Annual Report 2018/2019

中國高精密自動化集團有限公司

CHINA HIGH PRECISION AUTOMATION GROUP LIMITED

CHPAG

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 591

Contents

Financial highlights

	2019 RMB'000	2018 RMB'000	Increase/ (decrease) %
Turnover	132,223	106,840	23.8
Loss from operations	48,003	59,874	(19.8)
Net loss attributable to equity shareholders of the Company	47,482	59,256	(19.9)
Loss per share (RMB cents)			
— basic	RMB4.58 cents	RMB5.71 cents	(19.8)
— diluted	RMB4.58 cents	RMB5.71 cents	(19.8)
Shareholders' equity	1,894,356	1,939,413	(2.3)

Corporate information

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Fun Chung
(Chairman and Chief Executive Officer)
Mr. Zou Chong
Mr. Su Fang Zhong
Mr. Cheung Chuen

Independent Non-executive Directors

Mr. Chan Yuk Hiu, Taylor
Ms. Ji Qin Zhi
Dr. Hu Guo Qing

AUDIT COMMITTEE

Mr. Chan Yuk Hiu, Taylor *(Chairman)*
Ms. Ji Qin Zhi
Dr. Hu Guo Qing

REMUNERATION COMMITTEE

Mr. Chan Yuk Hiu, Taylor *(Chairman)*
Ms. Ji Qin Zhi
Dr. Hu Guo Qing

NOMINATION COMMITTEE

Mr. Chan Yuk Hiu, Taylor *(Chairman)*
Ms. Ji Qin Zhi
Dr. Hu Guo Qing

COMPANY SECRETARY

Mr. Cheung Chuen, *CPA, AICPA*

AUTHORISED REPRESENTATIVES

Mr. Cheung Chuen
Mr. Wong Fun Chung

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN CHINA

16 Xing Ye West Road,
Mawei Hi-Tech Development Zone,
Fuzhou 350015,
The PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 703, Jubilee Centre,
18 Fenwick Street, Wanchai,
Hong Kong

COMPANY'S WEBSITE

www.chpag.net

AUDITOR

PAN-CHINA (H.K.) CPA LIMITED
Certified Public Accountants

LEGAL ADVISERS

As to Hong Kong Laws
Fred Kan & Co.
Loeb & Loeb LLP

As to PRC Laws
Beijing Jinwo Law Firm

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House,
24 Shedden Road,
George Town,
Grand Cayman KY1-1110,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
China Construction Bank Corporation
China Everbright Bank Co., Ltd.

STOCK CODE

591

Chairman's statement

On behalf of the board of directors of China High Precision Automation Group Limited (the "Company"), I am pleased to present to the shareholders the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2019.

For the year ended 30 June 2019, the Group recorded a turnover of approximately RMB132,223,000, an increase of approximately 23.8% as compared to that of last year. Gross profit was approximately RMB3,997,000, as compared to a gross loss for the year ended 30 June 2018. As at 30 June 2019, the net assets of the Group was approximately RMB1,894,356,000, a decrease of approximately 2.3% as compared to that of last year.

During the reporting period, the growth in the investment of traditional industrial sectors exhibited a ladder-like downward trend. The principal business of the Group continued to be the research, development, manufacture and sales of automation instruments. Following the solid progress of the structural optimization of the national economy, there is a decrease in the corporate demand of the downstream customers of the Group, such as those in the traditional industries of metallurgy, chemicals, steel and power generation. As such, the sale of the products of the Group which traditionally has an edge is affected to a certain extent.

The Group will continue to leverage on the strength of the research and development team and continue with the research and development of the control- engineering products to enhance and improve the functionalities of its products, so as to maintain the advantage of products in terms of value for money. On such basis, the Group continues to experiment on the expansion and transformation of its business segment while maintaining a good customer service system, in order to develop a service-led product upgrade, complemented by a benign cycle of promoting the advancement of service quality by product upgrade, which will boost the demand coming from enhanced loyalty of customers towards the products and services of the Company.

Wong Fun Chung
Chairman

Hong Kong, 27 September 2019

Management discussion and analysis

The board (the "Board") of directors (the "Directors") of China High Precision Automation Group Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2019 (the "Year").

MARKET AND BUSINESS REVIEW

As at 30 June 2019, the principal business of the Group were the research, development, manufacture and sales of automation instruments and downstream customers mainly operate in traditional industries. For the time being, the changes of the international environment and the gradual slowdown of the growth of the domestic economy and industrial growth may cause the future growth rate to further slow down. The deceleration of industrial consumption, investment and export demand, the reduced number of new projects as well as the shrinkage of market demand impose a higher pressure on the market development of the Group.

During the reporting period, the Group followed the trend of a new round of industrial development and technological innovation, and was devoted to the implementation of innovation-driven development strategy to promote a high-level, original and strategic technological breakthrough. The Group has also accelerated the pace of new technique and technological research and development and the pace of transformation of achievements, which continuously enhance the core competitiveness of products. The Group also kept stringent quality control and ensured an effective operation of the "three systems", which comprised the quality management system, the environmental management system and the occupational health and safety management system.

There were no important events affecting the Group which have occurred since the end of the Year.

SEGMENT INFORMATION

The Group has the following two business segments:

Automation instrument and technology products

During the Year, sales of high precision industrial automation instrument and technology products amounted to approximately RMB130,125,000 (2018: approximately RMB99,110,000), representing approximately 98.4% (2018: approximately 92.8%) of the Group's total turnover. The Group continued to focus on production and expansion of high precision industrial automation instrument and technology products, and to manage its inventory levels and its distribution network. This segment recorded reportable segment loss of approximately RMB31,139,000, as compared to a reportable segment loss of approximately RMB45,941,000 in 2018.

Horological instruments

Sales of horological instruments were approximately RMB2,098,000 (2018: approximately RMB7,730,000), which accounts for approximately 1.6% (2018: approximately 7.2%) of the Group's total turnover during the Year. This segment recorded reportable segment loss of approximately RMB10,697,000, as compared to a reportable segment loss of approximately RMB18,932,000 in 2018.

Management discussion and analysis

MANUFACTURING FACILITIES

The Group has large-scale production facilities located at Lot No. 15, Kuaian Road, Mawei Science and Technology Park, Fuzhou (福州馬尾科技園區快安大道15號地) and Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC, covering a total site area of approximately 47,665 square meters.

The Group had no material expansion plan during the Year. In light of the instability of the global market, the Directors will proceed with the future developments cautiously.

PROSPECTS

The industrial automation products of the Group belong to a sector of the instruments industry, which is not only an important component of the equipment industry, but also one of the cores of advanced manufacturing industries developed by China. Following the significant heightening of uncertainty and complexity of the global economic and financial markets, the great difficulties arising from the transformation of the domestic economy and the increased pressure of industrial economic downturn have imposed new test and challenge to the development of the industry.

In the meantime, the Chinese government's active promotion of digital and intellectualization transformation of traditional industries, upgrade and reformation of traditional industries as well as the development trend and orientation of "internet+advanced manufacturing industries" and smart cities, has given birth to new industrial scenario, new demand, new landscape and new application, which will generate new market and far-reaching development prospect for the automation instrument industry.

FINANCIAL REVIEW

Turnover

Turnover of the Group amounted to approximately RMB132,223,000 for the Year (2018: approximately RMB106,840,000), representing an increase of about 23.8% as compared to that of last year. The increase is mainly due to the increase in sales of automation instrument and technology products. Nevertheless, the Group is still adversely affected by the sluggish global economy which causes delay in commencement of large-scale projects in the PRC (particularly those in the petroleum and petrochemical industries) and persistent decrease in demand of both industrial automation instrument and technology products and horological instruments.

Gross profit and loss from operations

During the Year, the Group's gross profit and loss from operations amounted to approximately RMB3,997,000 (2018: gross loss amounted to approximately RMB22,466,000) and approximately RMB48,003,000 (2018: approximately RMB59,874,000) respectively. The decrease in gross loss is mainly due to the increase in sales of automation instrument and technology products and the result of adoption of a series of new product design which effectively lowered the raw material costs. The loss from operations included approximately RMB2,590,000 (2018: approximately RMB6,601,000) fair value loss of investment properties.

The segment of automation instrument and technology products recorded a gross profit for the Year. It is mainly due to the increase in sales.

The segment of horological instruments suffered a gross loss for the Year. It is mainly due to the decrease in sales. The Group adjusts the selling prices from time to time, if necessary, to maintain its market share in the intensely price competitive market.

Accordingly, during the Year, the Group suffered a loss from operations.

Net loss

The loss attributable to equity shareholders of the Company for the Year was approximately RMB47,482,000, as compared to that of approximately RMB59,256,000 in 2018. It was mainly attributable to the factors as mentioned above.

Loss per share

Both the basic and diluted loss per share for the Year were RMB4.58 cents (2018: both RMB5.71 cents).

Capital structure, liquidity and financial resources

During the Year, the Group's working capital requirement was principally financed by its internal resources.

As at 30 June 2019, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of approximately RMB1,438,811,000 (30 June 2018: approximately RMB1,439,211,000), approximately RMB1,483,400,000 (30 June 2018: approximately RMB1,473,660,000) and approximately RMB1,912,691,000 (30 June 2018: approximately RMB1,958,036,000) respectively.

Borrowings

As at 30 June 2019, the Group had no bank borrowings (30 June 2018: Nil).

Equity

Total equity attributable to equity shareholders of the Company as at 30 June 2019 decreased by approximately RMB45,057,000 to approximately RMB1,894,356,000 (30 June 2018: approximately RMB1,939,413,000).

Gearing ratio

The gearing ratio (calculated as the ratio of total liabilities divided by total equity) of the Group as at 30 June 2019 was approximately 0.04 (30 June 2018: approximately 0.05).

USE OF PROCEEDS FROM THE PLACING AND THE PUBLIC OFFER

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") with a total of 287,500,000 offer shares (including shares issued as a result of the exercise of the over-allotment option), and the net proceeds from the placing and the public offer of approximately HK$1,043,000,000 (the "Net Proceeds") will mainly be utilised as follows:

1. Approximately HK$711 million will be used for establishment of production facilities for new products of the Group;

2. Approximately HK$129 million will be used for research and development efforts;

Management discussion and analysis

3. Approximately HK$81 million will be used for network development and sales support services;

4. Approximately HK$18 million will be used for the Group's information system development; and

5. Approximately HK$104 million will be used for general working capital.

Up to 30 June 2019, the Group has utilised the Net Proceeds as follows:

1. Approximately HK$652 million were used for establishment of production facilities for new products of the Group;

2. Approximately HK$164 million were used for research and development efforts;

3. Approximately HK$42 million were used for network development and sales support services; and

4. Approximately HK$4 million were used for the Group's information system development.

The remaining balance of the Net Proceeds has been placed in the short-term deposits with financial institutions.

SHARE CAPITAL

Details of changes in the Company's share capital during the Year were set out in note 28 to the financial statements.

SIGNIFICANT INVESTMENTS

The Group had no significant investment held during the Year.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group during the Year.

EMPLOYEES AND SHARE OPTION SCHEME

As at 30 June 2019, the Group employed a total of 552 employees (30 June 2018: 685). It is the Group's policy to review its employees' pay levels and performance bonus system regularly to ensure the competitiveness of the Group's remuneration policy within the relevant industry. During the Year, the employment cost (excluding Directors' emoluments) amounted to approximately RMB38,104,000 (2018: approximately RMB37,083,000).

The emolument policy of the Group and the basis of determining the directors' emolument are set out in the section headed "Remuneration Committee" on page 18.

In order to provide incentives to the staff, Directors and consultants of the Group, share options would be granted to staff, Directors and consultants under the Company's share option scheme (the "Scheme") adopted on 28 October 2009. During the Year, no option was granted, exercised, cancelled or lapsed under the Scheme. Details of the Scheme are set out in note 27 to the financial statements.

CHARGE ON ASSETS

As at 30 June 2019, the Group did not have any charges on its assets (30 June 2018: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS AND EXPECTED SOURCES OF FUNDING

The Group had no future plans for material investments or capital assets as at 30 June 2019.

The Group will continue to monitor the industry closely and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies primarily in United States dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi Yuan against foreign currency which might materially affects the Group's result of operations. The Group did not use any financial instruments to hedge its exposure to currency risk during the Year and will continue to closely monitor such risk exposures from time to time.

CAPITAL COMMITMENT

As at 30 June 2019, the Group had capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB902,000 (30 June 2018: approximately RMB891,000) and had cancelled all outstanding capital expenditure authorised but not contracted for capital commitments in the consolidated financial statements (30 June 2018: approximately RMB52,484,000).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liabilities (30 June 2018: Nil).

Biographical information of directors and senior management

DIRECTORS

Executive Directors

Mr. Wong Fun Chung (黃訓松), aged 66, is the chairman of the Board, the chief executive officer of the Company and founder of the Group. He is also a director of Wide Plus High Precision Automation Limited ("Wide Plus"), a direct wholly-owned subsidiary of the Company and the President of Fujian Wide Plus Precision Instruments Co., Ltd. ("Fujian Wide Plus"), an indirect wholly-owned subsidiary of the Company. He was appointed as an executive Director of the Company on 29 November 2007 and has served the Group for over 28 years. Mr. Wong graduated from Tianjin University (天津大學) in 1978 specialising in high precision timing instruments (計時儀器專業) and has for over three decades gained experience in the production of horological instruments. During his career in the horological industry, Mr. Wong was recognised as one of the top one hundred youth factory managers in China, which was awarded jointly by China Youth Magazine (中國青年雜誌社), China Enterprise Management Association (中國企業管理協會), Central Propaganda Department of the Chinese Communist Youth League (中國共產主義青年團中央宣傳部) and China Central Television Station (中央電視臺). In 1987, Mr. Wong was the factory manager of the Fuzhou Watch Factory (福州手錶廠), a state-owned enterprise. In 1989, Mr. Wong was approved as an engineer by the Fujian Provincial Bureau of Personnel (福建省人事局). In 1990, one of the quartz clock movement products developed by Mr. Wong was awarded third prize in the technological advancement award by the National Science and Technology Advancement Award Adjudication Committee (國家科學技術進步評審委員會). Mr. Wong is responsible for the formulation of the Group's corporate strategy, overseeing its production operations and the overall steering of the Group's strategic development. Mr. Wong is a shareholder and director of Fortune Plus Holdings Limited which was interested in 39,824,704 shares of the Company as at 30 June 2019.

Mr. Zou Chong (鄒崇), aged 49, was appointed as an executive Director of the Company on 2 July 2008 and is the deputy general manager of the Group. Mr. Zou graduated from the Sichuan University (四川大學) in 1991 specialising in computer application (計算機應用專業). Mr. Zou has served the Group for over 28 years and participated in the development of the "WP-series Multi-channel Embedded-type Colored Paperless Recorder" (WP-系列多通道嵌入式彩色顯示無紙記錄儀), which, together with Mr. Tang Chong Sen, a member of the Company's senior management, was awarded the "Grade Three of Fuzhou Science and Technology Advancement Award (福州市科學技術進步三等獎)" by Fuzhou Municipal Government in 2006. Mr. Zou is responsible for the technical service centre, system integration, purchasing and sales and marketing of the Group.

Mr. Su Fang Zhong (蘇方中), aged 69, was appointed as an executive Director of the Company on 2 July 2008 and is the deputy general manager of the Group. He graduated from Fujian Broadcasting Television University (福建廣播電視大學) in 1990 specializing in financial accounting (財務會計). In 1991, Mr. Su successfully completed quality management (計量管理) training provided by the State Bureau of Technical Supervision (國家技術監督局). Mr. Su has served the Group for 27 years. In 2003, he was appointed as a deputy general manager of Fujian Wide Plus, and was approved as an electrical engineer (intermediate level) (中級電子工程師) by the Intermediate and Primary Level Adjudication Committee of the Fuzhou City Rural Enterprise Engineering Department (福州市鄉鎮企業工程系列中、初級評委會). Mr. Su was recognized by the Fuzhou Bureau of Light Industry (福州市輕工業局) as an outstanding performer in the technological development of light industry system (輕工系統技術開發優秀工作者) in 1989 and also as a pioneer worker in production management (生產管理先進工作者) in 1991. Mr. Su is responsible for the warehouse management, production workshops and quality control of the Group.

Biographical information of directors and senior management

Mr. Cheung Chuen (張全), aged 45, was appointed as an executive Director of the Company since 2 April 2008. He is also the company secretary of the Company and Wide Plus. Mr. Cheung graduated from the Hong Kong Shue Yan College (presently Hong Kong Shue Yan University) in 1999 majoring in accounting and obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2004. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 20 years of experience in accounting and auditing. He is currently an independent non-executive director of Kingwell Group Limited, a company listed on the Main Board of the Stock Exchange. Mr. Cheung is responsible for the management reporting and planning of the Group, and is in charge of all the Group's financial and statutory reporting.

Independent Non-executive Directors

Dr. Hu Guo Qing (胡國清博士), aged 55, was appointed as an independent non-executive Director of the Company on 2 April 2008. Dr. Hu graduated from the Department of Aviation Automation Control (航空自動控制系) of the Northwestern Polytechnical University (西北工業大學) in 1987 and acquired his doctorate degree from the Department of Hydraulic Engineering (水利工程系) of the Chengdu University of Science and Technology (成都科技大學) (currently known as Sichuan University (四川大學)) in 1993. Since 1993, Dr. Hu has been involved in scientific research and academic teaching in areas such as MEMS technology, sensor technology, industrial automation and industrial robots technology, mechatronics technology and visual image processing and identification technology. Dr. Hu is currently a Professor and doctoral supervisor at the College of Industrial Equipment and Control Engineering of the South China University of Technology (華南理工大學).

Ms. Ji Qin Zhi (吉勤之), aged 78, was appointed as an independent non-executive Director of the Company on 2 April 2008. Ms. Ji graduated from the Department of Precision Instruments Engineering (精密儀器工程系) of Tianjin University (天津大學) in 1964 and acquired the qualification of Senior Engineer in 1988. She was appointed as an independent non-executive director of Shenzhen Fiyta Holdings Limited, a company listed on Shenzhen Stock Exchange, in 2006 and 2009. She is currently a member of the council advisory committee of the Horology Association of the People's Republic of China.

Mr. Chan Yuk Hiu, Taylor (陳玉曉), aged 41, was appointed as an independent non-executive Director of the Company on 2 April 2008. Mr. Chan holds an Honours Diploma in Accounting from Hong Kong Shue Yan College (presently Hong Kong Shue Yan University), and a Master Degree in Accounting from The Hong Kong Polytechnic University. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Chan has around 20 years of experience in professional accounting and auditing practice, and has accumulated various accounting, auditing and company secretarial work experience both from certified public accountants firms and listed companies. Mr. Chan is currently the chief financial officer and company secretary of Steed Oriental (Holdings) Company Limited, a company listed on GEM of the Stock Exchange. Mr. Chan was the chief financial officer and company secretary of Grand Peace Group Holdings Limited (formerly known as FAVA International Holdings Limited), a company listed on GEM of the Stock Exchange, from 1 May 2006 to 28 February 2015. Mr. Chan was the chief financial officer and company secretary of Huaqiang Chemical Engineering Holdings Company Limited, a company incorporated in the Cayman Islands, from 1 March 2015 to 31 July 2016.

Biographical information of directors and senior management

SENIOR MANAGEMENT

Mr. Tang Chong Sen (唐崇森), aged 79, graduated from the Mechanical Engineering Department (電機系) of the Harbin Institute of Technology (哈爾濱工業大學) in 1964 specialising in electrical measurement technology (電氣測量技術專業). In 1992, he was an associate professor of the Electrical Engineering Department of Fuzhou University specializing in industrial electrical automation system (工業電氣自動化). He has served the Group for 23 years. Mr. Tang had been the researcher of various provincial new product development projects. In 2002, the WP-series Intelligent Flow Controller for Natural Gas (WP-系列天然氣智能流量控制儀) co-developed by Mr. Tang also received the "Grade Three of Fujian Science and Technology Advancement Award (福建省科學技術獎三等獎)" by Fujian Provincial Government of the PRC. In 2006, the "WP-series Multi-channel Embedded-type Colored Paperless Recorder" (WP-系列多通道嵌入式彩色顯示無紙記錄儀) which was co-developed by Mr. Tang and Mr. Zou Chong was awarded "Grade Three of Fuzhou Science and Technology Advancement Award (福州市科學技術進步三等獎)" by Fuzhou Municipal Government. Mr. Tang is the chief electrical engineer of the Group and is responsible for overseeing the design and processing of electrical products and electronic software research and development of the Group.

Mr. Gao Wen Jiang (高文江), aged 77, graduated from the Agricultural Machinery Department (農業機械系) of the Fujian Institute of Agriculture (福建農學院) specialising in agricultural mechanisation (農業機械化專業) in 1964. In 1990, Mr. Gao was the deputy technical factory manager of Nanchang Watch Factory (南昌手錶廠). From 1993 to 2004, he was the deputy general manager of Guang Yu Electronic Industrial Co., Ltd. (廣宇電子實業有限公司). Mr. Gao joined Fujian Wide Plus as a chief mechanical engineer in 2004 and has been holding the same position since then. He is responsible for overseeing the crafts processing and high precision mechanical research and development of the Group.

Corporate governance report

The Group is committed to upholding statutory and regulatory corporate governance standards and adhering to the principles of corporate governance emphasising accountability, transparency, independence, fairness and responsibility.

The Company has complied with most of the code provisions stipulated in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Year, except for the deviation from the Code Provision A.2.1 of the Code as described in the section headed "B.7. Chairman and Chief Executive Officer" below.

A. SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors.

Having made specific enquiries of all Directors, all Directors confirmed to the Company that they have complied with the Model Code during the Year.

B. BOARD OF DIRECTORS

1. Composition of the Board of Directors

As at 30 June 2019, the Board consisted of four executive Directors, namely Mr. Wong Fun Chung (who is also the chairman of the Board), Mr. Zou Chong, Mr. Su Fang Zhong, and Mr. Cheung Chuen, and three independent non-executive Directors, namely Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Each of the Directors' respective biographical details is set out in the section headed "Biographical Information of Directors and Senior Management" in this annual report.

The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. To the best knowledge of the Company, save as disclosed in the section headed "Biographical Information of Directors and Senior Management" in this annual report, there is no financial, business, family or other material/relevant relationship between members of the Board (including the Chairman and the Chief Executive Officer).

2. Functions of the Board of Directors

The Board is responsible for the oversight of the Company's business and affairs with the objective of enhancing shareholder value. The Board also makes decisions on matters, such as, approving the annual results and interim results of the Group, notifiable and connected transactions of the Company, appointment and re-appointment of Directors, dividend and adopting accounting policies, etc. Details of the experience and qualifications of Directors are set out in the section headed "Biographical Information of Directors and Senior Management" in this annual report.

The Board delegates the authority and responsibility for implementing daily operations, business strategies and management of the Group's businesses to the executive Directors and senior management. When the Board delegates different aspects of its management and administrative functions to the senior management, it has given clear directions in relation to the scope of powers of the senior management, in particular, with respect to the circumstances, regular report of progress from the senior management and prior approval will be obtained from the Board before making decisions or entering into any commitments on behalf of the Company.

3. Corporate Governance Functions

The Board is also responsible for performing the corporate governance duties, which include (i) developing and reviewing policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct applicable to employees and Directors; (v) reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report; and (vi) reviewing the Company's environmental, social and governance strategy and disclosure in the Environmental, Social and Governance Report. For the year ended 30 June 2019, the Board has reviewed (i) the Company's corporate governance practices; (ii) the training and continuous professional development of Directors and senior management; (iii) the Company's policies and practices on compliance with applicable legal and regulatory requirements; (iv) the Company's compliance with the Code and the disclosure in this corporate governance report; and (v) the Company's environmental, social and governance strategy and disclosure in the Environmental, Social and Governance Report.

4. Board Meetings and Board Practices

For the year ended 30 June 2019, the Board conducted six meetings and the Board will meet on other occasions when a board-level decision on a particular matter is required. The attendance records of those meetings held are set out below:

Members	No. of attendance
Executive Directors	
Mr. Wong Fun Chung *(Chairman and Chief Executive Officer)*	6/6
Mr. Zou Chong	6/6
Mr. Su Fang Zhong	6/6
Mr. Cheung Chuen	6/6
Independent non-executive Directors	
Dr. Hu Guo Qing	6/6
Ms. Ji Qin Zhi	6/6
Mr. Chan Yuk Hiu, Taylor	6/6

None of the Board meetings held in the year ended 30 June 2019 were attended by the alternate, if any, of the Directors.

The Directors will receive details of agenda and minutes of relevant committee meetings in advance of each Board meeting. The company secretary will distribute relevant documents to Directors in a timely manner to enable the Directors to make informed decisions on matters discussed in the Board meetings. The company secretary will ensure the procedures of the Board meetings are observed and provide to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings. Minutes of the Board meetings are kept by the company secretary.

Pursuant to Code Provision A.6.7, independent non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of shareholders.

During the year ended 30 June 2019, the Company held one general meeting, being an annual general meeting, on 11 November 2018. The attendance records of members of the Board of the general meeting held are set out below:

Members	No. of attendance
Executive Directors	
Mr. Wong Fun Chung *(Chairman and Chief Executive Officer)*	1/1
Mr. Zou Chong	1/1
Mr. Su Fang Zhong	1/1
Mr. Cheung Chuen	1/1
Independent Non-executive Directors	
Dr. Hu Guo Qing	1/1
Ms. Ji Qin Zhi	1/1
Mr. Chan Yuk Hiu, Taylor	1/1

5. Independent Non-executive Directors

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, there are three independent non-executive Directors representing more than one-third of the Board. Among the three independent non-executive Directors, one of them has appropriate professional qualifications in accounting and relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The independent non-executive Directors bring independent judgment on issues of strategy, performance and risk. Pursuant to Code Provision A4.3, if an independent non-executive director serves more than nine years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders. The Company has received from each of the independent non-executive Directors written confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. Based on the said confirmations, the Board considers that all the independent non-executive Directors are independent. The nomination committee has also assessed the independence of all the independent non-executive directors who have all served the Board for more than nine years. Dr. Hu Guo Qing and Mr. Chan Yuk Hiu, Taylor will be subject to retirement by rotation and offers themselves for re-election at the forthcoming annual general meeting. The Board has expressed its view on the independence of Dr. Hu and Mr. Chan in a circular in relation to, among other matters, the re- election of retiring Directors in the forthcoming annual general meeting for shareholders' consideration.

6. Directors' Training

Newly appointed Directors receive comprehensive, formal and tailored induction on their appointments, so as to ensure that they have appropriate understanding of the business and operations of the Group and that they are fully aware of their responsibilities and obligations under the Listing Rules and the relevant regulatory requirements. There are also arrangements in place for providing continuing briefing and professional development to Directors at the Company's expenses whenever necessary.

Name of Directors	Type of trainings
Mr. Wong Fun Chung	A and B
Mr. Cheung Chuen	A and B
Mr. Zou Chong	A and B
Mr. Su Fang Zhong	A and B
Dr. Hu Guo Qing	A and B
Ms. Ji Qin Zhi	A and B
Mr. Chan Yuk Hiu, Taylor	A and B

A: attending training sessions, including but not limited to, seminars, briefings, conferences, forums and workshops

B: reading newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities

Pursuant to Code Provision A.6.5, Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the Year, all Directors have participated in appropriate continuous professional development activities by ways of attending training session on regulatory updates, reading materials or conducting academic research relevant to the Company's business or to the Directors' duties and responsibilities.

7. Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wong Fun Chung is the Chairman and the Chief Executive Officer of the Company. Such deviation from Code Provision A.2.1 is deemed appropriate as it is considered to be more efficient to have one single person as the Chairman of the Company as well as to discharge the executive functions of a chief executive officer, and this provides the Group with strong and consistent leadership in the development and execution of long term business strategies. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises highly experienced individuals. There are three independent non-executive Directors in the Board. All of them possess adequate independence and therefore the Board considers the Company has achieved balance and provided sufficient protection of its interests.

8. Appointment, Re-election and Removal of Directors

Mr. Wong Fun Chung has entered into a service contract with the Company for an initial term of 3 years commencing from 29 November 2007 with automatic renewal and subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than 3 months' prior written notice.

Mr. Cheung Chuen has entered into a service contract with the Company for an initial term of 3 years commencing from 2 April 2008 with automatic renewal and subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than 3 months' prior written notice.

Mr. Zou Chong and Mr. Su Fang Zhong have entered into a service contract with the Company for an initial term of 3 years both commencing from 2 July 2008 with automatic renewal and subject to termination in accordance with the provisions of the service contracts or by either party giving the other not less than 3 months' prior written notice.

Each of independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year commencing from 2 April 2008 with automatic renewal, subject to termination by either party giving the other not less than 3 months' prior written notice.

In accordance with the articles of association of the Company, all Directors (including executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years.

9. Board Diversity and Nomination Policies

The Company has adopted a Nomination Policy (the "Nomination Policy") for the nomination committee of the Company (the "Nomination Committee"), which set out the criteria in identifying candidates to become a member of the Board and the procedures in selecting new candidates for directorship and making recommendations to the Board on candidates nominated for directorships. The Board shall be composed of members with integrity, balance of skills, experience and diversity of perspectives appropriate to accomplish the Group's business operation, development, strategies, challenges and opportunities. Appointments shall be based on merit, and candidates will be measured against objective criteria, with due regard for the benefits of diversity on the Board with reference to the diversity policy of the Company, details of which is set out below.

For filling a casual vacancy or appointing an additional director to the Board, the candidates shall first be considered by the Nomination Committee, which shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election or re-election at a general meeting, the Nomination Committee shall review the overall contribution of the directors and their services, their participation and performance within the Board in making recommendations to the Board for its consideration and recommendation. In the case of appointing or re-appointing independent non-executive directors, the Board will ensure that the candidate meets the required independence criteria as set out in the Listing Rules.

Corporate governance report

Pursuant to a resolution passed on 30 August 2013 by the Board, a board diversity policy (the "Diversity Policy") was adopted for the Company with effect from 1 September 2013. The Diversity Policy applies to the Board and aims to set out the approach to achieve diversity for the Board.

The Company aims at promoting and practising equality of opportunity amongst all of its Directors, including both executive and non-executive roles and adopts the Diversity Policy with the objective to recognise the benefits and importance of diversity at the Board, the key decision making body in the Company, to enhance the quality of its performance. "Board Diversity" shall be achieved through consideration of a number of factors and measurable objectives, including, but not limited to gender, age, cultural background, educational background, and professional experience, skills and knowledge.

The Nomination Committee reviews and assesses the composition of the Board and makes recommendations to the Board on appointment of new directors of the Company in accordance with the Nomination Policy. In carrying out these responsibilities, the Nomination Committee will give adequate consideration to the Diversity Policy. In reviewing and assessing the composition of the Board, the Nomination Committee will consider the benefits of all aspects of diversity in order to maintain an appropriate range and balance of talents, skills, experience and background on the Board.

The Nomination Committee will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

10. Dividend Policy

Subject to the requirement of the relevant laws, the Board may from time to time determine and pay to the Company's shareholders such interim dividends as it considers appropriate or recommend the payment of special dividends and final dividends which are required to be approved by an ordinary resolution of shareholders of the Company in general meetings of an amount not exceeding the amount recommended by the Board.

The Company's ability to pay dividends will depend upon, among other things, the Group's current and future operations, financial position, development pipeline, contractual restrictions, prevailing economic environment, capital and other reserve requirements, as well as any other conditions or factors which the Board deems relevant and having regard to the directors' fiduciary duties. There is no assurance that dividends will be paid in any particular amount for any given period.

C. BOARD COMMITTEES

1. Remuneration Committee

The Group established its remuneration committee (the "Remuneration Committee") since 2008 with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee are, inter alia, to make recommendations to the Board on the remuneration packages of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee comprises all three independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor is the chairman of the Remuneration Committee.

The written terms of reference of the Remuneration Committee is available on the websites of the Company and the Stock Exchange.

For the year ended 30 June 2019, two meetings were held to review the Company's policy and structure for all directors' and senior management's remuneration; to assess the performance of executive Directors; and to review the remuneration package of members of the Board and senior management of the Company. The attendance records of the Remuneration Committee meetings held are set out below:

Members	No. of attendance
Dr. Hu Guo Qing	2/2
Ms. Ji Qin Zhi	2/2
Mr. Chan Yuk Hiu, Taylor	2/2

None of the Remuneration Committee meetings held in the year ended 30 June 2019 were attended by the alternate, if any, of the Directors.

The remuneration of Directors is determined by the Board, upon recommendation of the Remuneration Committee with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group.

2. Audit Committee

The Group established its audit committee (the "Audit Committee") since 2008 with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are, inter alia, to assist the Board in providing an independent view of the effectiveness of the Group's financial reporting system, internal control and risk management system, to review and monitor the audit process, to review the Group's financial information, and to perform other duties and responsibilities as assigned by the Board. The Audit Committee currently comprises three independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor is the chairman of the Audit Committee. The Audit Committee has reviewed the annual results of the Group for the year ended 30 June 2019.

The written terms of reference of the Audit Committee is available on the websites of the Company and the Stock Exchange and updated on 7 January 2019 during the Year.

Corporate governance report

For the year ended 30 June 2019, the Audit Committee performed the following tasks:

(i) review of the auditors' report for the audit of final results of the Group for the year ended 30 June 2019;

(ii) review of the draft consolidated financial statements of the Group for the year ended 30 June 2019 with a recommendation to the Board for approval;

(iii) review of the draft results announcement and annual report of the Group for the year ended 30 June 2019 with a recommendation to the Board for publication and approval;

(iv) review of draft unaudited consolidated financial statements, the draft results announcement and the interim report of the Group for the six months ended 31 December 2018 with a recommendation to the Board for publication and approval;

(v) review of the internal control, financial control and risk management systems and report of the Audit Committee's opinion to the Board;

(vi) review of the effectiveness of the Company's internal audit function;

(vii) review of the Company's financial reporting functions, the financial and accounting policies and practices adopted by the Group and report of the Audit Committee's opinion to the Board;

(viii) review of the audit fees payable to the external auditors for the year ended 30 June 2019 with a recommendation to the Board for approval; and

(ix) review of the external auditors' independence, with a recommendation to the Board for the re-appointment of the current external auditors at the forthcoming annual general meeting and the Board endorsed the Audit Committee's recommendation on the re-appointment of the external auditors.

There were four meetings of the Audit Committee held for the year ended 30 June 2019. The attendance records of the Audit Committee meetings held are set out below:

Members	**No. of attendance**
Dr. Hu Guo Qing	4/4
Ms. Ji Qin Zhi	4/4
Mr. Chan Yuk Hiu, Taylor	4/4

None of the Audit Committee meetings held in the year ended 30 June 2019 were attended by the alternate, if any, of the Directors.

3. Nomination Committee

The Group established the Nomination Committee since 2008 with written terms of reference in compliance with the Code. The primary duties of the Nomination Committee are, inter alia, to review the structure, size, composition and diversity of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to make recommendations to the Board on appointment or re-appointment of Directors and succession planning for the Directors, and to review the board diversity policy of the Company as appropriate. The Nomination Committee comprises three independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor is the chairman of the Nomination Committee.

The written terms of reference of the Nomination Committee is available on the websites of the Company and the Stock Exchange and updated on 7 January 2019 during the Year.

There has been no change in the composition of the Board and of the three committees. For the year ended 30 June 2019, the Nomination Committee has held two meetings to (i) review the structure, size, composition and diversity of the Board; (ii) assess the independence of independent non-executive Directors; (iii) make recommendations to the Board on the re-appointment of Directors; (iv) review the effectiveness of the board diversity policy of the Company; and (v) review the nomination policy of the Company. The attendance records of the Nomination Committee meetings held are set out below:

Members	No. of attendance
Dr. Hu Guo Qing	2/2
Ms. Ji Qin Zhi	2/2
Mr. Chan Yuk Hiu, Taylor	2/2

None of the Nomination Committee meetings held in the year ended 30 June 2019 were attended by the alternate, if any, of the Directors.

D. ACCOUNTABILITY AND AUDIT

1. Directors' Responsibility for the Consolidated Financial Statements

The Board acknowledges that it holds responsibility for:

(i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group; and

(ii) selecting suitable accounting policies and applying the selected accounting policies consistently with the support of reasonable and prudent judgment and estimates.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board will continue to prepare the consolidated financial statements on a going concern basis.

2. Risk Management and Internal Control

The Board places great importance on risk management and internal controls and is responsible for establishing and maintaining adequate risk management and internal control system for the Company and assessing the overall effectiveness of those internal control system.

The Board had conducted its annual review of the effectiveness of the system of risk management and internal control of the Group covering all material controls, including financial, operational and compliance control. The Group's risk management and internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations related to the business as well as the handling and dissemination of inside information of the Group. In order to ensure the adequacy and effectiveness of the risk management and internal control systems as well as to resolve material internal control defects once found, the Internal audit department is in place to carry out such internal audit function. Once any material internal control defects are identified during the course of the internal audit, they are reported to the relevant department- in-charge as well as the Board immediately for remedial action. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operation systems and achievement of the Group's objectives. The Audit Committee was satisfied that the internal control system has functioned effectively. During the Year, no irregularity or material weakness was noted within any function or process and the Board considers that the risk management and internal control system is effective and adequate for the Group as a whole.

3. Auditors' Remuneration

During the year ended 30 June 2019, the remuneration paid/payable to the Company's auditors, Pan-China (H.K.) CPA Limited, is set out as follows:

Nature of Services	**Fee paid/payable** RMB'000
Audit services	1,800
Non-audit services	—
Total	1,800

E. SHAREHOLDERS' RIGHTS

1. Right to Convene Extraordinary General Meeting ("EGM")

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

The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the Shareholder(s) concerned at the extraordinary general meeting varies according to the nature of the proposal as follows:

— at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company; and

— at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

2. Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the headquarters of the Company in Hong Kong or by e-mail to info@chpag.com for the attention of the IR Department or Company Secretary.

3. Right to Put Forward Proposals at General Meetings

There is no provision allowing shareholders to put forward proposals at general meeting under the Memorandum and Articles of Association of the Company or the Companies Law of the Cayman Islands. If shareholders wish to do so, they may request to convene an EGM as stipulated in E.1. above and specify the proposals in such written requisition.

F. INVESTOR AND SHAREHOLDERS RELATIONS

The Company continues to pursue a proactive policy in promoting investor relations and communications with the shareholders of the Company. The Board also recognised that effective communication with investors is the key to establish investor confidence and to attract new investors.

The Company communicates with its shareholders and investors through various channels including publication of interim and annual reports, press announcements and information on the website of the Stock Exchange and the Company's website at www.chpag.net.

The Company encourages its shareholders to attend the forthcoming annual general meeting as it is an important opportunity for constructive communication with the Board. The Chairman as well as the chairmen of the Audit, Remuneration and Nomination Committees, or in their absence, members of the relevant committees are available to answer any questions raised by the shareholders.

The Group regularly releases corporate information, such as awards received, and the latest news of the Group's developments on the Company's website. The public are welcome to give their comments and make their enquiries through the Company's website and the management will give their prompt response thereto.

A copy of the memorandum and articles of association of the Company has been published on the websites of the Company and the Stock Exchange. There has been no change in the Company's constitutional documents during the year ended 30 June 2019.

Environmental, social and governance report

The Group is one of the market leaders in the high precision industrial automation instrument and technology products industry in China operating under the Wide Plus brand. Fujian Wide Plus Precision Instruments Co., Ltd., ("Fujian Wide Plus"), an indirect wholly-owned subsidiary of the Company, has been first awarded ISO 9001 — Quality Management, ISO 14001 — Environmental Management and OHSAS 18001 — Occupational Health and Safety Management certifications since 2004, 2010 and 2010 respectively. In January 2019, Fujian Wide Plus was again awarded ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certifications by the China Quality Certification Centre, which are valid for 3 years until January 2022. Fujian Wide Plus has established a set of Quality, Environmental and Occupational Health and Safety Comprehensive Management Handbook and 20 sets of Quality, Environmental and Occupational Health and Safety Procedural Document, which cover many different aspects including but not limited to workplace practices, environmental protection, operating practices etc., of which, the following are the most relevant and important to the Group's business:

WORKPLACE PRACTICES

Working Conditions

The Group established and implemented "Human Resources Work Handbook", which contains its policies relating to human resources, covering areas such as compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare. Basically, every rule in the handbook is set in accordance with all relevant laws and regulations including but not limited to "The Labour Law" and "The Labour Contract Law" in the PRC. The Group strictly complied with the employment and labour standards, laws and regulations that have a significant impact on the Company throughout the Year.

Health and Safety

It is the Group's policy to carry out production in accordance with the principle of "Safety First, Prevention Crucial", and supervisors at each level in the Group must adhere to the principle of "Production Management Must Encompass Management of Safety". Production must take into account the needs for safety, in order to achieve safe and civilized production. Fujian Wide Plus has established a Procedural Document for Safety Production Responsibility System, which lists out a series of occupational health and safety measures that have to be adopted such as providing a safe working environment and protecting employees from occupational hazards by provision of staff trainings, handling procedures of hazardous and explosive goods, proper operation of equipments etc. The Group implemented the above said relevant procedures and complied with relevant laws and regulations that have a significant impact on the Company. As a results, no incident of work injury occurred throughout the Year. The implementation thereof is monitored by a designated committee by the senior management with both regular inspections and spot checks. In November 2018, the Group appointed an independent accredited environmental assessment organisation to carry out an annual inspection on workplace air and occupational noise exposure, the result of the inspection indicated that workplace air and occupational noise exposure in the production lines met the required relevant national standard, i.e. "Occupational exposure limits for hazardous agents in the workplace Part 2: Physical agents (工作場所有害因素職業接觸限值第2部分：物理因素)" — GBZ2.1 and GBZ2.2–2007 respectively.

Development and Training

At the beginning of each calendar year, the Group draws up educational training plans in accordance with the Group's training needs. Each department is responsible for determining its training needs for staff in its department and designing a unique training plan, which shall be submitted to the senior management of the Group for approval. The Group ensures that members of staff who are under the comprehensive management system can fulfill the relevant requirements in terms of education, training, technical and work experience.

Training activities provided to staff include:

— New employees orientation;

— Technical training for existing employees or internally transferred employees;

— Professional skill enhancement training;

— Safety training;

— Enrolment in externally organized classes in relation to legal and other professional knowledge, management knowledge and important position professional training and academic researches;

— Regular voluntary firemen training;

— Invitation of well-known managers, expert scholars and advisory bodies to host training seminars; and

— Expat training.

Labour Standards

Employment of staff by the Group must comply with the rules under the relevant national and local Labour Law. Preventing child or forced labour is one of these rules. The Group strictly complied with the above said principle, relevant laws and regulations in respect of child and forced labour that have a significant impact on the Company throughout the Year. From time to time the Group reviews its overall employment practices to avoid child or forced labour and other potential irregularities. Members of staff is required to fill in a "Staff Record Resume" upon joining the Group. Should the staff provide false identity or false personal particulars, the said staff would be considered to have committed serious breach of the Group's rules and regulations, his/her employment would be terminated immediately.

ENVIRONMENTAL PROTECTION

Emissions

Fujian Wide Plus has established a "Management Policies of Three Kinds of Wastes", which states clearly the handling procedures of emissions of solid, air and water wastes, including both hazardous and non-hazardous, in accordance with the applicable national laws and regulations. The Group also set an aim to maintain a zero hazardous emission environment and to mitigate all necessary non-hazardous emission in a minimal level. In order to do so, it is the Group's obligation to monitor the waste emissions and to appoint metrological accredited environmental assessment department to provide inspection on a regular basis. In November 2018, the Group appointed an independent accredited environmental assessment organisation to carry out an annual emissions inspection. All the results of the inspection met the required relevant national standards, i.e. "Integrated Wastewater Discharge Standard" — GB8978–1996, "Integrated Emission Standard of Air Pollutants" GB16297–1996 and "Occupational Exposure Limits for Hazardous Agents in the Workplace Part 1: Chemical hazardous agents (工作場所有害因素職業接觸限值第1部分：化學有害因素)" — GBZ2.1–2007. There was no production of the following air and greenhouse gas emissions as reflected from the said inspection: NOx, SOx, carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. There was also no generation of hazardous waste. The Group strictly complied with the above said relevant standards, laws and regulations that have a significant impact on the Company as well as its internal policies throughout the Year and its aim was successfully achieved. The Group will continue to do so in the future.

Type of emissions	Annual emissions	
	2019	2018
Waste water:	4,685 tonnes	5,577 tonnes
suspension	46.9 kg	55.8 kg
five-day biochemical oxygen demand	70.7 kg	84.2 kg
chemical oxygen demand	248.3 kg	295 kg
animal and vegetable oil	5.0 kg	0.59 kg
ammonia	103.5 kg	123.2 kg
Exhaust gas:	9,471,600 Nm^3	9,472,800 Nm^3
particulates	5.52 kg	5.52 kg
non-methane hydrocarbons	1.78 kg	1.78 kg
tin	0.00 kg	0.00 kg

Use of Resources

"Energy Saving and Consumption Reduction Management System" has been established by the Group to control the use of energy and resources in the production, business operation and management activities, and to improve the energy and resource utilization to achieve economic benefits, and to prevent pollution. This policy is applicable for the Group's management on resources such as water, electricity and energy usage.

"Operating control procedural document", which is established pursuant to the above said "Energy Saving and Consumption Reduction Management System" covers areas of control of energy and resources including:

1) Water Resources Control

A. The Group educates each employee to save water, and encourages the reuse of water in order to reduce water consumption, so as to reduce sewage from the source.

B. The Group is committed to the guarantee of water supply installation and maintenance, and to ensuring that water supply is at its optimal working condition. When leakage is discovered, it will be repaired timely.

2) Electricity Control

A. The use of electricity in production must strictly comply with Electricity Law of the PRC to ensure normal production with adherence to the principles of power saving, safety first, high efficiency and low consumption.

B. Lights and electronic appliances in living area or workplace must be turned off when not in use.

C. Every member of staff and management must turn off the power for each department's computers, photocopy machines, printers and facsimile machines when they are off duty or on leave.

D. To ensure no unnecessary use of resources at production lines.

3) *Office Consumables Consumption Management*

A. Other than formal documents materials that require the use of papers, each department is advised to handle documents electronically. When the use of paper is required, each paper must be printed double-sided. Single-sided printing is strictly prohibited (except for confidential documents).

B. No printing and photocopying of materials unrelated to work.

Based on those energy use efficiency initiatives, use of resources could be effectively controlled and efficiently reduced.

The Environment and Natural Resources

In order to comprehensively distinguish and evaluate the Group's production and service to control or influence the environmental factors, to identify those important factors, and to update the environment factors on a timely basis in compliance with the relevant laws, regulations and other requirements, so that the Group could effectively and efficiently adopt preventive and control measures, and to continuously improve the environmental performance, the "Environmental Factor Identification and Evaluation Control Procedures" has been established by the Group. Pursuant to the said procedures, the relevant employees of each department identify environmental factors through methods such as site inspection, site observation and make cross reference to law and regulations. The scope of identification includes production processing, testing and examination, working, daily living, procurement, transportation, warehousing and other ancillary activities, raw materials (including energy and resources) and repair of equipment, consuming activities. Three states, three tenses and six areas are considered when identifying environmental factors:

Three states:

a) Normal state — refers to stable, routine, planned activity state, such as the normal production state.

b) Abnormal state — refers to a predictive state, non-routine activity or incident, such as the equipment failure in the course of production pending repair.

c) Emergency state — refers to unforeseeable state, sudden accident or emergency failure of environmental protection, for example, fire, earthquake or explosion.

Three tenses:

a) Past — the environmental problems left over from the past that would affect the current production activities.

b) Present — the environmental problems that are occurring persistently and will affect the future environment.

c) Future — the environmental problems that have not yet occurred, but may occur and affect the environment in future, for example, the application of new technology or usage of new materials.

Seven areas:

a) Water pollution, for instance, oily sewage from canteen, sewage emission containing hazardous chemical.

b) Emission to the atmosphere, for instance, noxious gas emission.

c) Noise pollution, noise from production processing, life and entertainment polluting the surrounding environment.

d) Various types of solid waste, including different kind of solid waste and garbage produced from production, daily living and office such as scrap, production garbage, household and office garbage.

e) Land pollution, for instance the pollution, accumulation and spreading of pollution towards land caused by various type of chemical products (including chemicals contained in raw materials) such as oil, heavy metal.

f) The use and consumption of raw materials, natural resources and energy.

g) Others, for instance, light, electromagnetic, color, quantity of heat that may affect the surrounding community.

Based on the above initiatives, the operation's significant impact on the environment and natural resources could be effectively managed.

Water, electricity and packaging material consumption:

	Water (Ton '000s)	**Electricity** (kwh '000s)	**Packaging material** (Ton)
	For the year ended 30 June 2019		
Unit consumed	117	4,313	140
	For the year ended 30 June 2018		
Unit consumed	67	4,575	214

OPERATING PRACTICES

Supply Chain Management

For the year ended 30 June 2019, the Group sourced its raw materials and components from more than 100 suppliers who were independent third parties and located in the PRC.

The Group's relationships with its suppliers are stable and the Group did not experience any major difficulty in obtaining adequate supplies of raw materials and components to meet its production requirements in the past. Since the raw materials and components sourced are common and can be easily purchased from the market, it is believed that even if any of the suppliers fail to meet the Group's demand, there are sufficient alternative suppliers to supply the principal raw materials and components to allow the Group to find suitable substitutes if necessary. The Group does not rely on any particular suppliers for the supply of raw material and components as it is able to purchase these materials and components from many other suppliers.

Environmental, social and governance report

According to the "Information exchange control procedures" set up by the Group, the purchasing department should deliver the Group's policy, the Group's requirements on environment and occupational health safety, to contracting parties on a timely basis, to ensure their understanding towards the Group's requirements. Suppliers are chosen based on the supplier's continuous ability to guarantee satisfactory product quantity and quality, reasonable price, timely delivery and good services. When selecting suppliers, the Group requires potential suppliers to provide relevant quality certifications, arranges for site visits, requests for samples of materials to ensure that the materials meet the required specifications and interviews supplier's customers to evaluate potential supplier's ability to give quality assurance and its reputation. An annual assessment of each of our suppliers would be carried out by the purchasing department in order to ensure the suppliers fulfill all the aforesaid requirements.

Product Responsibility

Maintaining high quality and standards are crucial to the Group's sustainable development. Reliability and quality of products are crucial to the Group's success. Therefore, maintaining consistency in quality and precision of its products are the Group's major priorities. The Group complied with all relevant laws and regulations relating to health and safety, advertising, labelling and privacy issue and which have significant impact on the Company throughout the Year.

Quality assurance

The Group's products have undergone internal production control and quality assurance examination and rigorous testing, some of which have been affixed with the European Union CE Mark, Russia GOST-R Mark, Kazakhstan GOST-K Mark, and have met the necessary requirements for entering the respective markets of these countries. Such qualifications enhance customer confidence in the quality of the Group's products. The Group has also obtained the "Electromagnetic Compatibility" certificate from the Lloyd's Register. The Group has obtained Certificate of Conformity from the China National Quality Supervision and Test Centre for Explosion Protected Electrical Products for a number of the Group's electrical products that are exposed to explosion risks.

Details of recall procedures can be found in the "Unqualified Products Control Procedures". Generally, when goods are delivered and quality abnormality (such as excessive chemicals in the product) is discovered, the quality control department would inform sales department which will report to customers within 24 hours, and discuss with customers the handling methods of those products, including recall arrangements if necessary.

For the year ended 30 June 2019, no product sold or shipped was subject to recalls for safety and health reasons.

After-sales services

On top of the after-sales services provided by distributors to the end-users, the Group has established a toll-free hotline service within the PRC for its end-users to raise enquiries and lodge complaints. To assist sales by its distributors, the Group will provide explanation and training for its end-users in relation to skills required for, and special features of and the mode of operation for its products.

Intellectual properties

The Group's intellectual property rights are important to its business as all of its products are manufactured with advanced technologies, based on experience, expertise and processes designed for professional industrial uses. Due to the increasing recognition of intellectual property rights in the PRC, the Group has actively protected its intellectual property rights by progressively applying for patent registration of all or its existing registrable product technology, which relates to the product design, production processes and techniques. The Group also continuously seeks new patents for products and technologies developed through its research, design and development activities.

The Group also established procedures to ensure that customer's information is only used for intended purposes and is kept confidential.

Anti-Corruption

In the staff handbook, one of the most important rules that the Group requires all members of its staff to observe is that they must maintain honesty, refuse corruption, refuse to accept kickbacks, and they must not misappropriate the Group's funds and properties or abuse power for own interests, and that all gifts received must be handed to the Company. Employees could whistle-blow in accordance with the "Staff complaint procedures" stated in the staff handbook for the suspected bribery, extortion, fraud and money laundering issues. Once discovered, it will be reported to police for prosecution.

The Group complied with all relevant laws and regulations relating to bribery, extortion, fraud and money laundering and which have significant impact on the Company throughout the Year. There was no any legal case regarding corrupt practices brought against the Group or its employees during the Year.

Investing in the Community

The Group is committed to identifying the needs of the neighborhoods where its plants are operated. The Group ensures that community interests are taken into consideration in its operations by participating in at least one local activity that can facilitate exchange and interaction between the Group and the local community each year. During the Year, the Group participated in the activities hosted by various associations and organizations in the Economic and Technological Development Zone of Mawei District in Fuzhou respectively, which included large events which involves the employees in the community, such as "Support and Care for the Growth of Female Employees", "Work-break Exercises Competition of Corporate Employees" and "Care for Female and Navigate the Way for Love", in a move to engage in exchange and interaction with various stakeholders of the community. The Group expects to continue to implement such policy in the future.

Report of the directors

The Directors are pleased to submit their annual report together with the audited consolidated financial statements of the Group for the year ended 30 June 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 32(a) to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the Year are set out in note 15 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the Year and a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 9 of this annual report, which form part of this Report of the Directors.

Discussions on the Group's environmental policies and performance, relationships with its employees, customers and suppliers and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the sections headed "Corporate Governance Report", "Environmental, Social and Governance Report" and this Report of the Directors on pages 13 to 24, pages 25 to 31 and pages 32 to 38 respectively of this annual report, which form part of this Report of the Directors.

PRINCIPAL RISKS AND UNCERTAINTIES

Details of the principal risks and uncertainties facing the Group are set out in notes 6 and 30 to the financial statements, which form part of this Report of the Directors.

FINANCIAL STATEMENTS

The loss of the Group for the Year and the state of the Company's and the Group's affairs as at 30 June 2019 are set out in the financial statements on pages 44 to 119.

DIVIDENDS

The Board does not recommend the payment of any final dividend for the Year (2018: NIL).

TRANSFER TO RESERVES

Loss for the year attributable to equity shareholders of the Group of approximately RMB47,482,000 (2018: approximately RMB59,256,000) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 48.

DISTRIBUTABLE RESERVES

The aggregate amount of reserves available for distribution to the equity shareholders of the Company as at 30 June 2019 are set out in note 28(c)(vii) to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Year are set out in note 16 to the financial statements.

COMMITMENTS

Particulars of the commitments of the Group as at 30 June 2019 are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision 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 its existing shareholders.

RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to its shareholders by reason of their holding of the Company's shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES 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.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

DIRECTORS

The Directors during the Year and up to the date of this annual report are:

Executive Directors

Mr. Wong Fun Chung *(Chairman and Chief Executive Officer)*
Mr. Zou Chong
Mr. Su Fang Zhong
Mr. Cheung Chuen

Independent Non-executive Directors

Dr. Hu Guo Qing
Ms. Ji Qin Zhi
Mr. Chan Yuk Hiu, Taylor

Brief biographical information of the Directors are set out in the section headed "Biographical Information of Directors and Senior Management" section on pages 10 to 11 of this annual report.

Report of the directors

In accordance with article 84 of the Company's articles of association, Mr. Zou Chong, Mr. Su Fang Zhong, Dr. Hu Guo Qing and Mr. Chan Yuk Hiu, Taylor shall retire as Directors by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors listed below has entered into a service agreement with the Company for a term of three years, with automatic renewal subject to termination in accordance with the provisions thereof or by either party giving the other not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year with automatic renewal, subject to termination by either party giving the other not less than three months' notice. The appointment dates of each of the Directors are as follows:

Executive Directors

Mr. Wong Fun Chung	29 November 2007
Mr. Zou Chong	2 July 2008
Mr. Su Fang Zhong	2 July 2008
Mr. Cheung Chuen	2 April 2008

Independent Non-executive Directors

Dr. Hu Guo Qing	2 April 2008
Ms. Ji Qin Zhi	2 April 2008
Mr. Chan Yuk Hiu, Taylor	2 April 2008

Save as disclosed above, none of the Directors has a service agreement with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company had any material interest in a business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

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

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in the ordinary shares of the Company:

	Number of ordinary shares held, capacity and nature of interest			
Directors	**Directly held interest**	**Through controlled corporation**	**Total**	**Approximate percentage of the issued share capital of the Company**
Mr. Wong Fun Chung ("Mr. Wong")	342,942,082	39,824,704 (Note 1)	382,766,786	36.89% (Note 2)

Notes:

1. 39,824,704 shares were held by Fortune Plus Holdings Limited, a company incorporated in the British Virgin Islands and is owned as to 66.6% by Mr. Wong. Therefore Mr. Wong is deemed to be interested in these shares under the SFO.

2. As at 30 June 2019, the total number of issued shares of the Company was 1,037,500,000.

Save as disclosed above, as at 30 June 2019, none of the Directors or the chief executive of the Company or their respective associates had registered any interests or short positions in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, according to the register of members kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person(s)/entity(ies) (other than the Directors or chief executive of the Company) had an interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Long positions in the ordinary shares of the Company:

Shareholders	Number of Shares	Approximate percentage of the issued share capital of the Company
Capital Research and Management Company	83,390,000	8.04% (Note 1)

Note:

1. As at 30 June 2019, the total number of issued shares of the Company was 1,037,500,000.

Save as disclosed above, as at 30 June 2019, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE CAPITAL

Details of share capital of the Company during the Year are set out in note 28 to the financial statements.

SHARE OPTION SCHEME

The Company adopted the share option scheme (the "Scheme") on 28 October 2009, the principal terms of which are set out in note 27 to the financial statements. No share option has been granted, exercised, cancelled or lapsed during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the sections headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures of the Company or any associated corporations" and "Share option scheme" above, at no time during the Year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 11 and 31 to the financial statements, there was no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which any of the Directors or an entity connected with a Director had, whether directly or indirectly, a material interest, subsisted at the end of the Year or at any time during the Year.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the Year, save for those disclosed in note 31 to the financial statements, the Group had no transactions with related or connected parties. The transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules.

BANKING FACILITIES

During the Year, no banking facilities were obtained by the Group.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the Year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	11.1%	
Five largest customers in aggregate	47.1%	
The largest supplier		32.7%
Five largest suppliers in aggregate		82.7%

During the Year, none of the Directors, their close associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers or suppliers.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the Year are set out in note 9(a) to the financial statements.

Report of the directors

AUDIT COMMITTEE

The Company established the Audit Committee on 25 August 2008 with written terms of reference in compliance with the Code on Corporate Governance Practices (revised and renamed as 'Corporate Governance Code' with effect from 1 April 2012). The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management system, to oversee the audit process, to review the Company's financial information and to perform other duties and responsibilities as assigned by the Board. The Audit Committee currently comprises three independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor (Chairman). The Company's annual report for the Year has been reviewed by the Audit Committee.

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 the prescribed public float of the Company's shares under the Listing Rules.

PERMITTED INDEMNITY PROVISION

As at the date of this annual report, the Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against the Directors.

AUDITORS

The consolidated financial statements of the Group for the year ended 30 June 2019 have been audited by Pan-China who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

SUSPENSION OF TRADING

Trading in the shares of the Company has been suspended since 9:00 a.m. on 22 August 2012, and will remain suspended until further notice.

By Order of the Board

Wong Fun Chung
Chairman

Hong Kong, 27 September 2019

Independent auditor's report

PAN-CHINA (H.K.) CPA LIMITED Certified Public Accountants
天健(香港)會計師事務所有限公司

TO THE SHAREHOLDERS OF
CHINA HIGH PRECISION AUTOMATION GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China High Precision Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 119, which comprise the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent auditor's report

Key audit matter identified in our audit is summarized as follows:

- Impairment of inventories

Key Audit Matter

Write-down of inventories

Refer to notes 6(c) and 21 to the consolidated financial statements

As at 30 June 2019, the Group had inventories amounted RMB42,870,000, net of provision for impairment of inventories of approximately RMB8,867,000.

The Group is engaged in manufacture and sale of precision instrument and horological movements. The Group plans the production based on the actual and anticipated demand, market condition and production efficiency but the unpredictable market volatilities could have severe impacts on the manufacturing costs and marketability of the Group's products.

Inventories are stated at the lower of cost and net realisable value. Management reviews the carrying values of inventories and determines the amount of impairment provision with reference to the inventory utilization records, inventories ageing, confirmed sales orders and selling prices for sales subsequent to the year end.

We focused on this area due to management's judgement in estimating the amount of inventory provision.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's assessment on the impairment of inventories includes:

- Understanding and evaluating the appropriateness of the basis that management used in estimating the level of impairment provision for inventories by considering the inventory ageing as at 30 June 2019; the subsequent sales situation after year end; and the confirmed orders on hand;

- Testing the accuracy of inventory ageing on a sample basis by checking to the inventories receipt records;

- Testing the inventory utilisation during the year ended 30 June 2019 and subsequent to the year end on a sample basis by checking to sales invoices and acknowledgement of receipt and performing analysis to identify products with indication of slow moving and obsolescence;

- Testing the confirmed sales orders by checking to the purchase orders placed by the Group's customers on a sample basis; and

- Comparing the carrying amounts of the inventories, on a sample basis, to their net realisable values by examining sales invoices and acknowledgement of receipt for inventories sold subsequent to the year end to check the inventories were stated at lower of cost and net realisable value.

Based on the procedures described, we considered management's judgement and estimates in relation to the provision of impairment for inventories to be supportable by the available evidence.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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.

Independent auditor's report

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

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

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

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

The engagement director on the audit resulting in this independent auditor's report is Hon Sai Wa.

PAN-CHINA (H.K.) CPA LIMITED
Certified Public Accountants

Hon Sai Wa
Practising Certificate Number: P06829

11/F, Hong Kong Trade Centre
161–167 Des Voeux Road Central
Hong Kong, 27 September 2019

Consolidated statement of profit or loss

For the year ended 30 June 2019
(Expressed in Renminbi Yuan)

	Notes	2019 RMB'000	2018 RMB'000
Revenue	7	132,223	106,840
Cost of sales		(128,226)	(129,306)
Gross profit/(loss)		3,997	(22,466)
Other income	8	9,315	15,765
Other (loss)/gain, net	8	(8,912)	5,245
Distribution costs		(3,030)	(2,759)
Administrative expenses		(45,102)	(48,349)
Fair value change in investment properties	17	(2,590)	(6,601)
Write-down of inventories	21	(977)	—
Impairment of trade receivables	22	(704)	(29)
Impairment of long term investment	20	—	(680)
Loss from operations		(48,003)	(59,874)
Finance costs		—	—
Loss before taxation	9	(48,003)	(59,874)
Income tax credit	10(a)	521	618
Loss for the year attributable to equity shareholders of the Company		(47,482)	(59,256)
Loss per share (RMB cents)	14		
— basic		(4.58)	(5.71)
— diluted		(4.58)	(5.71)

The notes on pages 50 to 119 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the Company attributable to the loss for the year are set out in note 28(a).

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2019
(Expressed in Renminbi Yuan)

	2019 RMB'000	2018 RMB'000
Loss for the year attributable to equity shareholders of the Company	(47,482)	(59,256)
Other comprehensive (expense)/income for the year, net of tax		
Items that will not be subsequently reclassified to profit or loss:		
Fair value change in financial assets at fair value through other comprehensive income	(356)	—
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	2,842	(2,494)
Other comprehensive income/(expense) for the year	2,486	(2,494)
Total comprehensive expense for the year attributable to equity shareholders of the Company	(44,996)	(61,750)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 June 2019
(Expressed in Renminbi Yuan)

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	16	371,963	423,948
Investment properties	17	37,903	40,792
Interests in leasehold land held for own use under operating leases	18	8,275	8,502
Deposits for the purchase of property, plant and equipment		451	511
Rental deposits		199	—
Financial assets at fair value through other comprehensive income	19	6,964	—
Long term investment	20	—	7,320
Deferred tax assets	25(a)	3,536	3,303
		429,291	484,376
Current assets			
Inventories	21	42,870	42,988
Trade and other receivables	22	63,140	61,697
Cash and cash equivalents	23	1,438,811	1,439,211
		1,544,821	1,543,896
Current liabilities			
Trade and other payables	24	60,887	69,744
Provision for warranties	26	534	492
		61,421	70,236
Net current assets		1,483,400	1,473,660
Total assets less current liabilities		1,912,691	1,958,036

Consolidated statement of financial position

As at 30 June 2019
(Expressed in Renminbi Yuan)

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	25(a)	18,335	18,623
		18,335	18,623
NET ASSETS		1,894,356	1,939,413
CAPITAL AND RESERVES			
Share capital	28	91,360	91,360
Reserves		1,802,996	1,848,053
TOTAL EQUITY		1,894,356	1,939,413

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements were approved and authorized for issue by the board of directors on 27 September 2019 and are signed on behalf of the Board by:

Wong Fun Chung
Executive Director

Cheung Chuen
Executive Director

Consolidated statement of changes in equity

For the year ended 30 June 2019
(Expressed in Renminbi Yuan)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000	Share premium (note 28(c)(i)) RMB'000	Surplus reserve (note 28(c)(ii)) RMB'000	Other reserve (note 28(c)(iii)) RMB'000	Revaluation reserve (note 28(c)(iv)) RMB'000	Fair value through other comprehensive income reserve (note 28(c)(v)) RMB'000	Exchange reserve (note 28(c)(vi)) RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 July 2017	91,360	941,077	181,790	2,982	2,986	—	(19,731)	800,699	2,001,163
Changes in equity for the year ended 30 June 2018:									
Loss for the year	—	—	—	—	—	—	—	(59,256)	(59,256)
Other comprehensive expense									
Currency translation differences	—	—	—	—	—	—	(2,494)	—	(2,494)
Total comprehensive expense	—	—	—	—	—	—	(2,494)	(59,256)	(61,750)
Balance at 30 June 2018 and 1 July 2018	91,360	941,077	181,790	2,982	2,986	—	(22,225)	741,443	1,939,413
Impact on initial application of HKFRS 9	—	—	—	—	—	—	—	(61)	(61)
Adjusted balance at 1 July 2018	91,360	941,077	181,790	2,982	2,986	—	(22,225)	741,382	1,939,352
Changes in equity for the year ended 30 June 2019:									
Loss for the year	—	—	—	—	—	—	—	(47,482)	(47,482)
Other comprehensive income									
Currency translation differences	—	—	—	—	—	—	2,842	—	2,842
Fair value change in financial assets at fair value through other comprehensive income	—	—	—	—	—	(356)	—	—	(356)
Total comprehensive expense	—	—	—	—	—	(356)	2,842	(47,482)	(44,996)
Balance at 30 June 2019	91,360	941,077	181,790	2,982	2,986	(356)	(19,383)	693,900	1,894,356

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flow

For the year ended 30 June 2019
(Expressed in Renminbi Yuan)

	Notes	2019 RMB'000	2018 RMB'000
Operating activities			
Cash used in operations	23(b)	(6,760)	(12,031)
Net cash used in operating activities		(6,760)	(12,031)
Investing activities			
Addition of long term investments		—	(8,000)
Payment for the purchase of property, plant and equipment		(1,476)	(572)
Receipt of disposal of property, plant and equipment		3,082	8,446
Receipt of disposal of investment properties		400	—
Interest received		4,354	4,374
Net cash generated from investing activities		6,360	4,248
Net decrease in cash and cash equivalents		(400)	(7,783)
Cash and cash equivalents at beginning of the year		1,439,211	1,446,994
Cash and cash equivalents at end of the year	23(a)	1,438,811	1,439,211

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2019

1. CORPORATE INFORMATION

China High Precision Automation Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and selling of high precision industrial automation instrument and technology products and multi-functional all plastic quartz watch movements.

The functional currency of the Company and its subsidiary in Hong Kong is Hong Kong dollars ("HK$"), and the functional currency of the Company's subsidiary in Fujian, the People's Republic of China (the "PRC") is Renminbi Yuan ("RMB"). However, the consolidated financial statements are presented in RMB, rounded to the nearest thousand as the major subsidiary of the Group is operating in the PRC and the management of the Company control and monitor the performance and financial position of the Group by using RMB.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied a number of new standards and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 July 2018. These new standards and amendments have been applied by the Group for the first time in the current year unless otherwise specified.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKAS 28 (Amendments)	As part of Annual Improvement to HKFRSs 2014–2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRSs (Amendments)	Annual Improvement to HKFRSs 2014–2016 Cycle

The nature and the impact of each amendment is described below:

HKFRS 9 "Financial Instruments"

HKFRS 9 has replaced HKAS 39 Financial instruments: recognition and measurement. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. In accordance with the specific transitional provisions set out in HKFRS 9, the Group has applied the classification and measurement requirements (including requirements relating to impairment) to items that existed as of the date of initial application (i.e. 1 July 2018) on a retrospective basis based on the facts and circumstances that existed as at 1 July 2018. However, the Group has decided not to restate the comparative figures. Accordingly, the comparative information continues to be presented based on the requirements of HKAS 39 and hence may not be comparable with the current year information. The cumulative effect of initial application of HKFRS 9 has been recognised as adjustments to the opening equity.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial Instruments" *(continued)*

(I) Classification and measurement of financial assets

In general, HKFRS 9 categories financial assets into the following three classification categories:

- measured at amortised cost;
- at fair value through other comprehensive income ("FVTOCI"); and
- at fair value through profit or loss ("FVTPL").

These classification categories are different from those set out in HKAS 39 which included held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and the contractual cash flow characteristics of the financial asset. Details about the Group's accounting policies for its financial assets are disclosed in note 5(i) to the consolidated financial statements.

The following table shows a reconciliation from how the Group's financial assets existed as of 1 July 2018 were classified and measured under HKAS 39 to how they are classified and measured under HKFRS 9:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 July 2018 under HKAS 39 RMB'000	Remeasurement RMB'000	Carrying amount as at 1 July 2018 under HKFRS 9 RMB'000
Trade receivables	Loans and receivables	Financial assets at amortised cost	60,492	(61)	60,431
Other receivables	Loans and receivables	Financial assets at amortised cost	978	—	978
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	1,439,211	—	1,439,211
Long term investment	Available-for-sales financial assets	Financial assets at FVTOCI	7,320	—	7,320

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial Instruments" *(continued)*

(II) Impairment

HKFRS 9 has introduced the "expected credit loss" model to replace the "incurred loss" model under HKAS 39. The "expected credit loss" model requires an ongoing measurement of credit risk associated with a financial asset. The Group has applied the "expected credit loss" model to the following types of financial assets:

- Trade receivables
- Other receivables
- Cash and cash equivalents

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impairment loss upon initial application of HKFRS 9 are disclosed below.

Measurement of Expected Credit Loss ("ECL")

ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group applies the HKFRS 9 simplified approach to measure ECL for all trade receivables that are within the scope of HKFRS 15. To measure the ECL, trade receivables have been assessed individually with outstanding significant balances and/or grouped based on shared credit risk characteristics. The expected credit loss on trade receivables are estimated using provision matrix by reference to the past default experience of debtors, adjusted for current and forward-looking information on macroeconomic factors affecting the ability of the debtors to settle the receivables.

ECL for other financial assets at amortised cost, included cash and bank balances and other receivables, are assessed on 12-month ECL basis as it was assessed and concluded by the directors of the Company that there had been no significant increase in credit risk since initial recognition.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial Instruments" *(continued)*

(II) Impairment (continued)

Measurement of Expected Credit Loss (ECL) (continued)

The following table is a reconciliation that shows how the closing loss allowance as at 30 June 2018 determined in accordance with HKAS 39 can be reconciled to the opening loss allowance as at 1 July 2018 determined in accordance with HKFRS 9:

	ECL on trade receivables RMB'000
Balance as at 30 June 2018	
— as originally stated	199
Remeasurement of impairment loss	61
Balance as at 1 July 2018	
— as restated	260

(III) Classification and measurement of financial liabilities

Under HKFRS 9, for a financial liability designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is required to be presented in other comprehensive income, with the remaining amount of change in the fair value of the liability being presented in profit or loss (unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss and in which case all gains or loss on that liability are presented in profit or loss).

The Group does not have any financial liabilities designated at FVTPL and therefore the classification and measurement of the Group's financial liabilities have not been impacted by the initial application of HKFRS 9.

Notes to the consolidated financial statements

For the year ended 30 June 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial Instruments" *(continued)*

(IV) Hedge accounting

The Group has not applied any hedge accounting and hence the new general hedge accounting model set out in HKFRS 9 has not had any impact on the Group's consolidated financial statements.

(V) Effect on the Group's retained profits as of 1 July 2018

The following tables summarise the impact of transition to HKFRS 9 on retained profits and the related tax impact at 1 July 2018:

	RMB'000
Balance as at 30 June 2018	
— as originally stated	741,443
Recognised of additional ECL	(61)
Balance as at 1 July 2018	
— as restated	741,382

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 has replaced HKAS 11 Construction contracts, HKAS 18 Revenue and other revenue-related interpretations. Under HKAS 11 and HKAS 18, revenue arising from construction contracts and provision of services was recognised over time whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract. This may be at a single point in time or over time. HKFRS 15 has introduced additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Please see note 5(b) for details of old and new accounting policies.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

HKFRS 15 “Revenue from Contracts with Customers” *(continued)*

Based on the specific transitional provisions set out in HKFRS 15, the Group had decided to use the cumulative effect transition method and had recognised the cumulative effect of initial application of HKFRS 15 as an adjustment to the opening balance of equity as at the date of initial application of HKFRS 15 (i.e. 1 July 2018). Accordingly, comparative information has not been restated and continues to be presented under HKAS 11 and HKAS 18. Also, the Group has applied the HKFRS 15 requirements only to contracts that were not completed before 1 July 2018.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligation(s) in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligation(s) in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation(s)

Under HKFRS 15, the Group recognises revenue when a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

The adoption of HKFRS 15 does not have significant impact on when the Group recognise revenue.

HK(IFRIC) Interpretation 22 “Foreign Currency Transactions and Advance Consideration”

HK(IFRIC)-Int 22 provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency. The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The application of HK(IFRIC)-Int 22 has not had any material impact on the consolidated financial position and the consolidated financial results.

Except as described above, the directors of the Company consider that the application of the other new and revised HKFRSs and amendments is unlikely to have a material impact on the Group’s financial position and performance as well as disclosure.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs issued but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HKFRS 3 (Amendments)	Definition of a Business[3]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contributions of Assets between an Investor and its Associate or Joint Venture[5]
HKAS 1 and HKAS 8 (Amendments)	Definition of Material[2]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[1]
HKFRS (Amendments)	Annual Improvement to HKFRSs 2015–2017 Cycle[1]
HK(IFRIC) Interpretation 23	Uncertainty over Income tax treatments[1]

(1) Effective for annual periods beginning on or after 1 January 2019.
(2) Effective for annual periods beginning on or after 1 January 2020.
(3) Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period.
(4) Effective for annual periods beginning on or after 1 January 2021.
(5) Effective for annual periods beginning on or after a date to be determined.

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regards to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the date of the commencement of the lease. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portions which will be presented as financing and operating cash flows respectively.

With regards to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 16 Leases *(continued)*

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of RMB4,750,000 as disclosed in note 30. A preliminary assessment considered by the directors of the Company concluded that these arrangements will meet the definition of a lease under HKFRS 16. The Group intends to apply modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 July 2019 and will not restate the comparative information. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB4,254,000 and RMB4,254,000 respectively, after taking account the effects of discounting, as at 1 July 2019. While the assessment for the adoption of HKFRS 16 is still subject to final determination by the directors of the Company, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group.

HKFRS 17 Insurance Contracts

HKFRS 17 is not applicable to the Group as the Group is not engaged in insurance business.

HKFRS 3 (Amendments) Definition of Business

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

The directors of the Company do not anticipate that the application of the amendments in the future will have a material impact on the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 (Amendments) Prepayment Features with Negative Compensation

The HKICPA issued two amendments to HKFRS 9 in November 2017 and December 2017 respectively. The first amendment clarifies that prepayable financial assets with negative compensation can be measured at amortised cost or at FVTOCI if specified conditions are met instead of at FVTPL. The second amendment clarifies, in the basis for conclusions, the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. HKFRS 9 requires an entity to recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. Any adjustments to the amortised cost of the financial liability would be recognised in profit or loss at the date of the modification or exchange. If entities apply a different accounting treatment for modifications of financial liabilities under HKAS 39, they are required to apply the amendments retrospectively on transition to HKFRS 9.

The amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The directors of the Company do not anticipate that the application of the amendments will have a material impact on the Group's consolidated financial statements.

HKFRS 10 and HKAS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Group did not enter into these transactions in the current year. The directors of the Company anticipate that the application of these amendments may have an impact on the consolidated financial statements in future periods should such transactions arise.

HKAS 1 and HKAS 8 (Amendments) Definition of Material

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The directors of the Company do not anticipate that the application of the amendments will have a material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKAS 19 (Amendments) Plan Amendment, Curtailment or Settlement

The amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the reporting period after a change is made to a plan.

The directors of the Company do not anticipate that the application of the amendments in the future will have a material impact on the consolidated financial statements.

HKAS 28 (Amendments) Long-term Interests in Associates and Joint Ventures

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture.

The directors of the Company do not anticipate that the application of the amendments in the future will have a material impact on the consolidated financial statements.

HK(IFRIC) Interpretation 23 Uncertainty over Income Tax Treatments

This interpretation clarifies how to apply the recognition and measurement requirements in HKAS 12 when there is uncertainty over income tax treatments.

The directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the consolidated financial statements.

3. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (the "Group") is set out below.

Notes to the consolidated financial statements

For the year ended 30 June 2019

4. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial instruments and investment properties that are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in the exchange for goods and services.

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 HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 estimates are 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.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are disclosed in note 6.

5. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the result of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's ownership 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 interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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, 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 previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlled interests. 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 that to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

Notes to the consolidated financial statements

For the year ended 30 June 2019

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of consolidation *(continued)*

Where necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

(b) Revenue recognition

Policy applicable from 1 July 2018

Income is classified by the Group as revenue when it arises from the sales of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which the Company is expected to be entitled, excluding those amounts collected on behalf of third parties.

Control is transferred over time and revenue is recognised over time 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.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Company takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Revenue recognition *(continued)*

Other income

The Group's other income recognition policies are as follows:

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 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.

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

Policy applicable prior to 1 July 2018

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Revenue recognition *(continued)*

Policy applicable prior to 1 July 2018 *(continued)*

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

(c) Interests in leasehold land held for own use under operating leases

Interests in leasehold land held for own use under operating leases represent payments made to acquire leasehold land, and are carried at cost less accumulated amortisation and impairment losses (see note 5(g)). Amortisation is charged to profit or loss on a straight-line basis over the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leasehold land.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 5(g)). Historical cost includes expenditure that is directly attributable to the acquisition of items.

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Plant and machineries	10–20 years
— Buildings	20 years
— Leasehold improvements	Over the shorter of 5 years and the lease term
— Motor vehicles	10 years
— Furniture and fixtures	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation and that is not occupied by the Group.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. In circumstances where the fair value of an investment property under development is not reliably measurable but the fair value of the property is expected to be reliably measurable when construction is completed, such investment properties under development are measured at cost less impairment, if any, until either its fair value becomes reliably determinable or construction is completed, whichever is the earlier. Once the fair value of an investment property under development that has previously been measured at cost is able to measure reliably, the property is measured at fair value. Any difference between the fair value of the property at that time and its previous carrying amount is recognised in profit or loss. 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.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

If an investment property becomes owner-occupied, it is reclassified as a property held for own used and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting in accordance with note 5(d).

For a transfer from properties under development or property held for sale to investment properties that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in consolidated statement of profit or loss. Transfers to investment properties shall be made when, and only when, there is a change in use, evidenced by commencement of an operating lease to another party. The commencement of an operating lease is generally an evidence of a change in use. A change in use has occurred is based on an assessment of all relevant facts and circumstances. The relevant facts include but not limited to the Group's business plan, financial resources and legal requirements.

Construction costs incurred for investment properties under development are capitalised as part of the carrying amount of the investment properties under development.

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 property is derecognised.

Notes to the consolidated financial statements

For the year ended 30 June 2019

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Leasing

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.

The Group as lessor

Rental income from operating leases is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

(g) Impairment of assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— interests in leasehold land held for own use under operating leases;

— deposits for the purchase of property, plant and equipment; and

— interests in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period when the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets

(A) Policy applicable from 1 July 2018

Classification

The Group has the following types of financial assets:

- Those to be measured subsequently at fair value through other comprehensive income; and
- Those to be subsequently measured at amortised cost.

The classification depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing the financial assets.

i. Financial assets subsequently measured at amortised cost

In order for a financial asset to be subsequently measured at amortised cost, its contractual cash flows need to be solely payments of principal and interest on the principal amount outstanding and the Group's business model for managing such financial assets is to collect the contractual cash flows.

The Group's financial assets subsequently measured at amortised cost comprise "trade receivables", "other receivables" and "cash and cash equivalents" in the consolidated statement of financial position.

ii. Investments in equity instruments measured at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are equity instruments that are neither held for trading nor contingent consideration recognized by an acquirer to which HKFRS 3 applies that the Group has made an irrevocable election at the date of initial application of HKFRS 9 or initial recognition of the assets to designate at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 "Financial Instruments: Presentation" and are not held for trading.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

(A) Policy applicable from 1 July 2018 *(continued)*

Recognition and measurement

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

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

Changes in fair value of financial assets at fair value through profit or loss are presented in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss when the Group's right to receive payments is established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of group of similar financial assets) is primary derecognised when:

- the rights to receive cash flows from the asset have expired; or

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

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

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

Notes to the consolidated financial statements

For the year ended 30 June 2019

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

(B) Policy applicable prior to 1 July 2018

Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for sales financial asset. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment, except where the receivables are interest-free loans without any fixed repayment terms or the effect of discounting would be immaterial, in which case they are stated at cost.

The Group's loans and receivables comprise "trade receivables", "other receivables" and "cash and cash equivalents" in the consolidated statement of financial position.

ii. Available-for-sales financial assets ("AFS financial assets")

AFS financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method, less any impairment losses, except where the receivables are interest-free loans without any fixed repayment terms or the effect of discounting would be immaterial, in which case they are stated at cost.

Available-for-sales equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

(B) Policy applicable prior to 1 July 2018 *(continued)*

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 continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of financial assets

(A) Policy applicable from 1 July 2018

The Group recognises a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost (including trade receivables, other receivables and cash and cash equivalents).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECL, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECL are measured on either of the following bases:

- 12-months ECL: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECL: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other types of financial instruments, the Group recognises a loss allowance equal to 12-months ECL unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECL.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of financial assets *(continued)*

(A) Policy applicable from 1 July 2018 *(continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. 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 since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECL are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

The Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of financial assets *(continued)*

(A) Policy applicable from 1 July 2018 *(continued)*

Basis of calculation of interest income

Interest income recognised in accordance with note 5(b) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

- failure to make payments of principal or interest on their contractually due dates;
- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 July 2018

Financial assets, other than those at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For available-for-sales equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of financial assets *(continued)*

(B) Policy applicable prior to 1 July 2018 *(continued)*

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, are assessed for impairment on an individual basis. Objective evidence of impairment for receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments that pass the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sales financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Notes to the consolidated financial statements

For the year ended 30 June 2019

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of financial assets *(continued)*

(B) Policy applicable prior to 1 July 2018 *(continued)*

In respect of available-for-sales equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sales debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate provident fund in Hong Kong and appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) The fair value of share options granted to employees is recognised as staff cost with a corresponding increase in share-based payment reserve within equity. The fair value is measured at the grant date using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the directors and employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original staff cost qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On the vesting dates, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to the retained profits).

If the grant of share options is cancelled or settled during the vesting period (other than grant cancelled by forfeiture when the vesting conditions are not satisfied), the cancellation or settlement is accounted for as an acceleration of vesting and the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately in profit or loss.

Notes to the consolidated financial statements

For the year ended 30 June 2019

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Income tax

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

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Income tax *(continued)*

(iii) *(continued)*

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

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

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

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

  — the same taxable entity; or

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

(o) Provisions and contingent liabilities

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of entities with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the average exchange rate for the year, unless exchange rates fluctuate significantly during the year in which case the exchange rates prevailing at the date of the transactions are used. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a subsidiary with functional currency other than RMB, the cumulative amount of the exchange differences relating to that subsidiary is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(q) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

(r) 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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Related parties

A related party is a person or entity that is related to the entity that is preparing its consolidated financial statements.

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

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

A related party transaction is a transfer of resources, services or obligations between a Group and a related party, regardless of whether a price is charged.

Notes to the consolidated financial statements

For the year ended 30 June 2019

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

6. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain.

Note 29 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key areas of estimation uncertainty are as follows:

(a) Provision for warranties

As explained in note 26, the Group makes provision for the warranties it gives on sales of automation instrument and technology products based on the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that the Group will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

6. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Key sources of estimation uncertainty *(continued)*

(b) *Impairments of assets*

The Group reviews the carrying amounts of the assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group's net asset value.

Allowance for impairment loss for doubtful debts in respect of trade and other receivables is assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

The Group follows the guidance of HKAS 39 to determine when the long term investment is impaired. This determination requires significant management judgement. During the year ended 30 June 2018, the management of the Group reviewed the carrying amount of the investment with reference to the unaudited management accounts for the year ended 30 June 2018 and other relevant factors. The management of the Company considers the long term investment should be impaired and an impairment loss of RMB680,000 has been recognised to the consolidated statement of profit or loss for the year ended 30 June 2018 (note 20).

(c) *Write-down of inventories*

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value as in accordance with accounting policy as set out in note 5(h). Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value.

(d) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews regularly the useful lives of the assets and their residual values, if any. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(e) *Fair value of investment properties*

Investment properties are carried in the consolidated statement of financial position at 30 June 2019 at their fair value of approximately RMB37,903,000 (2018: RMB40,792,000). The fair value was based on a valuation on these properties conducted by an independent firm of professional 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 value 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.

Notes to the consolidated financial statements

For the year ended 30 June 2019

6. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Key sources of estimation uncertainty *(continued)*

(f) Fair value measurement of equity investments at fair value through other comprehensive income

In the absence of quoted market prices in an active market, the Company based on the adjusted net asset method to assess the fair values of the equity investments at fair value through other comprehensive income. The directors of the Company have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(g) Estimated impairment loss of trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at 30 June 2019, the accumulated impairment loss for trade receivable amount to RMB928,000 (2018: RMB199,000). Details are set out in note 22 to the consolidated financial statements.

7. REVENUE

Disaggregation of the Group's revenue from contracts with customers for the year by major products line and reconciliation of total revenue is as follows:

	2019 RMB'000	2018 RMB'000
Disaggregation of revenue from contracts with customers:		
Sales of automation instrument and technology products	130,125	99,110
Sales of horological instruments	2,098	7,730
	132,223	106,840

During the year, all the revenue from contracts with customers is recognised at a point in time.

8. OTHER INCOME AND OTHER (LOSS)/GAIN, NET

	2019 RMB'000	2018 RMB'000
Other income		
Bank interest income	4,353	4,374
Government grants (note)	—	5,000
Rental income	2,184	2,461
Service income	648	—
Reversal of provision for warranties	—	80
Reversal of impairment loss recognised on trade receivables	43	—
Retail sales	—	325
Income from processing of water meters	—	3,372
Written back on unclaimed other payables	1,556	—
Sundry income	531	153
	9,315	15,765
Other (loss)/gain, net		
(Loss)/Gain on disposal of property, plant and equipment	(5,944)	2,588
Gain on disposal of investment properties	101	—
Net foreign exchange (loss)/gain	(3,069)	2,657
	(8,912)	5,245

Notes:

Government grants represent incentives and subsidies granted to the PRC subsidiary by the local authorities. The government grants were unconditional.

Income from processing of water meters was recognised as sales of automation instrument and technology products during the year ended 30 June 2019.

Notes to the consolidated financial statements

For the year ended 30 June 2019

9. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2019 RMB'000	2018 RMB'000
(a) Staff costs		
Contributions to defined contribution retirement plans	1,934	1,825
Salaries, wages and other benefits	36,170	35,258
	38,104	37,083

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme (the "Defined Contribution Scheme") organised by the PRC municipal government authority in the Fujian province whereby the Group is required to make a contribution at the rate of 18% of the eligible employees' salaries to the Defined Contribution Scheme. The Group has accrued for the required pension fund contributions, which are remitted to the social security office in the Fujian province when the contributions become due. The social security office in the Fujian province is responsible for making the benefit payments to the retired employees covered under the Defined Contribution Scheme.

The Group maintains a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the employees' relevant income (up to a cap of monthly relevant income of HK$30,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

The Group has no other material obligation for the payment of pension benefits associated with the two schemes beyond the annual contributions described above.

9. LOSS BEFORE TAXATION *(continued)*

	2019 RMB'000	2018 RMB'000
(b) Other items		
Depreciation	44,418	45,063
Amortisation	227	227
Research and development costs	9,019	12,465
Provision/(Reversal of provision) for warranties (note 26)	42	(80)
Auditors' remuneration		
— Audit services	1,800	1,700
Operating lease charges in respect of properties	2,301	2,232
Cost of inventories sold*	128,226	129,306

* Cost of inventories sold includes approximately RMB63,063,000 (2018: approximately RMB59,404,000) relating to staff costs, depreciation and amortisation expenses, amounts of which are also included in the respective total amounts disclosed separately above or in note 9(a) for each of these types of expenses.

10. INCOME TAX CREDIT

(a) Income tax credit in the consolidated statement of profit or loss represents:

	2019 RMB'000	2018 RMB'000
Current tax		
Current year	—	—
Deferred tax		
Credited to profit or loss (note 25(a))	(521)	(618)
	(521)	(618)

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

(ii) No provision has been made for Hong Kong Profits Tax as the Group does not have assessable profits subject to Hong Kong Profits Tax during the year.

(iii) No provision for taxation in the PRC has been made as the Group sustained a tax loss for the current year.

Notes to the consolidated financial statements

For the year ended 30 June 2019

10. INCOME TAX CREDIT *(continued)*

(a) (continued)

(iv) Pursuant to the income tax rules and regulations of the PRC, a recognised Advanced and New Technology Enterprise ("ANTE") that meets the conditions according to the *Notice on Issuance of the Administrative Measures governing the Recognition of Advanced and New Technology Enterprises* issued on 14 April 2008 is entitled to a reduced income tax rate of 15%. An indirect wholly-owned subsidiary of the Company, Fujian Wide Plus Precision Instrument Co., Ltd. ("Fujian Wide Plus") was recognised as an ANTE as approved by the relevant authorities.

From 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. As Fujian Wide Plus is directly and wholly held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax under the double tax arrangement between Hong Kong and the PRC. Deferred tax liabilities have been recognised for undistributed retained profits of Fujian Wide Plus earned since 1 January 2008 till 30 June 2009 to the extent that the profits are likely to be distributed in the foreseeable future.

(b) Reconciliation between income tax credit and loss before taxation at applicable tax rate:

	2019 RMB'000	2018 RMB'000
Loss before taxation	(48,003)	(59,874)
Notional tax on loss before taxation, calculated at the rates applicable in the tax jurisdiction concerned	(11,598)	(14,000)
Tax effect of non-taxable revenue	(2,116)	(4,520)
Tax effect of non-deductible expenses	7,446	7,499
Tax effect of temporary differences	(521)	(618)
Tax effect of estimated tax losses not recognised	6,268	11,021
Actual income tax credit	(521)	(618)

11. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the Company's directors is as follows:

2019

	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to retirement benefit scheme RMB'000	Share-based payments RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors						
Mr. Wong Fun Chung	—	1,072	—	—	—	1,072
Mr. Zou Chong	—	480	14	—	—	494
Mr. Su Fang Zhong	—	480	—	—	—	480
Mr. Cheung Chuen	—	792	16	—	—	808
Independent non-executive directors						
Dr. Hu Guo Qing	104	—	—	—	—	104
Ms. Ji Qin Zhi	104	—	—	—	—	104
Mr. Chan Yuk Hiu, Taylor	104	—	—	—	—	104
Total	312	2,824	30	—	—	3,166

2018

	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to retirement benefit scheme RMB'000	Share-based payments RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors						
Mr. Wong Fun Chung	—	1,036	7	—	—	1,043
Mr. Zou Chong	—	468	13	—	—	481
Mr. Su Fang Zhong	—	468	—	—	—	468
Mr. Cheung Chuen	—	757	15	—	—	772
Independent non-executive directors						
Dr. Hu Guo Qing	100	—	—	—	—	100
Ms. Ji Qin Zhi	100	—	—	—	—	100
Mr. Chan Yuk Hiu, Taylor	100	—	—	—	—	100
Total	300	2,729	35	—	—	3,064

Notes to the consolidated financial statements

For the year ended 30 June 2019

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2018: five) are directors of the Company whose emoluments are is disclosed in note 11 above. The aggregate of the emoluments in respect of the other one individual for the year ended 30 June 2019 are as follows:

	2019 RMB'000
Contributions to retirement benefit scheme	16
Salaries and other emoluments	437
Discretionary bonuses	—
	453

The emoluments of the one (2018: nil) individual with the highest emoluments are within the following bands:

	2019 Number of individuals
Emoluments band	
Nil to HK$1,000,000	1

For the years ended 30 June 2019 and 2018, no emoluments were paid by the Group to these five highest paid individuals (including the directors and employees), as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director has waived or agreed to waive any emoluments.

13. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of approximately RMB7,371,000 (2018: loss of approximately RMB5,393,000) which has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of approximately RMB47,482,000 (2018: approximately RMB59,256,000) and the number of 1,037,500,000 ordinary shares (2018: 1,037,500,000 ordinary shares) in issue during the year.

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company of approximately RMB47,482,000 (2018: approximately RMB59,256,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options assuming they were exercised during the year. For the years ended 30 June 2019 and 2018, diluted loss per share are equal to basic loss per share as there was no dilutive potential ordinary shares.

	2019 '000	2018 '000
Weighted average number of ordinary shares (basic)	1,037,500	1,037,500
Effect of deemed issue of shares under the Company's share option scheme	—	—
Weighted average number of ordinary shares (diluted)	1,037,500	1,037,500

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15. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Automation instrument and technology products:	the manufacture and trading of intelligent display instruments, flow accumulate instruments, pressure transmitters and logging control instruments
Horological instruments:	the manufacture and trading of multi-functional all-plastic quartz watch movements

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management, being the chief operating decision maker, monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade and other payables, provision for warranties and current tax payable attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment loss is "adjusted loss from operations". To arrive at reportable segment loss, the Group's loss from operations is adjusted for items not specifically attributed to individual segment, such as head office or corporate administrative expenses. In addition to receiving segment information concerning adjusted loss from operations, management is provided with segment information concerning revenue, additions to non-current segment assets, depreciation and amortisation and loss allowance.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 30 June 2019 and 2018 is set out below.

	Automation instrument and technology products		**Horological instruments**		**Total**	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Reportable segment revenue	**130,125**	99,110	**2,098**	7,730	**132,223**	106,840
Reportable segment loss (adjusted loss from operations)	**(31,139)**	(45,941)	**(10,697)**	(18,932)	**(41,836)**	(64,873)

15. SEGMENT REPORTING *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2018: Nil).

	Automation instrument and technology products		Horological instruments		Total	
	At 30 June 2019 RMB'000	At 30 June 2018 RMB'000	At 30 June 2019 RMB'000	At 30 June 2018 RMB'000	At 30 June 2019 RMB'000	At 30 June 2018 RMB'000
Reportable segment assets	379,774	390,969	103,979	140,695	483,753	531,664
Reportable segment liabilities	15,234	15,104	467	3,560	15,701	18,664

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue	132,223	106,840
Revenue	132,223	106,840

	2019 RMB'000	2018 RMB'000
Profit or loss		
Reportable segment loss	(41,836)	(64,873)
Bank interest income	4,353	4,374
Unallocated head office and corporate income	2,683	16,556
Unallocated head office and corporate expenses	(13,203)	(15,931)
Loss before taxation	(48,003)	(59,874)
Income tax credit	521	618
Loss for the year	(47,482)	(59,256)

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For the year ended 30 June 2019

15. SEGMENT REPORTING *(continued)*

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities *(continued)*

	2019 RMB'000	2018 RMB'000
Assets		
Reportable segment assets	483,753	531,664
Unallocated head office and corporate assets	1,490,359	1,496,608
Total assets	1,974,112	2,028,272

	2019 RMB'000	2018 RMB'000
Liabilities		
Reportable segment liabilities	15,701	18,664
Unallocated head office and corporate liabilities	64,055	70,195
Total liabilities	79,756	88,859

(c) Other segment information

	Automation instrument and technology products		Horological instruments	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Depreciation and amortisation	43,171	41,141	696	3,209
Addition to non-current segment assets during the year	1,198	188	—	—
Impairment of trade receivables	114	—	590	29
Reversal of impairment of trade receivables	(43)	—	—	—

15. SEGMENT REPORTING *(continued)*

(d) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties, interests in leasehold land held for own use under operating leases and deposits for the purchase of property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset.

	Revenues from external customers		**Specified non-current assets**	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Hong Kong	**—**	474	**207**	22
People's Republic of China ("PRC") (excluding Hong Kong)	**131,439**	106,366	**418,584**	481,051
Others	**784**	—	**—**	—
	132,223	106,840	**418,791**	481,073

(e) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	Reportable segments	**2019 RMB'000**	2018 RMB'000
Customer A	Automation instrument and technology products	**13,437**	11,035
Customer B	Automation instrument and technology products	**N/A(*)**	10,888
Customer C	Automation instrument and technology products	**14,717**	N/A(*)

(*): Revenue from Customer B did not contribute over 10% of the total revenue of the Group for the year ended 30 June 2019.

Revenue from Customer C did not contribute over 10% of the total revenue of the Group for the year ended 30 June 2018.

Notes to the consolidated financial statements

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16. PROPERTY, PLANT AND EQUIPMENT

	Plant and machineries RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Total RMB'000
Cost:						
At 1 July 2017	344,086	418,443	23,494	2,296	11,326	799,645
Additions	350	—	—	—	222	572
Disposals	—	(8,096)	—	—	—	(8,096)
Exchange adjustment	—	—	(7)	—	(42)	(49)
At 30 June 2018	344,436	410,347	23,487	2,296	11,506	792,072
At 1 July 2018	344,436	410,347	23,487	2,296	11,506	792,072
Additions	1,198	—	—	—	278	1,476
Disposals	(8,818)	(2,076)	(680)	—	(78)	(11,652)
Exchange adjustment	—	—	10	—	59	69
At 30 June 2019	336,816	408,271	22,817	2,296	11,765	781,965
Accumulated depreciation:						
At 1 July 2017	199,241	93,034	21,508	1,601	9,962	325,346
Charge for the year	24,564	18,586	1,478	176	259	45,063
Disposals	—	(2,238)	—	—	—	(2,238)
Exchange adjustment	—	—	(7)	—	(40)	(47)
At 30 June 2018	223,805	109,382	22,979	1,777	10,181	368,124
At 1 July 2018	223,805	109,382	22,979	1,777	10,181	368,124
Charge for the year	25,278	18,411	399	169	161	44,418
Disposals	(1,645)	(224)	(680)	—	(60)	(2,609)
Exchange adjustment	—	—	10	—	59	69
At 30 June 2019	247,438	127,569	22,708	1,946	10,341	410,002
Net book value:						
At 30 June 2019	89,378	280,702	109	350	1,424	371,963
At 30 June 2018	120,631	300,965	508	519	1,325	423,948

17. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
At 1 July 2018/2017	40,792	47,393
Disposals	(299)	—
Fair value change in investment properties	(2,590)	(6,601)
At 30 June 2019/2018	37,903	40,792

Investment properties represent office premises, an apartment and car-parking spaces located in Fuzhou, the PRC, under medium-term lease and are held for rental purpose.

Amounts recognised in profit or loss for investment properties

	2019 RMB'000	2018 RMB'000
Rental income	2,504	2,461
Direct operating expenses from properties that generated rental income	(320)	(268)
	2,184	2,193

The fair values of the Group's investment properties at 30 June 2019 and 2018 have been arrived at on the basis of a valuation carried out by an independent firm of professional valuers not connected with the Group, and were determined based on market comparison approach assuming sales of the property interest in its existing state and making references to comparable market observable transactions of similar properties with adjustments made for size, location, time, amenities and other relevant factors when comparing such sales against the investment properties.

All of the Group's investment properties measured at fair value are categorised as Level 3 valuation. The group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or charge in circumstances that cause the transfer. During the years ended 30 June 2019 and 2018, there were no transfers between Level 1 and Level 2 or transfers into or out of Level 3.

The following table shows the valuation techniques used in the determination of fair values of the investment properties and unobservable inputs used in the valuation models as at 30 June 2019 and 2018.

Notes to the consolidated financial statements

For the year ended 30 June 2019

17. INVESTMENT PROPERTIES *(continued)*

Amounts recognised in profit or loss for investment properties *(continued)*

Date	Fair value	Fair value hierarchy	Valuation techniques	Unobservable input	Range of significant input	Relationship of inputs to fair value
As at 30 June 2019	RMB37,903,000	Level 3	Market comparison approach	Adjusted transaction price to reflect market value of similar or substitute properties, including office and carpark	Office: RMB17,308 to RMB20,283 per square meter Carpark: RMB297,000 to RMB455,000 per unit	The higher the adjusted transaction price the higher the fair value
As at 30 June 2018	RMB40,792,000	Level 3	Market comparison approach	Adjusted transaction price to reflect market value of similar or substitute properties, including office and carpark	Office: RMB19,730 to RMB21,350 per square meter Carpark: RMB290,000 to RMB311,100 per unit	The higher the adjusted transaction price the higher the fair value

18. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	2019 RMB'000	2018 RMB'000
Cost:		
At 1 July 2017, 30 June 2018, 1 July 2018 and 30 June 2019	10,656	10,656
Accumulated amortisation:		
At 1 July 2018/2017	1,927	1,700
Charge for the year	227	227
At 30 June 2019/2018	2,154	1,927
Net book value:		
At 30 June 2019/2018	8,502	8,729
Representing:		
Non-current portion	8,275	8,502
Current portion included in "Other prepayments, deposits and receivables" (note 22)	227	227
	8,502	8,729

Interests in leasehold land held for own use under operating leases represent payments for land use rights in the PRC with lease term expiring in 2056.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
At 1 July	—	—
Transfer from long term investment upon initial application of HKFRS 9 (note 2)	7,320	—
Fair value changes	(356)	—
At 30 June	6,964	—

Financial assets at fair value through other comprehensive income include the following:

	2019 RMB'000	2018 RMB'000
Unlisted equity investments (note (a))	6,964	—

(a) The unlisted equity investments represented the Group's equity investments in 上海芯物科技有限公司, a private company operating in the PRC. The fair value of the unlisted equity investments as at 30 June 2019 was approximately RMB6,964,000.

(b) The management of the Group is of the view that the investments are not held for trading and does not expect that the Group will realise the financial assets at fair value through other comprehensive income within 12 months after the balance sheet date.

20. LONG TERM INVESTMENT

	2019 RMB'000	2018 RMB'000
At 1 July	7,320	8,000
Transfer to financial assets at fair value through other comprehensive income upon initial application of HKFRS 9 (note (a))	(7,320)	—
Impairment losses	—	(680)
At 30 June	—	7,320

Notes:

(a) The unlisted equity securities represent the Group's investment in a private entity.

(b) Long term investment was reclassified to financial assets at fair value through other comprehensive income (non-recycling) upon the initial application of HKFRS 9 on 1 July 2018.

(c) Given the equity securities are unlisted, the range of fair value estimated is so significant and the probabilities of the various estimates within the range cannot be reasonably assessed, the directors are of the opinion that their fair values of these available-for-sale financial assets cannot be reliably measured and hence they are measured at cost less impairment at the end of each reporting period.

Taking into account the unaudited net asset value of the private entity as at 30 June 2018, approximately RMB680,000 impairment was made for the long term investment as at 30 June 2018.

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For the year ended 30 June 2019

21. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2019 RMB'000	2018 RMB'000
Raw materials and consumables	19,319	21,325
Work in progress	15,024	11,727
Finished goods	8,527	9,936
	42,870	42,988

(b) An analysis of the amount of inventories recognised as an expense and included in consolidated statement of profit or loss is as follows:

	2019 RMB'000	2018 RMB'000
Cost of inventories sold	128,226	129,306
Write-down of inventories	977	—
	129,203	129,306

22. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables (note)	61,739	60,492
Other prepayments, deposits and receivables	1,401	1,205
	63,140	61,697

Note:

Trade receivables

An analysis of trade receivables by age, presented based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
0–60 days	21,457	22,536
61–120 days	20,115	19,874
121–180 days	20,322	18,110
Over 180 days	773	171
Total trade receivables	62,667	60,691
Less: Accumulated impairment loss	(928)	(199)
Total trade receivables, net of impairment loss	61,739	60,492

The carrying amount of the Group's trade receivables are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
United States dollars	792	226
Renminbi	61,875	60,465
	62,667	60,691

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For the year ended 30 June 2019

22. TRADE AND OTHER RECEIVABLES *(continued)*

Note: *(continued)*

Trade receivables *(continued)*

The Group generally grants credit periods 120 days to 180 days from the date of billing to its customers.

No interest is charged on the trade receivables.

Movements in the impairment loss of trade receivables:

	2019 RMB'000	2018 RMB'000
Balance at 30 June 2018 under HKAS 39	199	N/A
Effect of initial application of HKFRS 9	61	N/A
Balance at 1 July	260	179
Impairment loss	704	29
Reversal of impairment loss	(43)	—
Exchange adjustments	7	(9)
Balance at 30 June	928	199

Impairment assessment under HKFRS 9 for the year ended 30 June 2019

The Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses.

The expected credit loss on trade receivables is estimated using provision matrix by reference to the past default experience of debtors, adjusted for current and forward-looking information on macroeconomic factors affecting the ability of the debtors to settle the receivables. During the year ended 30 June 2019, the expected credit losses of trade receivables are determined as follows:

	Expected credit loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.25%	61,894	155
Past due over 3 months	100%	773	773
		62,667	928

Impairment assessment under HKAS 39 for the year ended 30 June 2018

The Group monitors the recoverable amount of the trade debts and considers adequate impairment loss is made for irrecoverable amount, if necessary. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the end of the reporting period.

23. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2019 RMB'000	2018 RMB'000
Cash at bank and in hand	1,438,811	1,439,211

(b) Reconciliation of loss before taxation to cash generated from operations:

	2019 RMB'000	2018 RMB'000
Loss before taxation	(48,003)	(59,874)
Adjustments for:		
— Depreciation	44,418	45,063
— Amortisation	227	227
— Interest income	(4,353)	(4,374)
— Fair value loss of investment properties	2,590	6,601
— Unrealised exchanged differences	2,864	(2,501)
— Loss/(Gain) on disposal of property, plant and equipment	5,944	(2,588)
— Gain on disposal of investment properties	(101)	—
— Impairment loss of long term investment	—	680
— Write-down of inventories	977	—
— Impairment of trade receivables	704	29
— Reversal impairment loss of trade receivables	(43)	—
— Provision for/(Reversal of provision for) warranties	42	(80)
Operating loss before changes in working capital	5,266	(16,817)
Increase in inventories	(858)	(2,936)
(Increase)/Decrease in trade and other receivables	(2,436)	1,517
Decrease/(Increase) in deposits for the purchase of property, plant and equipment	60	(200)
(Decrease)/Increase in trade and other payables	(8,792)	6,405
Cash used in operations	(6,760)	(12,031)

(c) As at 30 June 2019, the balances that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB1,438,525,000 (2018: RMB1,438,039,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Notes to the consolidated financial statements

For the year ended 30 June 2019

24. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	13,769	18,528
Other payables and accruals	47,118	51,216
	60,887	69,744

Included in trade and other payables are trade payables with the following ageing analysis at the end of the reporting periods. The credit periods granted by various suppliers are generally 120 days.

	2019 RMB'000	2018 RMB'000
Due within 1 month or on demand	5,878	12,634
Due after 1 month but within 3 months	7,359	5,528
Due after 3 months but within 6 months	109	83
Over 6 months	423	283
	13,769	18,528

All of the trade and other payables are expected to be settled within one year.

25. DEFERRED TAX ASSETS/(LIABILITIES)

(a) Deferred tax assets/(liabilities) recognised:

	Impairment of assets and provisions RMB'000	Accelerated tax depreciation RMB'000	Undistributed profits of the PRC subsidiary RMB'000	Total RMB'000
Deferred tax arising from:				
At 1 July 2017	3,278	(1,591)	(17,625)	(15,938)
Credited to consolidated statement of profit or loss (note 10(a))	25	593	—	618
At 30 June 2018	3,303	(998)	(17,625)	(15,320)
At 1 July 2018				
Credited to consolidated statement of profit or loss (note 10(a))	233	288	—	521
At 30 June 2019	3,536	(710)	(17,625)	(14,799)

	2019 RMB'000	2018 RMB'000
Deferred tax asset recognised in the consolidated statement of financial position	3,536	3,303
Deferred tax liabilities recognised in the consolidated statement of financial position on the undistributed profit of the PRC subsidiary	(18,335)	(18,623)
	(14,799)	(15,320)

(b) Deferred tax not recognised:

At 30 June 2019, temporary differences relating to the undistributed profits of the Group's PRC subsidiary amounted to approximately RMB1,315,873,000 (2018: approximately RMB1,315,873,000). Deferred tax liabilities of approximately RMB48,167,000 (2018: approximately RMB48,167,000) which was earned after 1 June 2009 have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of the PRC subsidiary and the directors have determined that a portion of these profits will not be distributed in the foreseeable future.

The Group had unused tax losses of approximately RMB261,640,000 (2018: RMB230,713,000) that can be carried forward against future taxable income. No deferred income tax asset has been recognised in respect of such losses due to the unpredictability of future profit stream. Losses amount to approximately RMB15,796,000 (2018: approximately RMB15,796,000), approximately RMB63,670,000 (2018: approximately RMB63,670,000), approximately RMB77,773,000 (2018: approximately RMB77,773,000), approximately RMB73,474,000 (2018: approximately RMB73,474,000) and approximately RMB30,927,000 (2018: approximately RMB Nil) expire in 2019, 2020, 2021, 2022 and 2023, respectively.

Notes to the consolidated financial statements

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26. PROVISION FOR WARRANTIES

	RMB'000
At 1 July 2017	572
Reversal of provision made in prior year	(80)
At 30 June 2018	492
At 1 July 2018	492
Provision made for the year	42
At 30 June 2019	534

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within 18 months of delivery of automation instrument and technology products to customers. Provision is therefore made for the best estimate of the expected settlements under these agreements in respect of sales made prior to the end of the reporting period. The amount of provision takes into account the Group's recent claim experience and provision is only made where a warranty claim is probable.

27. EQUITY SETTLE SHARE-BASED PAYMENTS

Pursuant to the shareholder's written resolution passed on 28 October 2009, the Company has adopted a share option scheme (the "Scheme") whereby the directors of the Company are authorised, at their discretion, to invite any directors and employees of the Group, to take up options to subscribe for the shares of the Company. The Scheme will remain in force for a period of 10 years from the effective date of such scheme and will expire on 13 November 2019. As at 30 June 2019 and 2018, no share option was outstanding under the Scheme as all share options granted were lapsed in accordance with the terms of the Scheme on 31 March 2016.

Under the Scheme, the directors may at their discretion to grant options to (i) any employee of any member of the Group or any entity in which any member of the Group holds any equity interest (the "Invested Entity"); (ii) any executive and non-executive directors of any member of the Group or any Invested Entity; (iii) any supplier and customer of any member of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; or (vi) any adviser or consultant of any member of the Group or any Invested Entity to subscribe for the shares of the Company.

The maximum number of shares in respect to which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. The limit may be refreshed at any time provided that the new limit must not be in aggregate exceed 10% of the issued share capital of the Company as at the date of the shareholders' approval in general meeting. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to time.

As at 30 June 2019, the number of shares available for issue under the Scheme was 103,750,000 (2018: 103,750,000), representing 10% of the issued shares of the Company.

27. EQUITY SETTLE SHARE-BASED PAYMENTS *(continued)*

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. A nominal consideration of HK$1 is payable on acceptance of the grant of options.

Options may be exercised at any time from the date of grant of the option to the 10th anniversary of the date of grant as may be determined by the directors. The exercise price is determined by the directors, and will not be less than the highest of (i) the closing price per share as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the options; (ii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the options; or (iii) the nominal value of a share.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares. No share options were granted to the Company's directors and employees during the years ended 30 June 2019 and 30 June 2018.

28. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	2019 RMB'000	2018 RMB'000
No dividend proposed after the end of the reporting period (2018: Nil)	—	—

(b) Authorised and issued share capital

There was no movements of the authorised share capital of the Company during the years ended 30 June 2018 and 2019:

	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000	 RMB'000
Authorised:				
At 1 July 2017, 30 June 2018 and 30 June 2019	0.1	10,000,000	1,000,000	880,500
Issued and fully paid:				
At 1 July 2017, 30 June 2018 and 30 June 2019	0.1	1,037,500	103,750	91,360

Note:

As at 30 June 2019 and 30 June 2018, the holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

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For the year ended 30 June 2019

28. CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Nature and purpose of reserve

(i) Share premium

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

(ii) Surplus reserve

Pursuant to applicable PRC regulations, the PRC subsidiary of the Group are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) to the statutory reserve until the reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to equity holders. The statutory reserve can be used, upon approval by the relevant authorities to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance of the reserve after such increase is not less than 25% of its registered capital.

(iii) Other reserve

Other reserve arisen from the Group's reorganisation completed on 3 April 2008.

(iv) Revaluation reserve

Revaluation reserve represents the difference between the fair value and carrying amount of the properties at the date of transferring the property, plant and equity to investment properties.

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulate net change in the fair value of the equity investment designated at FVTOCI under HKFRS 9 that are held at the end of the reporting period (see note 5(i)).

(vi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies set out in note 5(p).

(vii) Distributable reserve

At 30 June 2019, the aggregate amounts of distributable reserves available for distribution to the equity shareholders of the Company, including the distributable amounts disclosed in note 28(c)(i) were RMB839,674,000 (2018: RMB847,045,000). After the end of the reporting period, the directors did not propose a dividend (2018: Nil).

28. CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Capital management

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

The Group defines "capital" as including all components of equity plus advance from shareholders with no fixed terms of repayment, less unaccrued proposed dividends. On this basis, the amount of capital employed at 30 June 2019 was RMB1,894,356,000 (2018: RMB1,939,413,000).

The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Group. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group or the requirements of the company laws of the jurisdictions concerned for each of the entities comprising the Group. The results of the directors' review of the Group's capital structure are used as a basis for the determination of the level of dividends, if any, that are declared.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. FINANCIAL INSTRUMENTS

Category of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Available-for-sales financial assets	—	7,320
Financial assets at FVTOCI	6,964	—
Amortised costs		
— Trade and other receivables	62,206	—
— Cash and cash equivalents	1,438,811	—
Loans and receivables		
— Trade and other receivables	—	61,187
— Cash and cash equivalents	—	1,439,211
Financial liabilities		
Amortised cost		
— Trade and other payables	60,010	69,580

29. FINANCIAL INSTRUMENTS *(continued)*

Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate, commodity price, supply and foreign currency risks arises in the normal course of the Group's business. These risks are managed by the Group's financial risk management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Trade receivables are presented net of the allowance for impairment of doubtful debts. Credit risks and exposures are controlled and monitored on an on-going basis by performing credit evaluation on customers on a case-by-case basis. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 120 to 180 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

At the end of the reporting period, the Group has a certain concentration of credit risk arising from trade receivables as 14% (2018: 11%) and 54% (2018: 51%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 30 June 2019.

The Group's bank deposits are placed with major financial institutions and the Group considers the credit risk to be insignificant. At the end of the reporting period, the Group has a certain concentration of credit risk arising from deposits with banks as 99% of total cash and cash equivalents were deposited at one financial institution in the PRC (2018: 99%).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

The Group does not provide any guarantees which would expose the Group to credit risk.

29. FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowing exceeds certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting periods of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

	2019 Contractual undiscounted cash outflow			2018 Contractual undiscounted cash outflow		
	Within 1 year or on demand RMB'000	Total RMB'000	Carrying amount at 30 June RMB'000	Within 1 year or on demand RMB'000	Total RMB'000	Carrying amount at 30 June RMB'000
Trade and other payables	60,010	60,010	60,010	69,744	69,744	69,744

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at bank. The following table details the interest rate profile of the Group's interest-generating financial assets at the end of the reporting periods.

(i) Interest rate profile

	2019		2018	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Variable rate instruments:				
Cash at bank	0% — 0.5%	1,438,790	0% — 0.5%	1,439,177
Total instruments		1,438,790		1,439,177

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29. FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 30 June 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and increase/decrease retained profits by approximately RMB12,230,000 (2018: RMB12,235,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for all non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2018.

(d) Commodity price risk

The major components used in the production of the Group's products included copper coils. The Group is exposed to fluctuations in the prices of copper coils which are influenced by global as well as regional supply and demand conditions. Fluctuations in the price of copper coils could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(e) Supply risk

The Group sources most of main raw materials from a limited group of suppliers. Interruption or reduction of supply of these raw materials could adversely affect the Group's financial performance. The Group's policy is to regularly monitor the stock level of raw materials to ensure that it maintains sufficient raw materials to meet its production schedules and commitments to customers in the short and longer term. Management does not expect that there will be difficulties to obtain adequate supplies of raw materials and components in a timely manner and at a stable cost. During the year ended 30 June 2019, the Group's supplies of raw materials from the five largest suppliers represented 83% (2018: 84%) of the Group's total raw materials purchases.

(f) Currency risk

(i) Foreign currency transactions

The Group is exposed to foreign currency risk primarily through sales which give rise to receivables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate.

The currencies giving rise to this risk are primarily United States dollars ("USD") and HK$. During the year, sales denominated in these foreign currencies represented 1% (2018: 1%) of the Group's total turnover. The Group does not employ any financial instruments for hedging its exposures to foreign currency risk.

29. FINANCIAL INSTRUMENTS *(continued)*

(f) ***Currency risk*** *(continued)*

(ii) Recognised assets and liabilities

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(iii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting periods to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The Company does not expose to significant currency risks as the majority of the Group's assets and liabilities are denominated in relevant functional currency.

	2019			
	RMB RMB'000	HK$ RMB'000	USD RMB'000	EUR RMB'000
Trade and other receivables	—	—	37	—
Cash and cash equivalents	—	—	257	—
Trade and other payables	(1,800)	(1,187)	(2,429)	(186)
Overall exposure	(1,800)	(1,187)	(2,135)	(186)

	2018			
	RMB RMB'000	HK$ RMB'000	USD RMB'000	EUR RMB'000
Trade and other receivables	—	—	182	—
Cash and cash equivalents	—	—	982	10
Trade and other payables	(1,700)	—	—	—
Overall exposure	(1,700)	—	1,164	10

29. FINANCIAL INSTRUMENTS *(continued)*

(f) ***Currency risk*** *(continued)*

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting periods had changed at that date, assuming all other risk variables remained constant.

	2019		2018	
	Increase/ (decrease) in foreign exchange rate	Decrease/ (increase) in loss after tax and increase/ (decrease) in retained profits RMB'000	Increase/ (decrease) in foreign exchange rate	Decrease/ (increase) in loss after tax and increase/ (decrease) in retained profits RMB'000
HK$	5%	(50)	5%	—
	(5)%	50	(5)%	—
USD	5%	(91)	5%	49
	(5)%	91	(5)%	(49)
RMB	5%	(77)	5%	(71)
	(5)%	77	(5)%	71
EUR	5%	(8)	5%	—
	(5)%	8	(5)%	—

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside the PRC into the Group's presentation currency. The analysis is performed on the same basis for 2018.

29. FINANCIAL INSTRUMENTS *(continued)*

(g) Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to the quoted market bid and ask prices respectively; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2019			2018		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Unlisted equity investments in PRC at fair value	—	—	6,964	N/A	N/A	N/A

The fair value of the unlisted equity investments in PRC was based on the adjusted net asset method. Taken into account the audited net asset value of the private entity as at 31 December 2018 and unaudited net asset value of the private entity as at 30 June 2019, the fair value of the unlisted equity investments in PRC as at 30 June 2019 amounted to approximately RMB6,964,000.

Notes to the consolidated financial statements

For the year ended 30 June 2019

30. COMMITMENTS

(a) Operating leases

The Group as lessor

The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	3,103	2,972
After 1 year but within 5 years	9,027	12,130
	12,130	15,102

The Group as lessee

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	1,893	1,412
After 1 year but within 5 years	2,857	3,571
	4,750	4,983

The Group is the lessee in respect of a number of properties held under operating leases. The lease of a property located in Hong Kong runs for an initial period of 2 years and the leases of land and properties located in the PRC run for an initial period of 5 to 15 years. The leases have options to renew when all terms are renegotiated. The leases do not include contingent rentals.

(b) Capital commitments

Capital commitments outstanding at the end of the reporting periods not provided for in the financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Contracted for		
— Acquisition of property, plant and equipment	902	891
Authorised but not contracted for		
— Acquisition of property, plant and equipment	—	52,484
	902	53,375

31. MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 11 is as follows:

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	3,418	3,316
Contribution to retirement benefit schemes	30	35
	3,448	3,351

Total remuneration (excluding directors' remuneration) is included in "staff costs" (see note 9(a)).

32. FINANCIAL POSITION OF THE COMPANY

	Notes	As at 30 June 2019 RMB'000	 2018 RMB'000
Non-current assets			
Interests in subsidiaries	(a)	921,719	891,806
Current assets			
Cash and cash equivalents		88	423
Current liabilities			
Other payables and accruals		1,800	1,700
Net current liabilities		(1,712)	(1,277)
NET ASSETS		920,007	890,529
CAPITAL AND RESERVES	(b)		
Share capital		91,360	91,360
Reserves		828,647	799,169
TOTAL EQUITY		920,007	890,529

Approved and authorised for issue by the board of directors on 27 September 2019.

Wong Fun Chung *Director*	**Cheung Chuen** *Director*

Notes to the consolidated financial statements

For the year ended 30 June 2019

32. FINANCIAL POSITION OF THE COMPANY *(continued)*

(a) Interests in subsidiaries

	2019 RMB'000	2018 RMB'000
Unlisted equities, at cost	342	342
Amounts due from subsidiaries	921,377	891,464
	921,719	891,806

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from subsidiaries will not be repaid within twelve months from the end of the reporting period and are, therefore, presented in the statement of financial position as non-current.

Details of the Company's subsidiaries at 30 June 2019 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Wide Plus High Precision Automation Limited	Hong Kong	HK$10,000 of 10,000 shares without par value	100%	—	Investment holding
Fujian Wide Plus*	PRC	RMB813,714,104	—	100%	Manufacture and sale of high precision industrial automation instrument and technology products and multi-functional all plastic quartz watch movements

* Fujian Wide Plus is a wholly foreign owned enterprise established in the PRC. The English translation of the company name is for reference only. The official name of Fujian Wide Plus is in Chinese.

32. FINANCIAL POSITION OF THE COMPANY *(continued)*

(b) Movement in components of equity

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 July 2017	91,360	941,077	(22,167)	(88,639)	921,631
Change in equity for the year:					
Loss for the year	—	—	—	(5,393)	(5,393)
Other comprehensive expense	—	—	(25,709)	—	(25,709)
Total comprehensive expense	—	—	(25,709)	(5,393)	(31,102)
Balance at 30 June 2018	91,360	941,077	(47,876)	(94,032)	890,529
Balance at 1 July 2018	91,360	941,077	(47,876)	(94,032)	890,529
Change in equity for the year:					
Loss for the year	—	—	—	(7,371)	(7,371)
Other comprehensive income	—	—	36,849	—	36,849
Total comprehensive expense	—	—	36,849	(7,371)	29,478
Balance at 30 June 2019	91,360	941,077	(11,027)	(101,403)	920,007

Financial summary

RESULTS

	For the year ended 30 June				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Turnover	284,270	158,988	121,211	106,840	**132,223**
Loss before taxation	(62,590)	(95,880)	(90,777)	(59,874)	**(48,003)**
Income tax (expenses)/credit	(3,160)	1,700	1,091	618	**521**
Loss attributable to equity shareholders of the Company	(65,750)	(94,180)	(89,686)	(59,256)	**(47,482)**

ASSETS AND LIABILITIES

	At 30 June				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Non-current assets	640,890	585,688	534,011	484,376	**429,291**
Current assets	1,628,742	1,591,931	1,550,279	1,543,896	**1,544,821**
Current liabilities	(71,523)	(67,728)	(63,911)	(70,236)	**(61,421)**
Net current assets	1,557,219	1,524,203	1,486,368	1,473,660	**1,483,400**
Total assets less current liabilities	2,198,109	2,109,891	2,020,379	1,958,036	**1,912,691**
Non-current liabilities	(21,378)	(20,369)	(19,216)	(18,623)	**(18,335)**
Total equity	2,176,731	2,089,522	2,001,163	1,939,413	**1,894,356**