of the communities where the plants are located is closely related to us. We have established an effective communication mechanism with the communities in which we operate, and regularly meet the responsible personnel of the communities in order to fully understand the needs of the communities in a timely manner and ensure the benefits of the community and the balance of the interests of stakeholders while developing our business. In addition, we will give priority to job-seekers from poor households under the same conditions, so as to create employment opportunities for the disadvantaged in the communities.

When selecting the targets for community investment or charitable donations, the Group will make assessment based on the charitable purposes of the enterprises and the demands expressed by the responsible personnel and stakeholders of the community.

The Group has been actively organizing various voluntary activities for employees to participate in, expressed care and giving back to the disadvantaged groups directly through actions, and set up a leading group for civilization building to arrange voluntary activities. In 2019, we arranged visits to the nursing home for our employees and helped the single elder people there. We also organized voluntary blood donation activities for employees to support the local healthcare industry.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
XINGDA INTERNATIONAL HOLDINGS LIMITED
興達國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Xingda International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 77 to 178, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS – *CONTINUED*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2019, the Group's net trade receivables amounting to approximately RMB2,442,618,000, which represented approximately 17.7% of total assets of the Group and out of these trade receivables of approximately RMB545,987,000 were past due. As disclosed in note 38(b) to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, repayment history and past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that are credit impaired are assessed for ECL individually. The loss allowance amount of the credit impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 38(b) to the consolidated financial statements, the Group recognised an additional amount of RMB25,722,000 of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2019.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; and • Challenging management's basis and judgement in determining credit loss allowance on trade receivables 31 December 2019, including their identification of credit impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information).

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 IFRSs Standards 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

– CONTINUED

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

From the matters communicated with those charged with governance, 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 the independent auditor's report is Tsang Kai Tai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	**2019**	2018
		RMB'000	*RMB'000*
Revenue	*6*	**7,582,682**	7,558,367
Cost of sales		**(6,111,469)**	(6,235,889)
Gross profit		**1,471,213**	1,322,478
Other income	*7*	**126,422**	136,708
Government grants	*8*	**13,731**	13,798
Distribution and selling expenses		**(546,639)**	(512,584)
Administrative expenses		**(382,226)**	(361,892)
Other gains and losses, net	*9*	**31,285**	19,425
Impairment loss recognised on trade and other receivables		**(25,343)**	(15,112)
Research and development expenditure		**(107,097)**	(75,250)
Finance costs	*10*	**(40,709)**	(44,974)
Profit before tax		**540,637**	482,597
Income tax expense	*11*	**(129,986)**	(110,742)
Profit for the year	*12*	**410,651**	371,855
Other comprehensive income Item that can be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**40,013**	–
Total comprehensive income for the year		**450,664**	371,855
Profit for the year attributable to:			
Owners of the Company		**288,752**	263,663
Non-controlling interests		**121,899**	108,192
		410,651	371,855
Total comprehensive income for the year attributable to:			
Owners of the company		**328,765**	263,663
Non-controlling interests		**121,899**	108,192
		450,664	371,855
Earnings per share	*15*		
Basic (RMB fen)		**19.09**	17.82
Diluted (RMB fen)		**18.99**	17.79

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	**2019**	2018
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*16*	**4,526,709**	3,843,962
Right-of-use assets	*17*	**282,349**	–
Freehold land/prepaid lease payments	*18*	**74,593**	344,708
Investment properties	*19*	**157,040**	153,960
Fixed bank deposits with more than three months to maturity when placed	*25*	**1,430,000**	900,000
Pledged bank deposits	*25*	**420,000**	-
Deferred tax assets	*20*	**21,262**	17,321
Prepayments	*21*	**26,963**	29,963
		6,938,916	5,289,914
CURRENT ASSETS			
Prepaid lease payments	*18*	**–**	7,315
Inventories	*22*	**671,314**	679,911
Financial assets at fair value through profit or loss	*23*	**84,673**	60,249
Fixed bank deposits with more than three months to maturity when placed	*25*	**12,000**	100,000
Trade, bill and other receivables	*24*	**5,602,557**	5,494,726
Pledged bank deposits	*25*	**–**	52,000
Bank balances and cash	*25*	**497,912**	1,104,447
		6,868,456	7,498,648
CURRENT LIABILITIES			
Trade, bill and other payables	*26*	**3,763,194**	3,829,080
Contract liabilities	*27*	**5,880**	31,845
Amount due to a related company	*28*	**3,187**	1,620
Tax liabilities		**40,115**	43,597
Dividend payable to non-controlling interests		**–**	27,195
Borrowings – due within one year	*29*	**1,872,941**	1,144,443
Lease liabilities	*30*	**560**	–
		5,685,877	5,077,780
NET CURRENT ASSETS		**1,182,579**	2,420,868
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,121,495**	7,710,782

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	**2019**	2018
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*20*	**12,952**	12,327
Borrowings – due after one year	*29*	**300,000**	150,000
Lease liabilities	*30*	**1,239**	–
		314,191	162,327
NET ASSETS		**7,807,304**	7,548,455
CAPITAL AND RESERVES			
Share capital	*31*	**151,728**	148,388
Share premium and other reserves		**5,509,626**	5,302,835
Equity attributable to owners of the company		**5,661,354**	5,451,223
Non-controlling interests	*39(ii)*	**2,145,950**	2,097,232
TOTAL EQUITY		**7,807,304**	7,548,455

The consolidated financial statements on pages 77 to 178 were approved and authorised for issue by the Board of Directors on 8 May 2020 and are signed on its behalf by:

LIU JINLAN,
DIRECTOR

ZHANG YUXIAO,
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company												
	Share capital	**Share premium**	**Special reserve**	**Capital contribution reserve**	**Statutory common reserve**	**Capital redemption reserve**	**Translation reserve**	**Retained profits**	**Shares held under share-award scheme**	**Awarded shares compensation reserve**	**Total**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000* *(note a)*	*RMB'000* *(note b)*	*RMB'000* *(note c)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	147,923	264,802	285,126	(130,150)	710,867	7,150	–	4,080,654	(20,072)	11,961	5,358,261	2,061,926	7,420,187
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	263,663	–	–	263,663	108,192	371,855
Appropriations	–	–	–	–	40,616	–	–	(40,616)	–	–	–	–	–
Issuance of scrip shares *(note 14)*	1,657	37,626	–	–	–	–	–	–	–	–	39,283	–	39,283
Dividend recognised as distribution *(note 14)*	–	(186,143)	–	–	–	–	–	–	–	–	(186,143)	–	(186,143)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(72,886)	(72,886)
Repurchase of ordinary shares *(note 31)*	(1,192)	(27,754)	–	–	–	1,192	–	(1,192)	–	–	(28,946)	–	(28,946)
Shares vested under the share-award scheme	–	–	–	–	–	–	–	1,054	8,021	(9,075)	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	5,105	5,105	–	5,105

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company												
	Share capital	Share premium	Special reserve	Capital contribution reserve	Statutory common reserve	Capital redemption reserve	Translation reserve	Retained profits	Shares held under share-award scheme	Awarded shares compensation reserve	Total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(note a)	*(note b)*	*(note c)*								
At 31 December 2018	148,388	88,531	285,126	(130,150)	751,483	8,342	–	4,303,563	(12,051)	7,991	5,451,223	2,097,232	7,548,455
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	288,752	–	–	288,752	121,899	410,651
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	40,013	–	–	–	40,013	–	40,013
Total comprehensive income for the year	–	–	–	–	–	–	40,013	288,752	–	–	328,765	121,899	450,664
Appropriations	–	–	–	–	46,719	–	–	(46,719)	–	–	–	–	–
Acquisition of additional interest in subsidiaries	–	–	22,921	–	–	–	–	–	–	–	22,921	(22,921)	–
Issuance of scrip shares *(note 14)*	4,698	83,153	–	–	–	–	–	–	–	–	87,851	–	87,851
Dividend recognised as distribution *(note 14)*	–	(144,799)	–	–	–	–	–	(52,278)	–	–	(197,077)	–	(197,077)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(50,260)	(50,260)
Repurchase of ordinary shares *(note 31)*	(1,358)	(26,885)	–	–	–	1,358	–	(1,358)	–	–	(28,243)	–	(28,243)
Shares vested under the share-award scheme	–	–	–	–	–	–	–	–	8,676	(8,676)	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	4,976	4,976	–	4,976
Purchase of shares for the purpose of shares award scheme	–	–	–	–	–	–	–	–	(9,062)	–	(9,062)	–	(9,062)
At 31 December 2019	**151,728**	**–**	**308,047**	**(130,150)**	**798,202**	**9,700**	**40,013**	**4,491,960**	**(12,437)**	**4,291**	**5,661,354**	**2,145,950**	**7,807,304**

Notes:

(a) Special reserve of RMB285,126,000 as at 1 January 2108 represents (i) the difference between the paid-in capital of Faith Maple International Ltd. ("Faith Maple") acquired by the Company and the nominal value of the share capital of the Company through an exchange of shares in prior year; (ii) the difference between the consideration paid by Faith Maple and the net carrying amount of equity interest in Jiangsu Xingda Steel Tyre Cord Co. Ltd. ("Jiangsu Xingda") at date of acquisition in prior year; (iii) the difference between the net carrying amount of additional 24.5% equity interest ("equity interest") in Shandong Xingda Steel Tyre Cord Co., Ltd. ("Shandong Xingda") and the fair value of consideration paid in relation to the acquisition of the equity interest in 2016.

During the year ended 31 December 2019, a special reserve of RMB22,921,000 is resulted which represents (i) the difference between the consideration paid by Jiangsu Xingda and the net carrying amount of 90% equity interest in Jiangsu Xingda Special Cord Co., Ltd. ("Xingda Special Cord") in 2019; (ii) the difference between the net carrying amount of additional 3.77% equity interest in Jiangsu Xingda by Faith Maple through the subscription of 212,229,323 new shares issued by Jiangsu Xingda with an amount of RMB689,745,000 in 2019.

(b) Capital contribution reserve represents deemed distribution to shareholders for the acquisition of equity interest in Jiangsu Xingda and contribution received from shareholders.

(c) According to the Articles of Association of the subsidiaries, Jiangsu Xingda, Xingda Special Cord, Xingda International (Shanghai) Special Cord Co., Ltd. ("Xingda International (Shanghai)"), Shanghai Xingda Steel Tyre Cord Co., Ltd. ("Shanghai Xingda"), Shandong Xingda Steel Tyre Cord Co., Ltd. ("Shandong Xingda") and Jiangsu Xingda Intelligence Manufacturing Co., Ltd ("Xingda Intelligence"), are required to transfer 10% of the profit after tax to the statutory common reserve until the reserve reaches 50% of the registered capital. Transfer to this fund must be made before distributing dividends to shareholders. The statutory common reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before tax	**540,637**	482,597
Adjustments for		
Depreciation and amortisation	**525,342**	529,664
Interest income	**(66,213)**	(41,349)
Gain on fair value changes of investment properties	**(3,080)**	(5,420)
Dividend income from financial assets at fair value through profit or loss	**(2,516)**	–
Loss on disposal of property, plant and equipment	**22,954**	9,652
Impairment losses recognised on trade and other receivables	**25,343**	15,112
Recognition of equity-settled share-based payments	**4,976**	5,105
Finance costs	**40,709**	44,974
(Gain) loss on change in fair value of financial assets at fair value through profits or loss	**(24,424)**	2,533
Unrealised exchange gain	**(5,179)**	(14,583)
Operating cash flows before movements in working capital	**1,058,549**	1,028,285
Decrease in inventories	**8,597**	44,647
Increase in trade, bill and other receivables	**(147,210)**	(38,149)
Increase in financial assets at fair value through profit or loss	**–**	(62,782)
Decrease in prepayments	**3,000**	3,000
Decrease in trade, bill and other payables	**(261,496)**	(41,923)
(Decrease) increase in contract liabilities	**(25,965)**	27,317
Decrease in government grants received	**–**	(7,000)
Increase (decrease) in amount due to a related company	**1,567**	(2,357)
Cash generated from operations	**637,042**	951,038
Income taxes paid	**(136,784)**	(96,289)
NET CASH FROM OPERATING ACTIVITIES	**500,258**	854,749

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Placement of bank deposits	**(1,342,000)**	(117,000)
Purchases of property, plant and equipment	**(959,805)**	(634,887)
Placement of pledged bank deposits	**(420,000)**	–
Deposits paid for acquisition of right-of-use assets	**(22,974)**	–
Payments for right-of-use assets	**(2,791)**	–
Purchase of freehold land/prepaid lease payments	**(8,006)**	(9,541)
Withdrawal of bank deposits	**900,000**	–
Interest received	**103,223**	5,127
Withdrawal of pledged bank deposits	**52,000**	133,000
Proceeds on disposal of property, plant and equipment	**3,857**	33,324
Dividend received from financial assets at fair value through profit or loss	**2,516**	–
NET CASH USED IN INVESTING ACTIVITIES	**(1,693,980)**	(589,977)
FINANCING ACTIVITIES		
New bank borrowings raised	**2,700,811**	1,551,902
Other loans raised	**152,000**	50,000
Repayments of bank borrowings	**(1,896,813)**	(1,260,530)
Dividends paid	**(109,226)**	(146,860)
Dividends paid to non-controlling interests of a subsidiary	**(77,455)**	(45,691)
Interest paid	**(73,133)**	(51,809)
Repayment of other loans	**(77,500)**	–
Payment on repurchase of ordinary shares	**(28,243)**	(28,946)
Payment on purchase of award shares	**(9,062)**	–
Repayments of lease liabilities	**(140)**	–
Interest paid on lease liabilities	**(76)**	–
NET CASH FROM FINANCING ACTIVITIES	**581,163**	68,066
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(612,559)**	332,838
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,104,447**	756,985
Effect of foreign exchange rates changes	**6,024**	14,624
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**497,912**	1,104,447

1. GENERAL

Xingda International Holdings Limited (the "Company") is a limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of its business is Xinghua City, Jiangsu Province, the People's Republic of China (the "PRC").

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries (the "Group").

The Company is an investment holding company and its subsidiaries are engaged in the manufacture and trading of radial tire cords, bead wires and other wires.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS")

New and Amendments to IFRSs Standards that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs Standards issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IFRS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

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

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS") – *CONTINUED*

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.35%.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS") – *CONTINUED*

As a lessee – *CONTINUED*

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	267
Lease liabilities discounted at relevant incremental borrowing rates	259
Add: Lease liabilities resulting from lease modifications of existing leases#	1,980
Less: Recognition exemption – short-term leases	(300)
Lease liabilities relating to operating leases recognised upon Application of IFRS 16	1,939
Analysed as	
Current	414
Non-current	1,525
	1,939

\# The Group renewed the lease of an office premise by entering into a new lease contract which commence after date of initial application, this new contract is accounted as lease modification of the existing contract upon application of IFRS 16.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS") – *CONTINUED*

As a lessee – *Continued*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets
	RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	1,939
Reclassified from prepaid lease payments *(note)*	285,436
	287,375
By class:	
Leasehold lands	285,436
Buildings	1,939
	287,375

Note: Upfront payments for leasehold lands in the PRC were reclassified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB7,315,000 and RMB278,121,000 respectively were reclassified to right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS") – *CONTINUED*

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

(a) Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective from 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(b) Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied under trade and other payables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. No adjustment is recorded to refundable rental deposits received as the impact is insignificant.

(c) Effective on 1 January 2019, the Group has applied IFRS 15 *Revenue from contracts with customers* ("IFRS 15") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current period.

There is no impact of transition to IFRS 16 on retained profits at 1 January 2019.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS") – *CONTINUED*

As a lessor – *Continued*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts previously reported at 31 December 2018**	**Adjustments**	**Carrying amounts under IFRS 16 at 1 January 2019**
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Prepaid lease payments	(a)	278,121	(278,121)	–
Right-of-use assets	(a)	–	279,614	279,614
Current assets				
Prepaid lease payments	(a)	7,315	(7,315)	–
Right-of-use assets	(a)	–	7,761	7,761
Current liabilities				
Lease liabilities		–	414	414
Non-current liabilities				
Lease liabilities		–	1,525	1,525

Note a: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

There is no impact on lessor's accounting under IFRS 16 for the consolidated financial statements of the Group for the current year.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS") – *CONTINUED*

New and Amendments to IFRSs Standards issued but not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current as Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IAS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

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

2 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

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

5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs Standards, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS") – *CONTINUED*

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs STANDARDS") – *CONTINUED*

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRSs Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs Standards issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payments*, leasing transactions that are within the scope of IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Basis of consolidation – *Continued*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* ("IFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Business combinations – *Continued*

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary net assets in the event of liquidation may be initially measured at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or service, or for administrative purposes (other than freehold land and properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Property, plant and equipment – *Continued*

Ownership interests in leasehold land and building – Continued

Buildings under development for future owner-occupied purpose

Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

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

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms or conditions of the contract are subsequently changed.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Leases – *Continued*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Leases – *Continued*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) – Continued

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Leases – *Continued*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) – Continued

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as lessee (prior to 1 January 2019)

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Leases – *Continued*

The Group as lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Upon application of IFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, 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 (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to contributions.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Taxation – *Continued*

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For the purpose of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxation entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Impairment on tangible assets and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible assets and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In addition, corporates assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flow have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. An impairment loss is recognised immediately in profits or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Impairment on tangible assets and right-of-use assets – *Continued*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit on a group for cash-generating units) is increased to the revised estimated of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating units or a group of cash generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and cost necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets or financial liabilities, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Financial instruments – *Continued*

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at financial assets at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at financial assets at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Financial instruments – *Continued*

Financial assets – Continued

Classification and subsequent measurement of financial assets – *Continued*

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains or losses" line item.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Financial instruments – *Continued*

Financial assets – Continued

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, fixed bank deposits, bank balances and cash, bill receivables and other receivables) are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Financial instruments – *Continued*

Financial assets – Continued

Impairment of financial assets – *Continued*

(a) Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Financial instruments – *Continued*

Financial assets – Continued

Impairment of financial assets – *Continued*

(b) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(c) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Financial instruments – *Continued*

Financial assets – Continued

Impairment of financial assets – *Continued*

(d) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(e) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the past-due status basis.

- Nature of financial instruments (i.e. the Group's trade and bills receivables, other receivables, fixed bank deposits with more than three months to maturity when placed, pledged bank deposits and bank balances and cash are each assessed as a separate group);

- Past-due status; and

- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and others receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Financial instruments – *Continued*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities including trade, bill and other payables, amount due to a related party and borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognise its retained interest in the asset and an associated liability for amount it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Share-based payments

Equity-settled share-based payment transactions

Shares granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of equity-settled share-based payments determined based on the Group's estimate of equity instruments that will eventually vest, at the grant date without taking into consideration all non-market vesting condition is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (awarded shares compensation reserve).

When trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under share-award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under share-award scheme. Accordingly, the related expense of the granted shares vested is reversed from awarded shares compensation reserve. The difference arising from such transfer is debited/ credited to retained profits.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policy

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policy and that has the most significant effect on the amounts recognised in the consolidated financial statements.

Fair value of investment properties

As at 31 December 2019, investment properties were carried in the consolidated statement of financial position at aggregate fair value of RMB157,040,000 (2018: RMB153,960,000). The fair value was based on valuations on these properties conducted by independent qualified valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair values of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income.

Deferred taxation on investment properties

For the purposes of measuring deferred taxes arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios which are all located in the PRC and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. As a result, the Group has not recognised any deferred taxes relating to land appreciation tax on changes in fair value of investment properties as the Group is not subject to land appreciation tax on use of its investment properties.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – *CONTINUED*

Key sources of estimation uncertainty

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

Income taxes

As at 31 December 2019, deferred tax assets of RMB21,262,000 (2018: RMB17,321,000) in relation to temporary differences on depreciation of property, plant and equipment and allowances for expected credit loss has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 19 and 38 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Estimated provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on debtor's aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 38 and 24, respectively.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes borrowings disclosed in note 29 and equity attributable to owners of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, share buy-backs, new share issues as well as raising of new borrowings and repayment of existing borrowings.

6. REVENUE AND SEGMENT INFORMATION

Revenue

(a) Disaggregation of revenue

The following is an analysis of the Group's revenues from its major products:

	2019	2018
	RMB'000	*RMB'000*
Sale of products		
Radial Tire Cords		
– For trucks	**4,286,686**	4,488,106
– For passenger cars	**2,393,958**	2,182,038
Bead wires and other wires	**902,038**	888,223
Total	**7,582,682**	7,558,367
Timing of revenue recognition		
A point in time	**7,582,682**	7,558,367

The contracts for sales of goods to external customers are short-term and the contract prices are fixed.

The Group's customers were tyre manufacturers in the PRC and other countries.

6. REVENUE AND SEGMENT INFORMATION – *CONTINUED*

Revenue – *Continued*

(b) *Performance obligations for contracts with customers*

Sale of radial tire cords, bead wires and other wires (revenue recognised at one point in time)

The Group sells radial tire cords and wires to external customers in which the revenue is recognised when the control of the goods has transferred to the customers, being when the goods have been shipped to the external customers' specific location.

(c) *Transaction price allocated to the remaining performance obligation for contracts with customers*

All performance obligations for sale of radial tire cords, bead wires and other wires are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Segment information

The directors of the Company, being the chief operating decision maker of the Group, regularly review revenue analysis by types of products which are basically radial tire cords, bead wires and other wires, for the purposes of resource allocation and assessment of performance. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective types of products. The directors of the Company review the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single operating and reportable segment under IFRS 8 "Operating Segments" and accordingly no separate segment information is prepared. The information about its non-current assets (other than deferred tax assets, fixed deposits with more than three months to maturity when placed and pledged bank deposits) by geographical locations of the assets are details below:

	2019	2018
	RMB'000	*RMB'000*
The PRC	**3,979,241**	4,173,698
Thailand	**1,088,413**	198,895
	5,067,654	4,372,593

6. REVENUE AND SEGMENT INFORMATION – *CONTINUED*

Revenue – *Continued*

Geographical information

Information about the Group's revenue from operations from external customers is presented based on the location of the goods delivered.

	2019	2018
	RMB'000	*RMB'000*
The PRC (country of domicile)	**5,538,752**	5,561,035
India	**323,638**	422,794
United States of America	**265,168**	331,000
Thailand	**257,046**	226,025
Korea	**175,983**	165,551
Germany	**99,492**	73,077
Others	**922,603**	778,885
	7,582,682	7,558,367

"Others" included revenue from various countries which are individually less than 10% of the Group's total revenue.

No customers contributes over 10% of the total revenue of the Group for the years ended 31 December 2019 and 2018.

7. OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
Sales of scrap materials	**40,664**	52,041
Interest income earned on bank balances and bank deposits	**66,213**	41,349
Waiver of trade payable *(Note)*	**–**	24,811
Rental income from investment properties, net	**4,804**	6,796
Service income	**1,974**	4,122
Sundry income	**12,767**	7,589
	126,422	136,708

Note: The amount in prior year represented the waiver of outstanding trade payable to a supplier based on the decision of the court for the poor quality of goods supplied.

8. GOVERNMENT GRANTS

Government grants represent incentive subsidies received by the Group from The People's Government of Xinghua Municipality (興化市人民政府) for technology improvement on production skills and research on new products received with no future related costs or without any conditions, during the years ended 31 December 2019 and 2018.

9. OTHER GAINS AND LOSSES, NET

	2019 RMB'000	2018 RMB'000
Gain from change in fair value of investment properties	**3,080**	5,420
Loss on disposal of property, plant and equipment	**(22,954)**	(9,652)
Dividend income from financial assets at fair value through profit or loss	**2,516**	–
Gain (loss) on change in fair value of financial assets at fair value through profit and loss	**24,424**	(2,533)
Net foreign exchange gain	**24,219**	27,499
Others	**–**	(1,309)
	31,285	19,425

10. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interests on:		
Bank loans and other borrowings	**63,118**	45,626
Bills receivable discounted	**9,799**	8,202
Finance cost in lease liabilities	**76**	–
	72,993	53,828
Less: amount capitalised in the cost of qualifying assets	**(32,284)**	(8,854)
	40,709	44,974

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.92% (2018: 2.92%) per annum to expenditure on qualifying assets.

11. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax	**100,925**	95,195
Under (over) provision in prior years	**31**	(382)
Withholding tax paid	**32,346**	16,731
Deferred tax *(note 20)*	**(3,316)**	(802)
	129,986	110,742

The tax charge represents income tax in the PRC which is calculated at the prevailing tax rate prevailing on the taxable income of the group entities in the PRC. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate for certain PRC subsidiaries is 25% from 1 January 2008 onwards except for the subsidiary described below.

In accordance with the renewed High-tech Enterprise Certificate issued on 24 October 2018, Jiangsu Xingda is continued to entitle the tax incentive as High-tech Enterprise and accordingly, the status of High-tech Enterprise is to be effective for the years 2018, 2019 and 2020. As a result, the tax rate of 15% is used to calculate the amount of current and deferred tax for the years ended 31 December 2019 and 2018.

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong for both years.

No provision for taxation in Thailand has been made as the Group's subsidiary in Thailand has no assessable profit for both years.

11. INCOME TAX EXPENSE – *CONTINUED*

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

	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**540,637**	482,597
Tax at the PRC tax rate of 25%	**135,159**	120,649
Tax effect of expenses not deductible for tax purposes	**29,885**	18,944
Tax effect of income not taxable for tax purposes	**(24,055)**	(12,815)
Tax effect of preferential tax rate	**(43,380)**	(32,399)
Under(over)provision in prior years	**31**	(382)
Deferred tax on undistributed earnings of PRC subsidiaries	**–**	(318)
Withholding tax (Note)	**32,346**	16,731
Others	**–**	332
Income tax expense for the year	**129,986**	110,742

Note: Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries at a tax rate of 10%. In 2019, two of the PRC subsidiaries (2018: two), Xingda Special Cord and Jiangsu Xingda has distributed dividends of RMB174,952,000 (2018: RMB167,309,000) to its immediate holding company, Faith Maple which was not accredited as a PRC tax resident as at 31 December 2019 and up to the date of these consolidated financial statements were authorised for issuance.

No deferred tax charge (2018: a deferred tax credit of approximately RMB318,000) in respect of the retained profits of Xingda Special Cord and Jiangsu Xingda was provided in these consolidated financial statements. No deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries other than Xingda Special Cord amounting to RMB3,447,059,000 (2018: RMB3,303,000,000), as the Group is able to control the timing of the reversal of the temporary differences of these PRC subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

12. PROFIT FOR THE YEAR

	2019	2018
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Staff cost, including directors' remuneration *(note 13)*		
Salaries, wages and other benefits	**661,943**	659,283
Retirement benefits scheme contributions *(note 35)*	**66,828**	61,614
Share-based payments	**4,976**	5,105
Total staff costs	**733,747**	726,002
Less: capitalised in inventories	**(444,973)**	(435,100)
Less: included in research and development expenditure	**(36,978)**	(34,660)
	251,796	256,242
Auditor's remuneration	**2,316**	2,224
Cost of inventories recognised as an expense	**6,111,469**	6,235,889
Depreciation and amortisation		
– Property, plant and equipment	**517,525**	522,441
– Right-of-use-asset	**7,817**	–
– Prepaid lease payments	**–**	7,223
Total depreciation and amortisation	**525,342**	529,664
Less: capitalised in inventories	**(439,158)**	(443,439)
Less: included in research and development expenditure	**(5,731)**	(2,349)
	80,453	83,876
Gross rental income from investment properties	**(5,120)**	(7,312)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**316**	516
Rental income from investment properties, net *(note 7)*	**(4,804)**	(6,796)
Operating lease payment in respect of premises	**N/A**	290

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

The emoluments paid or payable to seven (2018: seven) directors were as follows:

	2019	2018
	RMB'000	*RMB'000*
Fees	**1,047**	1,029
Salaries and other allowances	**11,855**	10,836
Performance related incentive bonus *(note)*	**15,102**	16,271
Retirement benefits scheme contributions	**57**	57
Share-based payments	**3,503**	3,599
	31,564	31,792

Note: The performance related incentive bonus is determined based on the performance of the Group.

Details of emoluments of individual directors, disclosed pursuant to the applicable Listing Rules and CO, are set out as follows:

Year ended 31 December 2019

	Fees	Salaries and other allowances	Performance related inventive bonus	Retirement benefits scheme contributions	Share–based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
LIU Jinlan	–	4,145	5,466	18	1,379	11,008
LIU Xiang	–	2,781	3,743	18	689	7,231
TAO Jinxiang	–	2,993	3,739	18	689	7,439
ZHANG Yuxiao	–	1,936	2,154	3	632	4,725
Independent Non-executive Directors						
William John SHARP	349	–	–	–	57	406
KOO Fook Sun, Louis	349	–	–	–	57	406
XU Chunhua	349	–	–	–	–	349
	1,047	11,855	15,102	57	3,503	31,564

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *CONTINUED*

Directors – *Continued*

Year ended 31 December 2018

	Fees	Salaries and other allowances	Performance related inventive bonus	Retirement benefits scheme contributions	Share–based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
LIU Jinlan	–	3,855	5,783	18	1,416	11,072
LIU Xiang	–	2,614	3,937	18	708	7,277
TAO Jinxiang	–	2,701	4,052	18	708	7,479
ZHANG Yuxiao	–	1,666	2,499	3	649	4,817
Non-executive Director						
Wu Xiaohui (retired on 23 May 2018)	–	–	–	–	–	–
Independent Non-executive Directors						
William John SHARP	343	–	–	–	59	402
KOO Fook Sun, Louis	343	–	–	–	59	402
XU Chunhua	343	–	–	–	–	343
	1,029	10,836	16,271	57	3,599	31,792

The executive directors' emoluments shown above were for their services in connections with the management of the affairs of the Company and the Group.

The non-executive director's and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *CONTINUED*

Five highest paid employees

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

	2019	2018
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**2,216**	1,905
Performance related incentive bonus *(note)*	**2,564**	2,869
Retirement benefit scheme contributions	**–**	13
Share-based payments	**453**	463
	5,233	5,250

Note: The performance related incentive bonus is determined based on the performance of the Group.

Their emoluments were within the bands:

	2019	2018
HK$5,500,001 – HK$6,000,000	**1**	1

There was no arrangement under which a director waived or agreed to any emoluments during both years.

No emoluments were paid by the Group to directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2019 and 2018.

14. DIVIDEND

	2019	2018
	RMB'000	*RMB'000*
Dividend for ordinary shareholders of the Company recognised as distribution during the year:		
Final dividend paid in respect of the year ended 31 December 2018 – 15.0 HK cents per share (2018: final dividend paid in respect of the year ended 31 December 2017 – 15.0 HK cents per share)	**197,077**	186,143
Final dividend proposed, 15.0 HK cents (financial year ended 31 December 2018: 15.0 HK cents) per share	**204,823**	197,077

During the current year, a final dividend of 15.0 HK cents (2018: 15.0 HK cents) per ordinary share in an aggregate amount of RMB197,077,000 (2018: RMB186,143,000) with scrip alternatives in respect of the year ended 31 December 2018 (2018: 31 December 2017) was approved at the annual general meeting of the Company held on 28 May 2019 (2018: 23 May 2018).

These scrip alternatives were accepted by certain ordinary shareholders, as follows:

	Year ended 31.12.2018	Year ended 31.12.2017
	RMB'000	*RMB'000*
Dividends:		
Cash	**109,226**	146,860
Ordinary share alternative	**87,851**	39,283
	197,077	186,143

Subsequent to the end of the reporting period, a final dividend for the year ended 31 December 2019 of 15.0 HK cents (2018: 15.0 HK cents) per ordinary share in an aggregate amount of RMB204,823,000 (2018: RMB197,077,000) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

The dividend proposed for the year ended 31 December 2019 and the dividend paid for financial year ended 31 December 2018 will be or were paid out of share premium. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum of Association and Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

15. EARNINGS PER SHARE

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

	2019	2018
	RMB'000	*RMB'000*
Profit for the year attributable to owners of the Company		
Earnings for the purpose of basic and diluted earnings per share	**288,752**	263,663

	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,512,884**	1,479,486
Effect of dilutive potential ordinary shares in respect of outstanding share awards	**8,025**	2,220
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,520,909**	1,481,706

The weighted average number of ordinary shares shown above has been arrived at after deducting shares held by share award scheme trust as set out in note 32.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant, machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2018	2,275,271	3,203	5,135,772	152,591	54,966	253,788	7,875,591
Additions	127	114	54,348	26,026	2,888	508,566	592,069
Reclassifications	26,443	–	427,576	1,350	–	(455,369)	–
Disposals	(56,787)	–	(269,064)	(970)	(290)	–	(327,111)
At 31 December 2018	2,245,054	3,317	5,348,632	178,997	57,564	306,985	8,140,549
Additions	917	6,267	84,490	6,476	1,493	1,088,272	1,187,915
Reclassifications	141,493	–	229,931	1,057	6,809	(379,290)	–
Disposals	(22,439)	–	(186,536)	(323)	(123)	–	(209,421)
Exchange realignment	–	291	1,501	10	32	37,564	39,398
At 31 December 2019	**2,365,025**	**9,875**	**5,478,018**	**186,217**	**65,775**	**1,053,531**	**9,158,441**
DEPRECIATION							
At 1 January 2018	755,802	945	3,159,328	99,082	43,124	–	4,058,281
Provided for the year	113,292	104	389,002	16,954	3,089	–	522,441
Eliminated on disposals	(46,308)	–	(236,783)	(769)	(275)	–	(284,135)
At 31 December 2018	822,786	1,049	3,311,547	115,267	45,938	–	4,296,587
Provided for the year	114,103	767	381,405	17,673	3,577	–	517,525
Eliminated on disposals	(15,258)	–	(167,074)	(162)	(116)	–	(182,610)
Exchange realignment	–	31	177	1	21	–	230
At 31 December 2019	**921,631**	**1,847**	**3,526,055**	**132,779**	**49,420**	**–**	**4,631,732**
CARRYING VALUES							
At 31 December 2019	**1,443,394**	**8,028**	**1,951,963**	**53,438**	**16,355**	**1,053,531**	**4,526,709**
At 31 December 2018	1,422,268	2,268	2,037,085	63,730	11,626	306,985	3,843,962

16. PROPERTY, PLANT AND EQUIPMENT – *CONTINUED*

Construction in progress as at 31 December 2019 and 31 December 2018 mainly represents factories and plant, machinery and equipment constructed for the Group's own use.

The above items of property, plant and equipment except for construction in progress are depreciated over their estimated useful lives and after taking into account of their estimated residual value, on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of lease term of land and 20 to 30 years
Leasehold improvements	Over the shorter of lease term and 30 years
Plant, machinery and equipment	2 to 10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

The buildings are situated on land in the PRC and Thailand.

As at 31 December 2019, the Group's certain buildings with carrying value of approximately RMB184,507,000 (2018: RMB45,512,000) was pledged as security for the Group's banking facilities (Note 29).

The Group's buildings with carrying value of RMB421,106,000 as at 31 December 2019 (2018: RMB531,633,000), are still in the process of application of title certificates.

17. RIGHT-OF-USE ASSETS

	Leasehold lands	Leased properties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019 Carrying amount	285,436	1,939	287,375
At 31 December 2019 Carrying amount	**280,856**	**1,493**	**282,349**
For the year ended 31 December 2019			
Depreciation charge	7,371	446	7,817
Expense relating to short-term leases with lease terms end within 12 months of the date of initial application of IFRS 16	–	200	200
Total cash outflow for leases	25,765	416	26,181
Additions to right-of-use assets	25,765	–	25,765

For both years, the Group leases lands in the PRC, office premises and a motor vehicle for its operations. Lease contracts are entered into for fixed term of 1 year to 40 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applied the definition of a contract and determines the period for which the contract is enforceable.

As at 31 December 2019, the Group's certain leasehold lands located in the PRC with carrying amount of approximately RMB49,269,000 (2018: RMB50,624,000) was pledged as security for the Group's bank borrowings (Note 29).

In addition, lease liabilities of RMB1,799,000 are recognised with related right-of-use assets of RMB1,493,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Lease assets may not be used as security for borrowing purposes.

18. PREPAID LEASE PAYMENTS FOR LAND USE RIGHTS/FREEHOLD LAND

	RMB'000
At 1 January 2018	349,705
Additions	9,541
Charge to profit or loss	(7,223)
At 31 December 2018	352,023
Reclassified to right-of-use assets upon application of IFRS 16	(285,436)
At 1 January 2019 (restated)	66,587
Additions	8,006
At 31 December 2019	**74,593**

18. PREPAID LEASE PAYMENTS FOR LAND USE RIGHTS/FREEHOLD LAND – *CONTINUED*

	2019	2018
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Non-current assets	**74,593**	344,708
Current assets	**–**	7,315
	74,593	352,023

The Group's prepaid lease payments comprise:

	2019	2018
	RMB'000	*RMB'000*
Leasehold land outside Hong Kong:		
Long lease – The PRC *(Note a)*	**–**	10,676
Freehold – Thailand *(Note b)*	**74,593**	66,587
	74,593	77,263
Medium-term lease – The PRC *(Note a)*	**–**	274,760
	74,593	352,023

Notes:

a. Prepaid lease payments in the PRC were amortised on a straight-line basis over the lease terms from 40 to 70 years as stated in the land use rights certificates. The amounts were reclassified to right-of-use assets at 1 January 2019 upon the adoption of IFRS 16.

b. Prepaid lease payments in Thailand has infinite useful life as stated in the land use rights certificate.

19. INVESTMENT PROPERTIES

	Completed investment properties
	RMB'000
FAIR VALUE	
At 1 January 2018	148,540
Net increase in fair value recognised in profit or loss	5,420
At 31 December 2018	153,960
Net increase in fair value recognised in profit or loss	3,080
At 31 December 2019	**157,040**

Investment properties represent the office premises located in Shanghai, the PRC, which is held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and classified and accounted for as investment properties.

In determining the fair value of the relevant properties, it is the Group's policy to engage third party qualified external valuers to perform the valuation. The management works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model.

The fair values of the Group's investment properties at 31 December 2019 and 2018 have been arrived at on the basis of a valuation carried out on the respective dates by Cushman & Wakefield Limited, independent qualified professional valuers not connected with the Group.

The fair value was determined based on the investment approach, where the rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties and, where appropriate, by referencing to the sales of properties with the benefit of vacant possession taking into account the comparable evidence as available in the relevant market. The rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in Shanghai and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

19. INVESTMENT PROPERTIES – *CONTINUED*

The key inputs used in valuing the investment properties were the market yield of 5% (2018: 5%) and rental. Slight increases in the market yield and rental would result in a significant decrease and increase, respectively, in fair value measurement of the investment properties, and vice versa.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2019 and 2018 are as follows:

	Level 3	
	2019	2018
	RMB'000	*RMB'000*
Office premises located in Shanghai	**157,040**	153,960

There were no transfers into or out of Level 3 during the year.

20. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019	2018
	RMB'000	*RMB'000*
Deferred tax assets	**21,262**	17,321
Deferred tax liabilities	**(12,952)**	(12,327)
	8,310	4,994

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior periods:

	Excess of accounting depreciation over tax depreciation	**Allowance for credit losses**	**Fair value change on investment properties**	**Fair value adjustment arising from acquisition of subsidiary**	**Undistributed profits of a subsidiary**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	(2,438)	(13,189)	7,310	4,041	84	(4,192)
Charge (credit) to profit or loss	1,413	(3,107)	1,355	(145)	(318)	(802)
At 31 December 2018	(1,025)	(16,296)	8,665	3,896	(234)	(4,994)
Charge (credit) to profit or loss	1,025	(4,966)	770	(145)	–	(3,316)
At 31 December 2019	**–**	**(21,262)**	**9,435**	**3,751**	**(234)**	**(8,310)**

At the end of the reporting period, the Group has deductible temporary difference of approximately RMB128,689,000 (2018: RMB110,770,000) in relation to the excess of accounting depreciation over tax depreciation and allowance for credit losses available for offset against future taxable profits. Deferred tax assets have been recognised in respect of Nil (2018: RMB6,844,000) and approximately RMB127,804,000 (2018: RMB103,041,000) respectively of such deductible temporary difference in relation to the excess of accounting depreciation over tax appreciation and allowance for credit losses. At the end of the reporting period, the Group has deductible temporary differences of RMB885,000 (2018: RMB885,000) for which no deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

21. PREPAYMENTS

The amounts represents the prepayment of road maintenance and management fee of RMB29,963,000 (2018: RMB32,963,000) for a period of 9.99 (2018: 10.99) years. As at 31 December 2019, an amount of RMB3,000,000 (2018: RMB3,000,000) was included in trade and other receivables as current asset as that portion will be recognised as an expenses within twelve months after the reporting date while the remaining RMB26,963,000 (2018: RMB29,963,000) was classified as non-current assets which will be recognised as expenses over twelve months after the reporting date.

22. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**389,502**	429,584
Work in progress	**100,778**	100,167
Finished goods	**181,034**	150,160
	671,314	679,911

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	RMB'000	*RMB'000*
Listed securities held for trading:		
– Equity securities listed in Hong Kong *(Note)*	**84,673**	60,249

Note: The fair value measurement of such investments are classified as Level 1 fair value measurement which are based on the quoted price from active markets. For the year ended 31 December 2019, the Group has recognised a fair value gain of RMB24,424,000 (2018: a fair value loss of HK$2,533,000) in respect of that investments.

24. TRADE, BILLS AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 120 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates.

The Group accepts bills from various local customers as settlement when the trade receivables fall due. Before accepting the bills, the Group would confirm with the relevant banks on the validity of the bills. It is the Group's practice to utilise bills received to settle certain of its debts. The aged analysis of bill receivables is presented based on the invoice date of trade receivables as at the end of the reporting period which approximated the respective revenue recognition dates.

	2019	2018
	RMB'000	*RMB'000*
Trade receivables – goods	**2,578,386**	2,795,407
Less: Allowance for credit losses	**(135,768)**	(110,046)
	2,442,618	2,685,361
Bills receivables	**2,974,538**	2,627,955
	5,417,156	5,313,316
Advances to raw material suppliers	**15,289**	25,697
Prepayment for spools	**12,251**	31,189
Interest receivables from fixed bank deposits with more than three months to maturity when placed	**44,992**	82,002
Value-add tax receivable	**42,601**	–
Deposit paid for acquiring land use rights	**50,346**	27,372
Other receivables and prepayments	**25,184**	20,791
Less: Allowance for credit losses on other receivables	**(5,262)**	(5,641)
	185,401	181,410
	5,602,557	5,494,726

As at 1 January 2018, trade and bill receivables from contracts with customers amounted to RMB5,350,000,000.

24. TRADE, BILLS AND OTHER RECEIVABLES – *CONTINUED*

The following is an aged analysis of trade and bills receivables, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period.

	2019	2018
	RMB'000	*RMB'000*
Trade receivables		
0 – 90 days	**1,802,754**	1,899,567
91 – 120 days	**229,645**	278,767
121 – 180 days	**260,119**	329,103
181 – 360 days	**150,100**	177,924
	2,442,618	2,685,361
Bill receivables *(see Note (a))*		
0 – 90 days	**362,678**	301,037
91 – 180 days	**1,036,660**	860,253
181 – 360 days	**1,418,944**	1,297,774
Over 360 days	**156,256**	168,891
	2,974,538	2,627,955

The Group's trade and other receivables that are denominated in currencies other than the functional currency of the group entities are set out below:

	2019	**Equivalent to RMB**	2018	Equivalent to RMB
	'000	***'000***	*'000*	*'000*
United States Dollar ("USD")	**69,801**	**487,379**	94,401	647,893
EUROS ("EUR")	**19,744**	**154,116**	14,968	117,458

Before accepting any new customer, the Group would assess the credit quality of each potential customer and define credit limit for each customer. In addition, the Group will review the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. In the opinion of the directors, receivables not past due at year end have good credit quality.

24. TRADE, BILLS AND OTHER RECEIVABLES – *CONTINUED*

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB545,987,000 (2018: RMB617,513,000) which are past due as at the reporting date. Out of the past due balances, RMB437,242,000 (2018: RMB507,027,000) has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

Details of expected credit losses assessment of trade and other receivables are set out in Note 38.

Note (a): TRANSFERS OF FINANCIAL ASSETS

The followings were the Group's financial assets as at 31 December 2019 and 2018 that were transferred to suppliers by endorsing bill receivables on a full recourse basis. There is no restriction on the use of the bills. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables. The related liabilities are shown under trade payables, other payables and bank borrowings. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2019

	Bill receivables endorsed to suppliers with full recourse
	RMB'000
Carrying amount of transferred assets	**1,802,427**
Carrying amount of associated liabilities	
– Trade payables	**1,799,307**
– Payables for purchase of property, plant and equipment	**3,120**
Net position	**–**

As at 31 December 2018

	Bill receivables endorsed to suppliers with full recourse
	RMB'000
Carrying amount of transferred assets	1,424,405
Carrying amount of associated liabilities	
– Trade payables	1,420,865
– Payables for purchase of property, plant and equipment	3,540
Net position	–

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/FIXED BANK DEPOSITS WITH MORE THAN THREE MONTHS TO MATURITY WHEN PLACED

Bank balances and cash comprise cash held by the Group. The bank balances carry interest rates ranging from 0.01% to 1.30% (2018: 0.01% to 1.30%) per annum.

During the year, the Group placed fixed bank deposits amounting to RMB1,862,000,000 (2018: RMB1,000,000,000) in banks which are carried fixed interest rate of 2.18%, 3.58%, 3.68%, 3.69%, 3.71%, 4.07% and 4.13% per annum (2018: 3.58%, 3.68%, 3.69% and 3.71% per annum) with maturity of one to three years (2018: four months to two years). Including which RMB420,000,000 (2018: Nil) was pledged to banks to secure bank borrowings and the amounts were classified as non-current assets.

Pledged bank deposits amounted to Nil (2018: RMB52,000,000) represent deposits pledged to banks to secure bill payables and are therefore classified as current assets.

The Group's fixed bank deposits with more than three months to maturity when placed are classified as follows:

	2019	2018
	RMB'000	*RMB'000*
Non-current	**1,850,000**	900,000
Current	**12,000**	100,000
	1,862,000	1,000,000

The Group's bank balances and cash, pledged bank deposits and fixed bank deposits with more than three months to maturity when placed that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2019	**Equivalent to RMB**	2018	Equivalent to RMB
	'000	***'000***	*'000*	*'000*
Hong Kong dollars ("HKD")	**11,573**	**10,351**	3,608	3,161
USD	**9,549**	**66,612**	46,003	315,728
EUR	**3,130**	**24,463**	972	7,627
Thai Baht ("THB")	**35,519**	**8,260**	36,320	7,663

26. TRADE, BILL AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**2,151,758**	2,372,995
Bill payables	**662,000**	690,000
	2,813,758	3,062,995
Value-added tax payables and other tax payables	**34,912**	56,356
Accrued staff costs and pension	**225,469**	223,943
Payables for purchase of property, plant and equipment	**587,105**	391,279
Accrued interest expense	**2,930**	3,146
Accrued electricity charges	**55,400**	51,962
Accrued sewage expenses	**12,941**	1,603
Others	**30,679**	37,796
	949,436	766,085
	3,763,194	3,829,080

26. TRADE, BILL AND OTHER PAYABLES – *CONTINUED*

The following is an aged analysis of trade and bill payables presented based on the invoice at the end of the reporting period:

	2019	2018
	RMB'000	*RMB'000*
Trade payables		
0 – 90 days	**1,501,132**	1,391,144
91 – 180 days	**277,044**	577,156
181 – 360 days	**286,656**	308,100
Over 360 days	**86,926**	96,595
	2,151,758	2,372,995
Bill payables		
0 – 90 days	**351,230**	–
91 – 180 days	**248,770**	630,296
181 – 360 days	**62,000**	59,704
	662,000	690,000

All Group's trade payables are denominated in the functional currency of the group entities.

The average credit period on purchase of goods is 90 days which may be extended to 120 days or 180 days based on negotiation between the suppliers and the Group. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

27. CONTRACT LIABILITIES

The amount represented the trade deposits received from customers, which will be recognised as the Group's revenue when the control of the goods transferred to customers. The amounts are classified as current liabilities as they are expected to be recognised as revenue within twelve months after the reporting date.

As at 1 January 2018, contract liabilities amounted to RMB4,528,000. Amount of RMB4,528,000 had been recognised as the Group's revenue during the year ended 31 December 2018. Amount of RMB31,845,000 as at 31 December 2018 had been recognised as the Group's revenue during the year ended 31 December 2019.

28. AMOUNT DUE TO A RELATED COMPANY

The amount represents hotel and catering service fee payable to Xinghua Municipality Xingda Xiu Yuan Hotel Co., Ltd. 興化市興達繡園酒店有限公司 ("Xingda Xiu Yuan"), which is trading in nature. It is unsecured, non-interest bearing and repayable on demand. Relationship of Xingda Xiu Yuan with the Group is set out in note 36.

29. BORROWINGS

	2019	2018
	RMB'000	*RMB'000*
Bank loans	**2,045,941**	1,241,943
Other loans	**127,000**	52,500
	2,172,941	1,294,443
Secured *(Note)*	**993,952**	291,637
Unsecured	**1,178,989**	1,002,806
	2,172,941	1,294,443

The Group's borrowings are repayable as follows:

	2019	2018
	RMB'000	*RMB'000*
Carrying amounts repayable (based on scheduled repayment terms)		
Within one year	**1,872,941**	1,144,443
More than one year, but not more than two years	**300,000**	150,000
	2,172,941	1,294,443
Less: Amounts due shown under current liabilities	**(1,872,941)**	(1,144,443)
	300,000	150,000

Note: These secured borrowings are guaranteed by the corporate guarantee from the Company in both years, secured by certain property, plant and equipment and right-of-use assets of which the details are set out in Notes 16 and 17, respectively.

29. BORROWINGS – *CONTINUED*

During the year ended 31 December 2019, the Group borrowed new other loans of RMB152,000,000 (2018: RMB50,000,000) from a financial institute in Xinghua City, the PRC, an independent third party. The other loans are unsecured, carried interest at a fixed monthly rate of 0.417% and 1.083% (2018: 0.417% and 1.0%) and are repayable in one year. The proceeds were used as working capital. Other loans of RMB77,500,000 (2018: Nil) were repaid during the year ended 31 December 2019.

During the year, the Group obtained new bank borrowings amounting to approximately RMB2,700,811,000 (2018: RMB1,551,902,000). The bank borrowings bear interest at market rates. The proceeds were used as daily working capital.

	2019	2018
	RMB'000	*RMB'000*
Borrowings comprise:		
Fixed-rate borrowings	**1,961,952**	1,172,137
Variable-rate borrowings	**210,989**	122,306
	2,172,941	1,294,443

The variable-rate bank borrowings which carried interest at 2.2% (2018: 2.2%) above 1-month Hong Kong and Interbank Offered Rate and rates determined by The People's Bank of China.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2019	2018
Effective interest rates:		
Fixed-rate borrowings	**2.92% – 5.20%**	2.92% – 4.79%
Variable-rate borrowings	**3.91% – 4.61%**	3.21% – 4.41%

Borrowings that are denominated in currencies other than the functional currency of the relevant Group entities are as follows:

	2019	2018
	RMB'000	*RMB'000*
HKD	**160,989**	87,620
USD	**–**	34,316

30. LEASE LIABILITIES

	2019
	RMB'000
Lease liabilities payable:	
Within one year	**560**
Within a period of more than one year but not more than two years	**167**
Within a period of more than two years but not more than five years	**543**
Within a period of more than five years	**529**
	1,799
Less: Amount due to settlement with 12 months shown under current liabilities	**(560)**
Amount due for settlement after 12 months shown under non-current liabilities	**1,239**

31. SHARE CAPITAL

	Number of shares		**Share capital**	
	2019	2018	**2019**	2018
	'000	*'000*	***RMB'000***	*RMB'000*
Authorised:				
3 billion ordinary shares of HK$0.1 each	**3,000,000**	3,000,000	**301,410**	301,410
Issued and fully paid:				
At beginning of year	**1,492,531**	1,486,396	**148,388**	147,923
Issuance of scrip shares *(note)*	**53,395**	19,829	**4,698**	1,657
Repurchase of shares	**(15,113)**	(13,694)	**(1,358)**	(1,192)
At end of year	**1,530,813**	1,492,531	**151,728**	148,388

Note: During the year ended 31 December 2019, the Company issued and allotted 53,395,151 new ordinary shares of HK$0.1 each as scrip alternatives for the final dividend for the year ended 31 December 2018. Details are set out in note 14.

31. SHARE CAPITAL – *CONTINUED*

During the year ended 31 December 2019, the Company repurchased its own shares through the Stock Exchange as follows:

	Number of ordinary shares	Price per share		Aggregate consideration paid paid	Aggregate consideration equivalent to
		Highest	Lowest		
	'000	*HK$*	*HK$*	*HK$'000*	*RMB'000*
September 2019	1,242	2.09	2.07	2,612	2,355
October 2019	6,422	2.10	2.08	13,475	11,503
November 2019	5,421	2.14	2.10	11,628	10,463
December 2019	2,028	2.14	2.11	4,358	3,922
	15,113			32,073	28,243

The above shares were cancelled subsequently after their repurchase. Save as disclosed above and apart from the Company's shares purchased under the share-award scheme of the Company as mentioned in note 32 to the consolidated financial statements, neither the Company nor any of the Company's subsidiaries purchased, repurchased, sold or redeemed any of the Company's shares during the years ended 31 December 2019 and 2018.

32. SHARE-AWARD SCHEME

The Company's share award scheme (the "Scheme"), was adopted pursuant to a resolution passed on 4 September 2009 for the primary purpose of providing incentives to the participants of the Scheme (the "Participants") including the directors and certain employees of the Group, to achieve performance goals which in turn achieve the objectives of increasing the value of the Group and align the interests of directors and eligible employees directly to the shareholders of the Company through ownership of shares. A trustee, as an independent third party, was appointed by the Company for the administration of the Scheme. The trustee shall purchase the Company's shares from the market out of cash contributed by the Company and shall hold such shares in trust until they are vested to the Participants in accordance to the rules of the Scheme.

4,900,000 (2018: Nil) shares have been purchased from the open market pursuant to the Scheme during the years ended 31 December 2019. 3,333,334 (2018: 3,333,332) awarded shares were vested during the year. Movements in the number of awarded shares outstanding during the year are as follows:

2019

			Number of awarded shares				
Categories of awardees	Date of grant (Note i)	Fair value per share HK$ (Note ii)	Outstanding at 1 January 2019	Vested during the year	Granted during the year	Outstanding at 31 December 2019	Vesting period
Directors of the Company	25 August 2016	2.150	2,066,667	(2,066,667)	–	–	25 August 2016 to 31 March 2019
Directors of the Company	25 August 2016	2.150	2,066,667	–	–	2,066,667	25 August 2016 to 31 March 2020
Directors of the Company	25 August 2016	2.150	2,066,666	–	–	2,066,666	25 August 2016 to 31 March 2021
Employees	25 August 2016	1.561	1,266,667	(1,266,667)	–	–	25 August 2016 to 31 March 2019
Employees	25 August 2016	1.415	1,266,667	–	–	1,266,667	25 August 2016 to 31 March 2020
Employees	25 August 2016	1.303	1,266,666	–	–	1,266,666	25 August 2016 to 31 March 2021

32. SHARE-AWARD SCHEME – *CONTINUED*

2019 – *CONTINUED*

			Number of awarded shares				
Categories of awardees	Date of grant (Note i)	Fair value per share HK$ (Note ii)	Outstanding at 1 January 2019	Vested during the year	Granted during the year	Outstanding at 31 December 2019	Vesting period
Directors of the Company	22 August 2019	1.487 (Note iii)	–	–	2,050,000	2,050,000	22 August 2019 to 31 March 2022
Directors of the Company	22 August 2019	1.365 (Note iii)	–	–	2,050,000	2,050,000	22 August 2019 to 31 March 2023
Directors of the Company	22 August 2019	1.253 (Note iii)	–	–	2,050,000	2,050,000	22 August 2019 to 31 March 2024
Employees	22 August 2019	1.532 (Note iii)	–	–	1,283,333	1,283,333	22 August 2019 to 31 March 2022
Employees	22 August 2019	1.474 (Note iii)	–	–	1,283,333	1,283,333	22 August 2019 to 31 March 2023
Employees	22 August 2019	1.443 (Note iii)	–	–	1,283,334	1,283,334	22 August 2019 to 31 March 2024
			10,000,000	(3,333,334)	10,000,000	16,666,666	

32. SHARE-AWARD SCHEME – *CONTINUED*

2018

			Number of awarded shares				
Categories of awardees	Date of grant	Fair value per share	Outstanding at 1 January 2018	Vested during the year	Granted during the year	Outstanding at 31 December 2018	Vesting period
	(Note i)	*HK$* *(Note ii)*					
Directors of the Company	22 January 2013	3.480	2,066,666	(2,066,666)	–	–	22 January 2013 to 31 March 2018
Employees	22 January 2013	2.646	1,266,666	(1,266,666)	–	–	22 January 2013 to 31 March 2018
Directors of the Company	25 August 2016	2.150	2,066,667	–	–	2,066,667	25 August 2016 to 31 March 2019
Directors of the Company	25 August 2016	2.150	2,066,667	–	–	2,066,667	25 August 2016 to 31 March 2020
Directors of the Company	25 August 2016	2.150	2,066,666	–	–	2,066,666	25 August 2016 to 31 March 2021
Employees	25 August 2016	1.561	1,266,667	–	–	1,266,667	25 August 2016 to 31 March 2019
Employees	25 August 2016	1.415	1,266,667	–	–	1,266,667	25 August 2016 to 31 March 2020
Employees	25 August 2016	1.303	1,266,666	–	–	1,266,666	25 August 2016 to 31 March 2021
			13,333,332	(3,333,332)	–	10,000,000	

32. SHARE-AWARD SCHEME – *CONTINUED*

Notes:

i. The date of grant refers to the date on which the selected directors and employees agree to undertake to hold the awarded shares on the terms on which they are granted and agree to be bound by the rules of the Scheme.

ii. The fair value of the awarded shares are based on the fair value at grant date.

iii. The fair value of share-award granted on 22 August 2019 was calculated using the Binomial model. The inputs into the model were as follows:

	2019
Weighted average share price at grant date	**HK$2.01**
Expected volatility	**33% to 36%**
Expected life	**2.61 to 4.61 years**
Risk-free rate	**1.24% – 1.53%**
Expected dividend yield	**7.02%**

Expected volatility was determined by using the historical volatility of the Company's share price over the previous five years which is an same duration as the life of the awarded shares.

The awarded shares granted in 2013 would be vested over a period of six years from 2013 to 2019. In the first three years, the shares would be vested in tranches of approximately 1,666,666 shares annually while the remaining awarded shares would be vested in tranches of approximately 3,333,332 and Nil shares for the year ended 31 December 2018 and 2019, respectively.

The awarded shares granted in 2016 would be vested in tranches of approximately 3,333,333 shares annually over the remaining two years vesting period from 2020 to 2021.

The awarded shares granted in 2019 would be vested in tranches annually over a period of three years from 2022 to 2024.

The Group recognised the total expenses of approximately RMB4,976,000 for the year ended 31 December 2019 (2018: RMB5,105,000) in relation to shares granted under the Scheme by the Company.

The Binomial model has been used to estimate the fair value of the share-award granted. The variable and assumptions used in computing the fair value of the share-award are based on the directors' best estimate. The value of share-award varies with different variables of certain subjective assumptions.

33. OPERATING LEASES

The Group as lessee

	2018
	RMB'000
Minimum lease payments paid under operating leases for premises during the year	290

	2018
	RMB'000
Within one year	200
In the second and fifth years inclusive	67
	267

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases were negotiated and rentals were fixed for terms from one to three years.

The Group as lessor

Property rental income earned during the year was RMB5,120,000 (2018: RMB7,312,000). The properties are expected to generate rental yields of 3.26% (2018: 4.75%) on an ongoing basis. All of the properties held have committed tenants for the next two years.

At 31 December 2019, the Group had contracted with tenants for the following future minimum lease payments:

	2019	2018
	RMB'000	*RMB'000*
Within one year	**5,910**	8,334
In the second year	**3,810**	14,865
In the third year	**3,182**	–
In the fourth year	**2,435**	–
	15,337	23,199

34. CAPITAL COMMITMENTS

	2019	2018
	RMB'000	*RMB'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**350,907**	400,855

35. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group's full-time employees are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a rate of 20.0% (2018: 20.0%) of the employees' salaries subject to the minimum requirement in the Xinghua Municipality, which are charged to operations as expenses when the contributions are due.

The Group's contribution to the retirement benefit scheme that is charged to profit or loss is approximately RMB66,828,000 (2018: RMB61,614,000) for the year ended 31 December 2019.

36. RELATED PARTY TRANSACTIONS

Details of transactions between the Group and a related party are disclosed below:

Name of related party	**Nature of transaction**	*Note*	**2019**	2018
			RMB'000	*RMB'000*
Xingda Xiu Yuan *(Note)*	Services fee for hotel and catering services	*(a)*	**10,215**	5,284

Note: Xingda Xiu Yuan is a limited company whose legal representative and general manager is a close family member of the Chairman of the Group.

Details of the balances with a related party are set out in the consolidated statement of financial position on page 78 and note 28.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2019	2018
	RMB'000	*RMB'000*
Short-term benefits	**40,848**	40,127
Post-employment benefits	**66**	76
Share-based payments	**4,202**	4,313
	45,116	44,516

The remuneration of directors and key management is determined by the Remuneration and Management Development Committee having regard to the performance of individuals and market trends.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

As at 31 December 2019

	Bank borrowings	**Other loans**	**Accrued interest expenses**	**Dividend payable**	**Lease liabilities**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
As at 1 January 2019	**1,241,943**	**52,500**	**3,146**	**27,195**	**–**	**1,324,784**
Adjustment upon application of IFRS 16	**–**	**–**	**–**	**–**	**1,939**	**1,939**
Financing cash flows	**803,998**	**74,500**	**(73,133)**	**(186,681)**	**(216)**	**618,468**
Dividend declared	**–**	**–**	**–**	**159,486**	**–**	**159,486**
Interest expenses	**–**	**–**	**40,633**	**–**	**76**	**40,709**
Interest capitalised	**–**	**–**	**32,284**	**–**	**–**	**32,284**
As at 31 December 2019	**2,045,941**	**127,000**	**2,930**	**–**	**1,799**	**2,177,670**

As at 31 December 2018

	Bank borrowings	Other loans	Accrued interest expenses	Dividend payable	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018	950,530	2,500	1,127	–	–	954,157
Financing cash flows	291,413	50,000	(51,809)	(192,551)	–	97,053
Dividend declared	–	–	–	219,746	–	219,746
Interest expenses	–	–	44,974	–	–	44,974
Interest capitalised	–	–	8,854	–	–	8,854
As at 31 December 2018	1,241,943	52,500	3,146	27,195	–	1,324,784

38. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2019	2018
	RMB'000	*RMB'000*
Financial assets		
Financial assets at amortised cost	**7,892,328**	7,651,173
Financial assets at FVTPL	**84,673**	60,249
Financial liabilities		
Amortised cost	**5,576,991**	4,750,337

b. Financial risk management objectives and policies

The Group's major financial instruments include fixed bank deposits with more than three months to maturity when placed, bank balances and cash, pledged bank deposits, trade, bill and other receivables, financial assets at FVTPL, trade, bill and other payables, amount due to a related party, lease liabilities and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 26.9% (2018: 29.1%) of the Group's sales is denominated in currencies other than the functional currency of the group entity making the sale, whilst 0.5% (2018: 0.7%) of costs is denominated in currencies other than the functional currency of the group entity.

Certain trade, bill and other receivables, bank balances, trade and other payables of the Group are denominated in USD, HKD, EUR and THB. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Market risk – Continued

(i) Currency risk – *Continued*

Foreign currency sensitivity

The following details the Group's sensitivity to a 3% (2018: 3%) increase and decrease in RMB against the relevant foreign currencies. 3% (2018: 3%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in exchange rates for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year ended for a 3% (2018: 3%) change in foreign currency rates.

At the end of the reporting period, if exchange rates of RMB against USD, HKD, EUR and THB had appreciated by 3% (2018: 3%) and all other variables were held constant, the Group's post-tax profit for the year would decrease by approximately RMB14,137,000 (2018: RMB20,909,000), RMB4,039,000 (2018: RMB1,900,000), RMB4,559,000 (2018: RMB2,814,000) and RMB247,000 (2018: RMB172,000), respectively.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 29 and note 30 for details of these borrowings and lease liabilities). The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings (see note 29 for details of these borrowings) and variable-rate bank balances (see note 25 for details of these bank balances). It is the Group's policy to keep certain of its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate arising from the Group's Hong Kong dollar denominated borrowings.

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Market risk – Continued

(ii) Interest rate risk – *Continued*

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to variable interest rates bank borrowings at the end of the reporting period. Variable-rate bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balance is insignificant.

A 50 basis points (2018: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rate had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by approximately RMB805,000 (2018: decrease/increase by approximately RMB612,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

(iii) Other price risk

The Group is exposed to price risk through its financial assets at FVTPL. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date.

If the prices of the respective financial assets at FVTPL has been 5% (2018: 5%) higher/lower, other gains for the year ended 31 December 2019 would increase/decrease by RMB4,234,000 (2018: RMB3,012,000) as a result of the changes in fair value of financial assets at FVTPL.

In the opinion of directors of the Company, the sensitivity analysis is unrepresentative of the Group's price risk as it only reflects the impact of price changes to financial assets at FVTPL held at the end of each reporting period but not the exposure during the year ended 31 December 2019.

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Credit risk and impairment assessment

As at 31 December 2019 and 2018, the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position best represent the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Bills receivables arising from contracts with customers

The credit risk on bills receivables is minimal since the settlement parties are reputable banks with high credit ratings assigned by international credit-rating agencies.

Other receivables

The Group has taken into account the financial position of the counterparties, based on the track record of regular settlements, the amounts are expected to be recoverable and the expected credit losses on other receivables are considered to be insignificant.

Fixed bank deposits with more than three months to maturity when placed, pledged bank deposits and bank balances and cash

The Group performs impairment assessment under ECL model upon application of IFRS 9 on fixed bank deposits with more than three months to maturity when placed, pledged bank deposits and bank balances and cash based on 12m ECL.

The credit risk on liquid funds is limited because the counterparties are various banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 74% (31 December 2018: 69%) of the total trade receivables as at 31 December 2019. The Group does not have other significant concentration of credit risk as the trade and other receivables consist of a large number of debtors.

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Credit risk and impairment assessment – Continued

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Credit risk and impairment assessment – Continued

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2019	*Notes*	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount** *RMB'000*
Financial assets at amortised costs					
Trade receivables	*24*	**N/A**	*(note)*	**Lifetime ECL (not credit-impaired)**	**2,469,641**
			Loss	**Lifetime ECL– credit impaired**	**108,745**
					2,578,386
Bills receivables	*24*	**N/A**	**Low risk**	**12-month ECL**	**2,974,538**
Other receivables	*24*	**N/A**	**Low risk**	**12-month ECL**	**115,260**
Bank balances	*25*	**AA+**	**Low risk**	**12-month ECL**	**496,883**
Fixed bank deposits with more than three months to maturity when placed	*25*	**AA+**	**Low risk**	**12-month ECL**	**1,442,000**
Pledged bank deposits	*25*	**AA+**	**Low risk**	**12-month ECL**	**420,000**
					8,027,067

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Credit risk and impairment assessment – Continued

2018	*Notes*	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount *RMB'000*
Financial assets at amortised costs					
Trade receivables	*24*	N/A	*(note)*	Lifetime ECL (not credit-impaired)	2,713,119
			Loss	Lifetime ECL– credit impaired	82,288
					2,795,407
Bills receivables	*24*	N/A	Low risk	12-month ECL	2,627,955
Other receivables	*24*	N/A	Low risk	12-month ECL	181,410
Pledged bank deposits	*25*	AA+	Low risk	12-month ECL	52,000
Bank balances	*25*	AA+	Low risk	12-month ECL	1,103,397
Fixed bank deposits with more than three months to maturity when placed	*25*	AA+	Low risk	12-month ECL	1,000,000
					7,760,169

Note:

For trade receivables for sales of radial tire cords, bead wires and other wires, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors that are credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

As part of the Group's credit risk management, the Group applied internal credit rating for its customers in relation to its sales of radial tire cords, bead wires and other wires because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2019 within lifetime ECL (not credit impaired). Credit impaired debtors with gross carrying amount of RMB108,745,000 (2018: RMB82,288,000) as at 31 December 2019 were assessed individually.

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Gross carrying amount

	2019		2018	
	Average loss rate	**Trade receivables**	Average loss rate	Trade receivables
		RMB'000		*RMB'000*
Low risk	**0.900%**	**2,032,778**	0.800%	2,206,092
Watch list	**1.998%**	**436,863**	1.994%	507,027
		2,469,641		2,713,119

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

During the year ended 31 December 2019, the Group provided an impairment allowance of RMB25,722,000 (2018: RMB15,112,000) for trade receivables, based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit–impaired)	**Lifetime ECL (credit–impaired)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2018	12,646	82,288	94,934
Impairment loss recognised	19,024	–	19,024
Impairment loss reversed	(3,912)	–	(3,912)
As at 31 December 2018	27,758	82,288	110,046
Impairment loss recognised	5,485	26,457	31,942
Impairment loss reversed	(6,220)	–	(6,220)
As at 31 December 2019	**27,023**	**108,745**	**135,768**

During the year ended 31 December 2019, a reversal of impairment allowance of RMB379,000 (2018: Nil) for other receivables.

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

At 31 December 2019

	Weighted average interest rate	Less than 30 days	31 – 60 days	61 – 90 days	91 – 365 days	1 – 2 years	2 – 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade, bill and other payables	–	–	–	1,852,362	1,548,501	–	–	–	3,400,863	3,400,863
Amount due to a related company	–	3,187	–	–	–	–	–	–	3,187	3,187
Borrowings										
– variable rate	3.50	–	–	50,000	162,867	–	–	–	212,867	210,989
– fixed rate	4.68	23,567	19,634	83,222	1,592,537	–	335,100	–	2,054,060	1,961,952
Lease liabilities	4.35	48	48	48	459	217	649	560	2,029	1,799
		26,802	19,682	1,985,632	3,304,364	217	335,749	560	5,673,006	5,578,790

38. FINANCIAL INSTRUMENTS – *CONTINUED*

b. Financial risk management objectives and policies – *Continued*

Liquidity risk – Continued

Liquidity risk tables – *Continued*

At 31 December 2018

	Weighted average interest rate	Less than 30 days	31 – 60 days	61 – 90 days	91 – 365 days	2 – 5 years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade, bill and other payables	–	483,449	450,439	457,256	2,063,130	–	3,454,274	3,454,274
Amount due to a related company	–	1,620	–	–	–	–	1,620	1,620
Borrowings								
– variable rate	3.5	–	–	–	125,388	–	125,388	122,306
– fixed rate	4.4	32,117	25,183	30,974	969,943	154,950	1,213,167	1,172,137
		517,186	475,622	488,230	3,158,461	154,950	4,794,449	4,750,337

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if change in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

38. FINANCIAL INSTRUMENTS – *CONTINUED*

c. Fair value

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their corresponding fair values.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets

	Fair value as at				
	31 December 2019	31 December 2018	Fair value hierarchy	Valuation technique and key inputs	Relationship of unobservable inputs to fair value
	RMB'000	*RMB'000*			
Financial assets at FVTPL	**84,673** ***(Note 23)***	60,249 *(Note 23)*	Level 1	Quoted price in active market.	N/A

Note: There were no transfers between level 1 and level 2 during the year ended 31 December 2019 and 2018.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(i) Details of the Company's principal subsidiaries as at 31 December 2019 and 2018 are disclosed as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid up share capital/registered capital 2019	2018	Attributable to equity interest held by the Group 2019	2018	Principal activities
Directly held by the Company						
Faith Maple	The British Virgin Islands	**USD14,083**	USD14,083	**100%**	100%	Investment holding
Indirectly held by the Company						
Jiangsu Xingda 江蘇興達鋼簾線股份有限公司 *(note a)*	PRC	**RMB1,712,229,323**	RMB1,500,000,000	**73.31%** ***(note d)***	69.54%	Manufacture and distribution of radial tire cords, bead wires and other wires
Shanghai Xingda 上海興達鋼簾線有限公司 *(note b)*	PRC	**RMB2,000,000**	RMB2,000,000	**73.31%**	70.23%	Trading of radial tire cords and bead wires
Xingda International (Shanghai) 興達國際（上海）特種簾線有限公司 *(note c)*	PRC	**USD12,000,000**	USD12,000,000	**100%**	100%	Trading of radial tire cords and bead wires and commercial property investments
Xingda Special Cord 江蘇興達特種金屬複合線有限公司 *(note a)*	PRC	**USD105,000,000**	USD105,000,000	**73.31%** ***(note d)***	96.95%	Manufacture of radial tire cords and bead wires
Shandong Xingda 山東興達鋼簾線有限公司 *(note a)*	PRC	**USD90,245,000**	USD90,245,000	**66.66%**	74.49%	Manufacture and distribution of radial tire cords and bead wires
Xingda Steel Cord (Thailand) Company Limited	Thailand	**THB2,000,000**	THB2,000,000	**73.31%**	69.54%	Manufacture and distribution of radial tire cords, bead wires and other wires
Xingda Europe S.A.R.L.	Luxembourg	**EUR245,400**	EUR245,400	**73.31%**	69.54%	Promotion of business in Europe

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – *CONTINUED*

(i) – Continued

Notes: For those subsidiaries established in the PRC, their classification of establishment is as follows:

(a) sino-foreign equity joint venture

(b) domestic invested company

(c) wholly foreign owned enterprise

(d) On 12 April 2019, Faith Maple, a direct wholly-owned subsidiary of the Company, entered into a capital increase agreement with 江蘇興宏達實業有限公司 (Jiangsu Xinghongda Industrial Ltd.*) 江蘇興達鋼線股份有限公司工會 (Labour Union of Jiangsu Xingda Steel Tyre Cord Co. Ltd.*) and 興化市興戴貿工業總公司 (Xinghua Xingudai Commercial and Industrial Company*), all of them were the existing non-controlling shareholders of Jiangsu Xingda, pursuant to which Faith Maple agreed to inject a total of RMB715,000,000 in cash to subscribe for 220,000,000 new shares of Jiangsu Xingda. On the same day, Faith Maple also entered into an equity transfer agreement with Jiangsu Xingda, pursuant to which Faith Maple agreed to transfer 90% equity interests in Xingda Special Cord to Jiangsu Xingda at a consideration of RMB676,345,300 (the "Equity Transfer"). Upon completion of the Equity Transfer, Jiangsu Xingda Special Cord will be owned as to 100% by Jiangsu Xingda and will remain as an indirect non-wholly owned subsidiary of the Company.

As a result of the above restructuring arrangement, the Group's effective interest in Xingda Special Cord has been decreased from approximately 96.95% to approximately 73.31% whereas the Group's effective interest in Jiangsa Xingda has been increased from approximately 69.54% to approximately 73.31%.

* for identification only

None of the subsidiaries had any loan capital and issued any debt securities subsisting at the end of the year or at any time during the year.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – *CONTINUED*

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests. The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019**	2018	**2019**	2018
				RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Jiangsu Xingda 江蘇興達鋼簾線股份有限公司	PRC	**26.69%**	30.46%	**115,779**	95,104	**1,953,356**	1,934,076
Shandong Xingda 山東興達鋼簾線有限公司	PRC	**33.34%**	25.51%	**8,598**	13,293	**208,495**	152,950
Individually immaterial subsidiaries with non-controlling interests				**(2,478)**	(205)	**(15,901)**	10,206
				121,899	108,192	**2,145,950**	2,097,232

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – *CONTINUED*

(ii) – Continued

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Shandong Xingda		Jiangsu Xingda	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current assets	**656,428**	639,194	**5,980,499**	6,456,773
Non-current assets	**717,050**	730,154	**5,789,608**	4,179,013
Current liabilities	**(748,119)**	(769,778)	**(4,150,439)**	(4,136,227)
Non-current liabilities	**–**	–	**(300,000)**	(150,000)
Equity attributable to owners of the Company	**(416,864)**	(446,620)	**(5,366,312)**	(4,415,483)
Non-controlling interests	**(208,495)**	(152,950)	**(1,953,356)**	(1,934,076)

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – *CONTINUED*

(ii) – Continued

	Shandong Xingda		**Jiangsu Xingda**	
	Year ended 2019	Year ended 2018	**Year ended 2019**	Year ended 2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**815,617**	822,398	**7,073,635**	7,706,246
Expenses	**(789,828)**	(770,291)	**(6,639,842)**	(7,394,018)
Profit and total comprehensive income attributable to owners of the Company	**17,191**	38,814	**318,014**	217,124
Profit and total comprehensive income attributable to the non-controlling interests	**8,598**	13,293	**115,779**	95,104
Profit and total comprehensive income for the year	**25,789**	52,107	**433,793**	312,228
Dividend paid to non-controlling interests	**–**	28,317	**48,221**	43,557
Net cash inflow from operating activities	**92,650**	139,807	**161,920**	599,954
Net cash outflow from investing activities	**(56,953)**	(98,968)	**(1,908,640)**	(410,851)
Net cash (outflow) inflow from financing activities	**(39,071)**	(46,407)	**1,198,800**	159,219
Net cash (outflow) inflow	**(3,374)**	(5,568)	**(547,920)**	348,322

40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2019	2018
	RMB'000	*RMB'000*
ASSETS AND LIABILITIES		
NON-CURRENT ASSETS		
Investment in a subsidiary	**558,476**	525,731
Amount due from a subsidiary	**681,233**	698,529
	1,239,709	1,224,260
CURRENT ASSETS		
Financial assets at fair value through profit or loss	**84,673**	60,249
Other receivables	**32**	91
Bank balances and cash	**10,324**	4,724
	95,029	65,064
CURRENT LIABILITIES		
Other payables	**4,361**	32,356
Bank borrowings	**160,989**	122,306
	165,350	154,662
NET CURRENT LIABILITIES	**(70,321)**	(89,598)
NET ASSETS	**1,169,388**	1,134,662
CAPITAL AND RESERVES		
Share capital *(note 31)*	**151,728**	148,388
Reserves	**1,017,660**	986,274
TOTAL EQUITY	**1,169,388**	1,134,662

40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY – *CONTINUED*

Movement in share capital and equity

	Share capital	Share premium	Contributed surplus	Capital redemption reserve	Retained profits	Translation reserve	Shares held under share-award scheme	Awarded shares compensation reserve	Total
	RMB'000	*RMB'000*	*RMB'000* (*note*)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	147,923	264,802	266,960	7,150	434,088	–	(20,072)	11,961	1,112,812
Profit and total comprehensive income for the year	–	–	–	–	192,551	–	–	–	192,551
Issuance of scrip shares	1,657	37,626	–	–	–	–	–	–	39,283
Dividend recognised as distribution (*note 14*)	–	(186,143)	–	–	–	–	–	–	(186,143)
Repurchase of ordinary shares	(1,192)	(27,754)	–	1,192	(1,192)	–	–	–	(28,946)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	5,105	5,105
Shares vested under the share-award scheme	–	–	–	–	1,054	–	8,021	(9,075)	–
At 31 December 2018	148,388	88,531	266,960	8,342	626,501	–	(12,051)	7,991	1,134,662
Profit and total comprehensive income for the year	–	–	–	–	166,809	–	–	–	166,809
Exchange difference	–	–	–	–	–	9,472	–	–	9,472
Total comprehensive income for the year	–	–	–	–	166,809	9,472	–	–	176,281
Issuance of scrip shares	4,698	83,153	–	–	–	–	–	–	87,851
Dividend recognised as distribution (*note 14*)	–	(144,799)	–	–	(52,278)	–	–	–	(197,077)
Repurchase of ordinary shares	(1,358)	(26,885)	–	1,358	(1,358)	–	–	–	(28,243)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	4,976	4,976
Shares vested under the share-award scheme	–	–	–	–	–	–	8,676	(8,676)	–
Purchase of shares for the purpose of share award scheme	–	–	–	–	–	–	(9,062)	–	(9,062)
At 31 December 2019	**151,728**	**–**	**266,960**	**9,700**	**739,674**	**9,472**	**(12,437)**	**4,291**	**1,169,388**

Note: Contributed surplus represents deemed distribution to shareholders for the acquisition of equity interest in Jiangsu Xingda and contribution received from shareholders in prior years.

41. EVENT AFTER THE END OF REPORTING PERIOD

Since the outbreak of the Coronavirus Disease 2019 ("COVID-19") epidemic in January 2020 in the PRC, the contagion of COVID-19 has spread worldwide. Different countries and authorities have taken national prevention and control measures against the disease.

The pandemic caused by the COVID-19 has certain impacts on the business operation and overall economy in different region and industries in the world. The Group's major production plants located in Jiangsu province and Shandong province, the PRC have already resumed its production in mid of February 2020 and both factories operate on the normal level of productivity as at the date of this report.

The Group will stay alert on the development and situation of the COVID-19, continuing to assess its impacts on the financial position and operating results of the Group and take necessary action to mitigate the business risk in the PRC. Up to the date of this report, the assessment is still in progress.

	Year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	4,736,889	5,469,176	6,886,914	7,558,367	**7,582,682**
Cost of sales	(3,886,725)	(4,273,864)	(5,609,213)	(6,235,889)	**(6,111,469)**
Gross profit	850,164	1,195,312	1,277,701	1,322,478	**1,471,213**
Other income	22,453	36,170	97,550	136,708	**126,422**
Gain on disposal of available-for-sale investment	131,644	–	–	–	**–**
Government grants	29,977	31,333	29,638	13,798	**13,731**
Selling and distribution expenses	(376,432)	(443,532)	(475,918)	(512,584)	**(546,639)**
Administrative expenses	(280,902)	(303,896)	(319,117)	(361,892)	**(382,226)**
Other gains and losses, net	38,674	29,079	(17,116)	19,425	**31,285**
Impairment loss recognised on trade and other receivables	(43,551)	5,823	(14,746)	(15,112)	**(25,343)**
Research and development expenditure	(44,950)	(61,187)	(58,425)	(75,250)	**(107,097)**
Share of loss of a joint venture	(11)	–	–	–	**–**
Finance costs	(34,235)	(21,481)	(38,094)	(44,974)	**(40,709)**
Profit before tax	292,831	467,621	481,473	482,597	**540,637**
Income tax expense	(53,109)	(72,899)	(103,189)	(110,742)	**(129,986)**
Profit for the year	239,722	394,722	378,284	371,855	**410,651**
Profit attributable to:					
Owners of the Company	173,754	277,792	287,363	263,663	**288,752**
Non-controlling interests	65,968	116,930	90,921	108,192	**121,899**
	239,722	394,722	378,284	371,855	**410,651**

FINANCIAL SUMMARY

	As at 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
ASSETS AND LIABILITIES					
Total assets	9,484,286	10,872,892	12,361,802	12,788,562	**13,807,372**
Total liabilities	(2,321,088)	(3,624,317)	(4,928,969)	(5,240,107)	**(6,000,068)**
	7,163,198	7,248,575	7,432,833	7,548,455	**7,807,304**
Equity attributable to owners of the Company	5,124,030	5,228,300	5,367,327	5,451,223	**5,661,354**
Non-controlling interests	2,039,168	2,020,275	2,065,506	2,097,232	**2,145,950**
	7,163,198	7,248,575	7,432,833	7,548,455	**7,807,304**