研祥智能科技股份有限公司

EVOC Intelligent Technology Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code : 2308

Annual Report 2019

* for identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Chen Zhi Lie *(Chairman)*
Tso Cheng Shun
Geng Wen Qiang

Independent non-executive directors
Yu Tat Chi, Michael
Wen Bing
Dong Li Xin
Zhang Da Ming

SUPERVISORS

Pu Jing *(Chairperson)*
Zhan Guo Nian
Zhang Zheng An
Ng Mun Hong
Kwok Ka Man

COMPLIANCE OFFICER

Geng Wen Qiang

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Tsui Chun Kuen *CPA, FAIA*

AUTHORIZED REPRESENTATIVES

Chen Zhi Lie
Tsui Chun Kuen *CPA, FAIA*

MEMBERS OF THE AUDIT COMMITTEE

Yu Tat Chi, Michael *(Chairperson)*
Dong Li Xin
Zhang Da Ming

MEMBERS OF THE REMUNERATION AND REVIEW COMMITTEE

Dong Li Xin *(Chairperson)*
Zhang Da Ming
Geng Wen Qiang

MEMBERS OF THE NOMINATION COMMITTEE

Chen Zhi Lie *(Chairperson)*
Dong Li Xin
Wen Bing

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

EVOC Technology Building
No. 31, Gaoxinzhongsi Avenue
Nanshan District, Shenzhen
PRC

LIAISON OFFICE IN HONG KONG

Unit No. 1619
16th Floor, Star House
3 Salisbury Road
Tsimshatsui
Kowloon
Hong Kong

H SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

BDO Limited Certified Public Accountants
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China
Shenzhen Branch
F4–8, 1st Floor
Tianji Building
Tian An Industrial Area
Shenzhen
PRC

LEGAL ADVISER TO THE COMPANY

Commerce & Finance Law Offices
1405, Tower B, Shen Fang Plaza
3005 Ren Min Nan Road
Shenzhen 518001
PRC

COMPANY HOMEPAGE/WEBSITE

http://www.evoc.com

STOCK CODE

2308

CORPORATE BACKGROUND

EVOC Intelligent Technology Company Limited was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the PRC's Company Law. The Company's H shares were listed on the GEM (the "GEM") of the Stock Exchange of Hong Kong on 10 October 2003. The Company transferred from the GEM to the Main Board (the "Main Board") of the Stock Exchange on 12 July 2010. The Company and its subsidiaries ("Group") are principally engaged in the research, development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories, and development of properties in the PRC. As at 31 December 2019, the registered capital of the Company amounted to approximate RMB123.3 million with the Group's total assets to approximate RMB7.2 billion.

The Group is one of the leading domestic manufacturers of special computer products in the PRC, offers over 400 special computer products. Special computer is a computer system built to allow users to adopt hardware and software applications to perform a dedicated function or a range of dedicated functions such as data processing, generating, interpreting and executing control signals, etc. and is embedded into a product, device or a larger system. Special computer products manufactured and distributed by the Group are widely applied in, among other, telecommunication, industrial, military, electricity generation, video frequency control, transportation, Internet, commerce and finance industries.

The Group has established an extensive distribution network through its subsidiaries, branches, offices, representative offices and about sales agents spread out across various provinces and autonomous regions in the PRC. Over 5,600 customers of the Group include authorized distribution agents, system integrators, construction and building surveillance agents, software developers and IT manufacturers in the PRC.

CHAIRMAN'S STATEMENT

Chen Zhi Lie and Li Qiang
CPC Central Committee
Political Bureau Member

TO OUR SHAREHOLDERS,

On behalf of the Board of directors, I am pleased to present the annual report of EVOC Intelligent Technology Company Limited and its subsidiaries ("our Company" or the "Company") for the year ended 31 December 2019 (the "Year") to our shareholders.

The Company engages in research, development, manufacture and distribution of special computer products since 1993 with a 26-year history of continuous operation. The Company's shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong on 10 October 2003. The Company transferred to the Main Board of the Stock Exchange of Hong Kong on 12 July 2010 with the stock code 02308.HK.

BUSINESS REVIEW

During the period under review, the Company continued to engage in the research, development, manufacture and distribution of special computer products in the PRC. We dedicated our efforts to enhancing and transforming the traditional industries in the PRC. Meanwhile, the Company was also engaged in assembling and trading of electronic products and accessories and development of properties in the PRC.

Due to the slowdown in GDP growth of the Chinese economy and the continuous uncertainties over the China-U.S. trade conflict, coupled with the cost of living in first-tier cities in Mainland China continued to rise and the total number of rural migrant workers decreased due to the higher prices of staple agricultural products and the changes in population structure during the year. This exacerbated the problems faced by enterprises in respect of recruitment difficulty and high cost of labour. At the same time, the payment systems for social insurance, provident funds and individual income tax were improved by the Chinese government, and the requirements for environmental protection and safe production were tightened, leading to rising production and operating costs for enterprises, which posed extremely difficult challenges to the profitability of the entire industry.

Since 2019, more and more Chinese enterprises have been included in the Entity List released by the U.S. Department of Commerce. There are thus more export restrictions on ICs (integrated circuits) from the U.S.. The price of storage integrated circuits increased due to the trade conflict between Japan and South Korea. All of the above factors intensified the risks pertaining to the availability of and the price rise in the raw materials of special computers. With increasing uncertainties over the international trade environment, the market lacked motivation for updating and iterating information products, and the new generation had lower consumption expectations, which indirectly affected the market demand for special computers.

In face of the changing development trends of the domestic and overseas markets, the Company adjusted its market expectations and operating strategies in a timely manner. It applied the sales rule of "cash before delivery" to enhance cash flow. By increasing the number of distributors, it alleviated the market pressure on delivery and served more customers. The Company continued to adhere to the "quality first" principle and strictly followed the all-round quality control measures throughout the process, and is not willing to compromise quality due to rising costs. The Company was more prudent in launching research and development projects for new products, and properly updated the structure of existing products, with a stronger focus on the market and customers in Mainland China.

Development of Science and Technology Industrial Park and Other Properties

In 2019, the gross sales revenue from the construction of the Science and Technology Industrial Park amounted to approximately RMB239 million for the year. Section A1 of Wuxi SHIOC International Outsourcing Base ("Wuxi") has a completed gross floor area of approximately 177,000 sq.m., which consists of 12 office and commercial buildings that are currently in sale. Section A2 of Wuxi has a completed gross floor area of approximately 132,000 sq.m., which consists of 84 office buildings that are currently in sale. Phase 2 of Homer's International Garden at Dianshan Lake in Kunshan was fully completed in 2019 with a gross floor area of approximately 56,000 sq.m.. The first phase of the Nantong EVOC Science and Technology Park project was fully completed in 2019 with a gross floor area of approximately 72,800 sq.m., which consists of 39 office buildings. Huaqiao EVOC International Finance Center in Kunshan has been designed as a 250-metre super high-rise building with 56-storey, and is expected to be fully completed in 2023.

Revenue from Leased Properties

As at the end of 2019, the total leased area of the Group reached 270,000 sq.m., achieving total property rental revenue of approximately RMB169 million for the whole year. The EVOC Technology Building in Hangzhou was completed in 2017, and a gross floor area of approximately 66,000 sq.m. was rented other than a portion for self-use. EVOC High Profile Office Park in Guangming Hi-tech Park of Shenzhen was completed in early 2014 with a gross floor area of approximately 245,000 sq.m.. The project includes one research and development office building, two buildings of plants and one furnished apartment building with an approximate gross floor area of 58,000 sq.m., 92,000 sq.m. and 55,000 sq.m. respectively, as well as an underground parking lot occupying approximately 40,000 sq.m.; 90% of the park was leased. Shenzhen EVOC Technology Building was completed in 2007 with a gross floor area of approximately 62,000 sq.m.. Other than keeping a small portion for self-use, all the units in the building were rented. For Section A1 of Wuxi SHIOC International Outsourcing Base ("Wuxi"), offices with a gross floor area of approximately 50,000 sq.m. and commercial lots with a gross floor area of approximately 54,000 sq.m. were available for lease. Phases 1 and 2 of Homer's International Garden at Dianshan Lake in Kunshan have a gross floor area of approximately 47,000 sq.m. for office use, and part of it was rented.

RESULT OF THE YEAR

In 2019, the Group recorded a turnover of approximately RMB1,688.2 million, representing an increase of approximately 18.6% as compared with last year, of which sales of special computer products was approximately RMB529.3 million, sales of mobile phones and accessories was approximately RMB847.5 million, trading of chemical products was approximately RMB72.3 million, and sales of properties was approximately RMB239.1 million. Profit attributable to owners of the Company was approximately RMB263.2 million. Excluding fair value changes on investment properties and transfer of properties held for sale to investment properties of approximately RMB17.9 million, core profit attributable to owners was approximately RMB245.3 million. Core profit margin attributable to owners was approximate 14.5%.

Research & Development and Products

The Company was committed to independent innovation and continued to develop the research and applications of special computers. Various domestic research institutes and units applying the products were brought together by the Company to carry out close collaboration in the development and industrialisation of products based on the intelligent node of industrial internet. We strengthened the suitable matching among hardware and software, as well as launching system solutions.

New key products of the Company under research and development in 2019:

1. ***Independent and controllable industrial servers for industrial applications***

   A series of independent and controllable industrial server products will be provided to the industries with high information safety requirements such as communication and financial industries. BIOS technology and safety management software developed by EVOC are embedded in the products.

2. ***High-performance multi-extension online computing platform***

   The product targets the three safety areas of industrial control system, cloud and internet of things. An online computing platform will be provided for applications such as firewalls, anti-virus walls, physical isolation and intrusion detection.

3. ***Intelligent testing system for production***

   The product designed for smart screen production by providing a testing solution throughout the process to create unmanned testing. The intelligent equipment produces, collects and analyses big data, and carries out remote maintenance and upgrade as well as smart diagnosis.

Marketing and Brands

The Company continued to adopt the diversified sales models including direct sales, distribution, online sales and offline sales, making full use of the online and offline resources. Marketing and communication efforts were fully integrated by engaging in trade shows, distributor meetings, seminars, media partnerships, search engine bidding and private media operation. The Company implemented marketing strategies based on the industry of customers, increased investment in the controllable areas, and closely collaborated with upstream and downstream partners.

Consistently aiming for professional development, the Company focused on building brand assets and the reputation for quality. It provided comprehensive product support and service through its branches, official website, customer hotline, WeChat platform and online shop. It continuously won the trust of its customers by quickly responding to their needs.

The Company received recognition from its distributor partners by providing all-round marketing support based on a flattened channel model. To achieve sales targets, the Company increased investment in channel resources, and carried out closer cooperation with the distributor partners for public relations campaigns.

The Company established a multi-dimensional training system with a focus on EVOC Intelligence Valley Institute (研祥智谷學院). By using online training platforms or technologies, the Company conducted nationwide thematic cyclic training, centralised teaching and training, online course training and other training. Distributors and internal employees thus received themed training on the sales systems and the technical systems, as well as training on industry and application case study.

Outlook and Prospect

Currently, due to the continuous China-U.S. trade frictions, the intensification of protectionism, Brexit, geopolitical tensions and emerging populism in different regions, all brought more risks and challenges to the Chinese economy and even the world economy. By the end of 2019, cases of novel coronavirus pneumonia (NCP) were found in Mainland China. In February 2020, World Health Organisation (WHO) officially announced the name of the novel coronavirus as "COVID-19". The epidemic prompted the Chinese government to implement stringent prevention and control measures, which further increased production costs in Mainland China and diminished the competitive edges of its manufacturing industry. With ongoing uncertainties about the epidemic development, which may exacerbate the decline of market information and creates negative impact on the market sales of special computers. There are increasing risks pertaining to the availability of and the price rise in foreign ICs, which poses relatively serious concerns to the continuous production and technological innovation of special computers. Meanwhile, as the rising prices of basic supplies, changes in demographic structure, the environmental protection and production safety regulations are becoming more stringent, coupled with the improved payment systems for enterprises' social insurance and provident funds, placed higher requirement towards the management of turnover costs and the labour costs of special computers and raw materials. The Company will continue to focus on the areas of special computers, and expedite the research, development and application of intelligent software and hardware products. While expanding the new industry internet and 5G markets in the PRC, it will also focus on building brand advantages and reputation among customers, and continuously foster market demand.

Furthermore, the outbreak of COVID-19 has brought more uncertainties to the Group's operating environment in the PRC. In respect of the Group's operations, the epidemic has caused delay in supply, deferred production and sales. Certain adverse impact of such epidemic is expected on its production and sales in the first quarter of 2020. The Group has formulated response measures to alleviate the consequential impact. However, it is still full of uncertainties at this stage.

Since the outbreak of COVID-19 in the early 2020, the Company has been taking every effort to protect the safety and health of our employees. We have formed an epidemic prevention and control team, established a prevention and control system and taken various measures strengthening the safety of our environment. We hope the pandemic will be globally contained soon and the market will gradually stabilize.

With the gradual restoration of order in the affected provinces and municipalities, economic activities are expected to rebound quickly after downturn. The Group will continue to implement its business expansion plan in a timely and prudent manner.

APPRECIATION

I, hereby, on behalf of the Board of Directors, would like to take this opportunity to express the sincere thanks to the management and all staffs of the Company for their dedication and hard-work, and extend the heartfelt thanks to customers for their long-term attachment, and to shareholders for their trust and support to the Company, and also thank for the support for the Company from all walks of life. Looking forward to the future, we will continue to bear a positive and prudent attitude and constantly keep an eye on the development of the market and to go all out to develop the business so as to drive the growth.

Chen Zhi Lie
Chairman

Shenzhen, the PRC, 15 April 2020

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2019, the Group's reported a total revenue of approximate RMB1,688.2 million (2018: approximate RMB1,423.1 million) representing an approximate increase of 18.6%, analysed by product categories as follows:

	2019 RMB'000	2018 RMB'000	Change %
Turnover			
Sales of special computer products	**529,268**	404,157	+31.0%
Sales of electronic products and accessories			
— Computer components	**—**	339,032	−100%
— Mobile phones and accessories	**847,487**	595,570	+42.3%
Sales of chemical products	**72,343**	—	+100%
Sales of properties	**239,055**	84,380	+183.3%
	1,688,153	1,423,139	+18.6%

Cost of Sales and Gross Profit Margin

Cost of sales for the period was approximately RMB1,225.0 million, represents an approximate increase of 1.5% as compared to previous year.

Gross profit margin for the period increased by approximate 12.2 percentage points to approximate 27.4%.

The increase of gross profit margin was mainly due to improvement of profit margin in special computer products.

Other Income

Other income for the period slightly decreased from approximate RMB329.2 million in 2018 to approximate RMB328.3 million in 2019.

Selling & Distribution Costs

The selling and distribution costs increased by 9.0% from approximate RMB42.3 million in 2018 to approximate RMB46.1 million in 2019. It was due to the increase in wages and welfare benefit of sales team.

Administrative Expenses

The administrative expenses increased by 58.4% from approximate RMB91.2 million in 2018 to approximate RMB144.5 million in 2019. It was mainly due to increase of property insurance, wages and welfare costs of administrative staff.

Research & Development Costs

The research and development costs increased by 39.9% from approximate RMB104.8 million in 2018 to approximate RMB146.6 million in 2019. The increase was mainly due to the material parts consumables.

Fair Value Changes

During the period, the Group recorded a fair value gain of approximate RMB17.7 million on investment properties and fair value gain of approximate RMB0.2 million on transfer of properties held for sale to investment properties.

Finance Costs

Finance costs net of interest capitalised were approximately RMB127.1 million in 2019, compared with approximately RMB98.6 million in 2018, representing an increase of 28.9%. The increase was mainly due to increase in bank borrowings.

Income Tax Expenses

Income tax expenses in 2018 and 2019 were both approximate RMB51 million with no significant changes.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners of the Company increased from approximate RMB156.9 million in 2018 to approximate RMB263.2 million in 2019, representing an approximate increase of 67.7%. The net profit margin has been increased from 11.0% to 15.6%.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operation with internal resource and banking facilities by bankers in the PRC. As at 31 December 2019, the Group's gearing ratio had slightly increased to approximate 64.1% (calculated on the basis of the Group's total liabilities over total assets) from approximate 63.9% as at 31 December 2018. At the year end date the Group's total bank borrowings amounted to approximate RMB2,541.2 million (2018: approximate RMB2,377.6 million). The Group's cash and bank balances as at 31 December 2019 increased to approximate RMB1,281.6 million (2018: approximate RMB1,080.0 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to approximate 1.73 as at 31 December 2019 (2018: approximate 1.34).

FOREIGN EXCHANGE EXPOSURES

Since most of the transactions of the Group were denominated in Renminbi, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year under review.

CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2019.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had contracted but not provided capital commitments for amounting to approximate RMB677.9 million (2018: approximate RMB420.0 million) in respect of the construction of buildings and properties under development in Kunshan and Hangzhou.

PLEDGE OF ASSETS

At 31 December 2019, the Group has pledged certain of its property, plant and equipment, investment properties, lease prepayments and construction in progress with a total carrying amount of approximate RMB3,563.3 million (2018: approximate RMB3,441.6 million) as security for bank borrowings and general banking facilities granted to the Group. Except for the above, there are no other charges on the Group's assets.

EMPLOYEE INFORMATION

As at 31 December 2019, the Group had a total workforce of 865 (2018: 821). Employee benefits during the year were approximately RMB108.0 million (2018: approximate RMB96.3 million).

The Group recognises the importance of high caliber and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration policies are mainly in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. The Group remunerates its employees based on performance, experience and prevailing industry practices. The Group also provides Mandatory Provident Fund benefits for its employees in Hong Kong and the Statutory Retirement Scheme for its employees in the PRC.

RISKS AND UNCERTAINTIES

The Company has identified principal risks and uncertainties that the Group faces with respect to economic risks, operational risks, regulatory risks, financial risks, and specific risks related to the Group's corporate structure.

The Group's business, future results of operations and future prospects could be materially and adversely affected by those risks and uncertainties. The following highlights the principal risks and uncertainties of the Group and it is not meant to be exhaustive. There may be other risks and uncertainties which are not known to the Group or which may not be material now but turn out to be material in the future.

Operational Risks

1. ***Demands for a Number of Professional Technologies***

   Special computer is the combination of computer, communication and software technologies. Development of this product requires cooperation of professionals in computer hardware, micro-electronics, communication, network, software and precision machinery, and there are a number of special computer categories for the purposes of different industries. As a technology-intensive and capital-intensive industry with higher requirements on technologies yet low yield for a single product, its comprehensive entry barriers are high.

2. ***Industry Barriers***

   The development of special computer product requires a good knowledge of critical technologies in terms of computer, communication and software, extensive experience in product development and production management and a profound understanding of the knowledge on application of products in the target industries. Due to the aforementioned factors, a competitor of the special computer market can only build its competitive edge relying on the gradual accumulation in the long-term development, production and operation practices, and construction of sales channel, as well as rich experience in industry application. As a result, the industry has higher entry barriers.

3. ***Competition Risks in the International Market***

   Despite the current top-ranking among companies in China in terms of the market share taken up in Mainland China, the Company is still at its development phase in respect of the international market. Accessing to the international market, the Company will unavoidably be in direct competition with the international giant companies. In view of sales experience, capital strength and production scale, there is still a gap between the Company and international giant companies, which leads to certain risks in the development of the international market.

Macroeconomic Risk

Recently, the continuous China-U.S. economic and trade frictions, resurgent of protectionism, Brexit, geopolitics and the emergence of populism in various regions have brought upon more risks and challenges to the China's and global economy. The novel coronavirus virus (NCP) broke out in Mainland China at the end of 2019 and the epidemic has developed into a global coronavirus (COVID-19). The PRC government imposed strict regulatory policies, which further raised the cost of the manufacturing industry in Mainland and reduced the international competitive edge of the manufacturing industry in Mainland. This would adversely affect the sales of special computer. Due to the import of certain raw materials required by the Company and part of the advanced equipment during development, and the export of some products, the exchange gain or loss of the Company is subject to the effects arising from fluctuations in price and exchange rate in the international market.

The impact of the COVID-19 on the global economy is becoming more and more obvious. The instability of the supply chain and the decline in global demand both have a certain impact on the company's sales and operations. In response to the new market situation and environment, the Company will continue to focus on special computers, while speeding up the research, development and application of intelligent software and hardware products, developing in emerging markets such as China industrial internet and 5G, focusing on our brand advantage and reputation among customers and continue to cultivate the demand in market.

Capital Risk

Details of capital risk are set out in note 35 to the financial statements.

Financial Risk

Details of financial risk are set out in note 36 to the financial statements.

EXECUTIVE DIRECTORS

Mr. Chen Zhi Lie (陳志列), aged 56, is the Chairman, an executive director and the Chairman of the Nomination Committee of the Company. He is the founder of the Company and is responsible for the overall strategy and planning for the business of the Company. Mr. Chen graduated with a bachelor degree of engineering in computer application from Shenyang Jianzhu University (瀋陽建築大學) in the PRC in 1984. He also obtained a master degree in computer science and computer engineering from the department of engineering in Northwestern Polytechnical University (西北工業大學) in 1990. Mr. Chen has over 36 years of experience in computer and automation of control systems.

In February 2003, Mr. Chen was awarded the prize of Guangdong Province Outstanding Entrepreneur of Domestic owned Enterprises (廣東省優秀民營企業家) by Guangdong Province Government (廣東省人民政府). Mr. Chen was accredited as "Manager of Edges in Comprehensive Quality Control (全面質量管理優勢管理者)" by Quality Association of Shenzhen and as "Excellent Small Medium Enterprise of Shenzhen (深圳市優秀中小企業家)" by Association for Small Medium Enterprises of Shenzhen in 2004. In 2005, Mr. Chen was elected as a member of the Executive Committee of the Fourth Chinese People's Political Consultative Conference of Shenzhen (深圳市第四屆政協常委). In 2007, Mr. Chen was elected as a member of Guangdong Political Consultative Conference (廣東省政協委員). In 2008, Mr. Chen was accredited as 2007 CCTV's Man of the Year in Chinese Economics and awarded the prize of Innovation of the Year. In 2010, Mr. Chen was elected as a Nation commissar of the Chinese People's Political Consultative Conference (CPPCC). In 2012, Mr. Chen was elected as the President of the Commerce Association of Technology Equipment Industry under the All-China Federation of Industry & Commerce, the primary legal representative and the vice-chairman (vice-president) of the Guangdong Federation of Industry and Commerce (General Commerce Association). In 2013, Mr. Chen was elected to the BRICS National Business Council. In 2016, Mr. Chen was presented the outstanding award "Shenzhen Entrepreneurs' Influential Leader in China* (影響中國的深商領袖)". In 2017, Mr. Chen was elected as the third President of the Council of the Commerce Association of Technology Equipment Industry under the All-China Federation of Industry & Commerce. In 2018, Mr. Chen was selected as one of the "Top 100 Outstanding Private Entrepreneurs released in the 40 Years of Reform and Opening up (改革開放40年百名傑出民營企業家名單)". In 2019, Mr. Chen was elected as the chairman of the Shenzhen Federation of Industry and Commerce (General Commerce Association).

Mr. Tso Cheng Shun (曹成生), aged 91, is the vice Chairman and an executive Director of the Company. Mr. Tso graduated from Nan Tong Institute (南通學院) in the PRC and obtained a certificate in engineering in textile. Mr. Tso has been serving the Company since 1995. He is responsible for developing business strategy, preparing annual financial budget and monitoring financial status of the Company.

Mr. Geng Wen Qiang (耿穩強), aged 64, is an executive Director, the compliance officer and a member of the Remuneration and Review Committee of the Company. He is a professor-level senior engineer. He joined the Company since August 2007 and currently is the general manager of the Company's production center. Mr. Geng graduated with a master degree in automation from Xi'an University of Technology (西安科技大學) in 1983. Mr. Geng has over 36 years in computer and automation of control system. In 2012, He was elected as executive vice president of Shenzhen Computer Industry Association and the representative of Shenzhen Nanshan National People's Congress. In July 2015, Mr. Geng was awarded Shenzhen Primary Computer Technology Contribution Award (深圳市一級計算機科技貢獻獎章).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Tat Chi, Michael (余達志), aged 55, is an independent non-executive Director and the Chairman of the Audit Committee of the Company. He holds a bachelor of commerce degree from the University of New South Wales, Australia. He is a fellow member of the CPA Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Yu is also a founding member of the Hong Kong Independent Non-Executive Director Association. He has many years of experience in accounting, corporate finance and asset management. He has held senior management positions in several listed companies in Hong Kong. He is currently an independent non-executive director of Golden Resources Development International Limited (stock code: 677), Applied Development Holdings Limited (stock code: 519), China Netcom Technology Holdings Limited (stock code: 8071), and Lerado Financial Group Company Limited (stock code: 1225), all of these companies are listed in Hong Kong.

Mr. Dong Li Xin (董立新), aged 60, is an independent non-executive Director, a member of the Audit Committee, a member of the Nomination Committee and the Chairman of the Remuneration and Review Committee of the Company. Mr. Dong graduated from Tsinghua University (清華大學) in the PRC with a bachelor degree in automation in 1984 and he currently holds a managerial position in the engineering department in Shenzhen World Miniature Co. Ltd. in the PRC.

Mr. Wen Bing (聞冰), aged 58, is an independent non-executive Director and a member of the Nomination Committee of the Company. Mr. Wen obtained a bachelor degree in computer studies from Liaoning Architectural and Civil Engineering Institute (遼寧建築工程學院) in the PRC in 1984. He has over 33 years of experience in computer engineering and had held various senior positions in state-owned enterprises and transnational corporation. He is currently an executive director and the general manager of ETechsoft Co., Ltd. (深圳市欣軼天科技有限公司) as well as the general manager and chief technical officer of Televoice China (Shenzhen) Limited (聲訊亞洲中國公司).

Mr. Zhang Da Ming (張大鳴), aged 46, is an independent non-executive Director, a member of the Audit Committee and a member of the Remuneration and Review Committee of the Company. Mr. Zhang graduated from the Xiamen University in 2001 with a master degree in law and graduated from Cheung Kong Graduate School of Business (長江商學院) in 2012 with a master degree in business administration. Mr. Zhang has provided legal services for the banks and state-owned assets management companies in Shenzhen and Hong Kong on a long-term basis and he has rich experience in internal corporate governance. He is currently a senior partner of Beijing Jincheng Tongda & Neal (Shenzhen) offices (北京金城同達(深圳)律師事務所).

SUPERVISORS

Ms. Pu Jing (濮靜), aged 54, is a staff representative Supervisor and the Chairman of the Supervisory Committee of the Company. Ms. Pu graduated from Wuhan Iron and Steel University (武漢鋼鐵學院) in the PRC with a bachelor degree in engineering in electric automation in 1988. She has over 29 years of experience in industrial computer testing.

Mr. Zhan Guo Nian (詹國年), aged 49, is a staff representative Supervisor of the Company. Mr. Zhan graduated from Chengdu Geological College (中國成都地質學院) in the PRC with a bachelor degree in engineering in 1991. Mr. Zhan has over 28 years of experience in management and administration and he joined the Company for management and administration work in March 2001.

Mr. Zhang Zheng An (張正安), aged 44, is a shareholders representative Supervisor of the Company. Mr. Zhang was graduated from high school. Mr. Zhang is currently working in EVOC Hi-Tech Holding Group Co., Ltd. He has over 23 years of experience in management and administration.

Mr. Ng Mun Hong (吳滿康), aged 54, is an independent Supervisor of the Company. Mr. Ng obtained an Associateship in Textile Technology from Hong Kong Polytechnic in Hong Kong in 1992. He got Chartered and Associateship member qualification from The Textile Institute in U.K. in 1995.

Ms. Kwok Ka Man (郭家文), aged 50, is an independent Supervisor of the Company. Ms. Kwok graduated from high school and has over 31 years of experience in management and administration. She is currently a secretary of Katz Limited in Hong Kong.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Tsui Chun Kuen (徐振權), aged 69, is the chief financial controller, qualified accountant and company secretary of the Company. Mr. Tsui obtained a master degree of business administration from University of East Asia in Macau in 1991. He is a fellow member of the Association of International Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has more than 31 years of experience in finance and accounting. Mr. Tsui has served the Company as the financial controller, qualified accountant, company secretary and authorized representative during the period from July 2002 to August 2004 and from June 2007 till now.

SENIOR MANAGEMENT

Mr. Liu Zhi Yong (劉志永), aged 46, is the general manager and the head of research and development department of the Company. He joined the Company since March 1999 and has served to perform duties as a software engineer, BIOS engineer, software manager, departmental head of technology R&D and vice general manager. Mr. Liu Zhi Yong is a certificate holder in computer and the application from Nanchang University (南昌大學), and he obtained senior programmer qualifications of China Computer Application Software Practitioner Standard Examinations Board (中國計算機應用軟件人員水平考試委員會) in 1996. Mr. Liu Zhi Yong has over 26 years of research and development experience in computer engineering, control systems integration and enterprise management, and he has a number of invention patents and was awarded the Shenzhen Municipal Technological progress First and Second Class Prize (深圳市科技進步一、二等獎) since he joined the Company.

Mr. Chen Xiang Yang (陳向陽), aged 53, is the assistant general manager of the Company. He obtained a bachelor degree in wireless electronics technology from Chongqing University (重慶大學) in the PRC in 1988. Mr. Chen joined the Company in July 1999 and is in charge of the production and quality control functions of the Company. He has over 25 years of experience in the quality control of electronic products.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Company comprise the research, development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories, and development of properties in the PRC. Details of the principal activities of the subsidiaries are set out in note 31 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Companies Ordinance"), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2019, and an indication of likely future development in the Group's business, can be found in the "Chairman's Statement", "Management Discussion and Analysis", "Report of the Directors", "Environment, Social and Governance Report" and "Corporate Governance Report" sections of this Annual Report. The above sections form part of this report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the financial position of the Company and the Group at that date are set out in the financial statements on pages 41 to 121.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the consolidated financial statements and in the consolidated statement of changes in equity on page 44.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's Articles of Association, amounted to RMB1,444 million.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, 60.1% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 50.2% of the Group's revenue for the year. 39.5% of the Group's total purchases were attributable to the Group's five largest suppliers and purchases from the Group's largest supplier accounted for 21.7% of the Group's total purchases.

According to the best knowledge of the directors, neither the directors, their associates (as defined under the Listing Rules), nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers and five largest suppliers during the year.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company during the year were:

Executive Directors

Mr. Chen Zhi Lie *(Chairman)*
Mr. Tso Cheng Shun
Mr. Geng Wen Qiang

Independent non-executive Directors

Mr. Yu Tat Chi, Michael
Mr. Dong Li Xin
Mr. Wen Bing
Mr. Zhang Da Ming

Supervisors

Ms. Pu Jing *(Chairman)*
Mr. Zhan Guo Nian
Mr. Zhang Zheng An
Mr. Ng Mun Hong
Ms. Kwok Ka Man

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors to be independent.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors, Supervisors and the senior management of the Company are set out under the section "Directors', Supervisors' and Senior Management's Profile" of the Annual Report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors of the Company has entered into a service contract with the Company with effect from the date of appointment of the respective Directors and Supervisors, for a term of three years.

Apart from the foregoing, no Directors of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a Director, supervisor or controlling shareholder of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interest and short positions of the Directors, supervisors (the "Supervisors") and chief executives of the Company in the shares, debentures or underlying shares 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 required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long position — interests in the Company

Director	Type of interests	Number of Shares	Class of Shares	Approximate percentage of holding of the relevant class of shares of the Company	Approximate percentage of holding of the total share capital of the Company
Chen Zhi Lie (陳志列)	Interest of a controlled corporation	878,552,400 (Note 1)	Domestic Shares	95.00%	71.25%
Chen Zhi Lie (陳志列)	Interest of a controlled corporation	46,239,600 (Note 2)	Domestic Shares	5.00%	3.75%

Notes:

1. These Domestic Shares are held by EVOC Hi-Tech. Holding Group Co., Ltd. which is owned as to 70.5% by Mr. Chen Zhi Lie (陳志列) ("Mr. Chen") and 29.5% by Ms. Wang Rong (王蓉), spouse of Mr. Chen. By virtue of Mr. Chen's holding of more than one-third interest in EVOC Hi-Tech. Holding Group Co., Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by EVOC Hi-Tech. Holding Group Co., Ltd. in the Company pursuant to Part XV of the SFO.

2. These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 100% by Mr. Chen Zhi Lie (陳志列). By virtue of Mr. Chen's holding of the entire interest in Shenzhen Haoxuntong Industry Co. Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by Shenzhen Haoxuntong Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.

(b) Long position — interests in associated corporations

Directors	Associated corporation	Type of interests	Approximate percentage of holding of the total share capital of the associated corporation
Chen Zhi Lie (陳志列)	EVOC Hi-Tech. Holding Group Co., Ltd.	Beneficial owner	70.5%
		Interest of spouse	29.5%
Wang Rong (王蓉)	EVOC Hi-Tech. Holding Group Co., Ltd.	Beneficial owner	29.5%
		Interest of spouse	70.5%

Note:

Ms. Wang Rong (王蓉) is the spouse of Mr. Chen Zhi Lie and therefore Mr. Chen Zhi Lie is deemed to be interested in the shares held by Ms. Wang Rong (王蓉) and Ms. Wang Rong (王蓉) is deemed to be interested in the shares held by Mr. Chen by virtue of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, so far as the Directors are aware, the persons who have an interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO, are as follows:

Long positions in shares

Name of shareholder of the Company	Nature and capacity in holding shareholding interest	Number of Shares	Class of Shares	Percentage of the relevant class of shares	Percentage of total registered share capital
EVOC Hi-Tech. Holding Group Co., Ltd. (Note 1)	Registered and beneficial owner of the Domestic Shares	878,552,400	Domestic Shares	95.00%	71.25%
Chen Zhi Lie (陳志列) (Note 1)	Interest of a controlled corporation	878,552,400	Domestic Shares	95.00%	71.25%
Shenzhen Haoxuntong Industry Co., Ltd. (Note 2)	Registered and beneficial owner of the Domestic Shares	46,239,600	Domestic Shares	5.00%	3.75%
Chen Zhi Lie (陳志列) (Note 2)	Interest of a controlled corporation	46,239,600	Domestic Shares	5.00%	3.75%

Notes:

1. Mr. Chen Zhi Lie is the beneficial owner of 70.5% interests in EVOC Hi-Tech. Holding Group Co., Ltd. and is deemed to be interested in the Domestic Shares owned by EVOC Hi-Tech. Holding Group Co., Ltd. pursuant to Part XV of the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of EVOC Hi-Tech. Holding Group Co., Ltd.

2. These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 100% by Mr. Chen Zhi Lie. By virtue of Mr. Chen's holding of the entire interest in Shenzhen Haoxuntong Industry Co. Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by Shenzhen Haoxuntong Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.

Save as disclosed above:

(i) As at 31 December 2019, none of the Directors, Supervisors or chief executives of the Company or their respective associates has any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (if any) (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and

(ii) As at 31 December 2019, so far as is known to any Director or Supervisor, there is no person (other than a Director, Supervisor or chief executive of the Company) who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Enlarged Group or any other substantial shareholders whose interest or short position are recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

At no time during the year, except for Mr. Chen, the Directors or Supervisors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meanings of the SFO).

SHARE OPTION SCHEME

As of 31 December 2019, the Company has not adopted any share option scheme or granted any option.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all the Directors, the Directors of the Company had complied with the required standard of dealing and the code of conduct for Directors' securities transactions during the year ended 31 December 2019.

COMPETING INTERESTS

None of the Directors, initial management shareholders or their respective associates (as defined in the Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest which any such person may have with the Group.

MANAGEMENT CONTRACTS

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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not purchased, sold or redeemed any of the Company's securities during the year.

BANK BORROWINGS

As at 31 December 2019, the bank borrowings of the Company are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

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

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the auditor of the Company.

By Order of the Board

EVOC INTELLIGENT TECHNOLOGY COMPANY LIMITED
Chen Zhi Lie
Chairman

Shenzhen, the PRC, 15 April 2020

Adhering to our corporate principle of "integrity and harmony, sustainable operation", EVOC endeavors to combine its development with extensive social responsibilities to realize the harmony and unity of corporate interest and social objective. The Company cooperates with stakeholders and industrial value chains to jointly create a harmonious ecological environment suitable for the growth and development of the Company and the world.

A. ENVIRONMENT

A1: Emission

The Company highly values environmental protection practices. Constantly driven to go green, we invest special funding each year to make our production environmentally friendly. The Company proactively upholds "green production", regularly upgrading our production equipment not only to improve operating efficiency, but also to greatly reduce energy consumption. We work to contribute to air quality improvement by preventing direct emissions of dust generated during production process through collection and conversion techniques. The Company has also achieved a paperless office with our active promotion of office automation, as well as the introduction of the Manufacturing Execution System ("MES"), in conjunction with the Product Lifecycle Management ("PLM"), System Applications and Products ("SAP") system and Office Automation System ("OAS").

Total Emission of Greenhouse Gases

In response to the widespread concern of the world over climate change, the Company actively adopts measures for carbon reduction and sequestration in accordance with the requirements relevant to greenhouse gas emission reduction, jointly facing the challenge of climate change with society. In 2019, the total emission of greenhouse gases of the Company amounted to 7,686 tons of carbon dioxide (calculated by electricity consumption).

Emission of Hazardous Waste

The Company reduces the emission of air, land and water pollutants by identifying, assessing and managing the waste generated during the production process. All of the hazardous waste generated by the Company is sent for treatment to the qualified agencies for handling hazardous waste, while the waste water generated in production is emitted to the sewage treatment station of the Company and then discharged after meeting the standards. In 2019, approximate 5,190 tons of waste water was treated and discharged, while no hazardous solid waste was produced.

Emission of Non-hazardous Waste

The non-hazardous waste generated in 2019 totaled approximately 2.38 tons, all of which was treated by the entrusted companies recognized by the government departments. During the production process, materials are circulated by the way of reuse in order to reduce waste generation. For example, plastic frames and cabinets are reused during the production of products.

Emission Reduction Measures and Results

The Company is investing in solar heating for the industrial park, in order to effectively utilize new energy and reduce energy consumption. The Company actively promotes environmental practices during internal training sessions and meetings, equipping every employee with environmental awareness of energy conservation and emission reduction. The Company is already practicing new environmental laws that will come into effect, affirming our environmental protection responsibilities and the responsible parties. We comply with relevant regulations consciously, establishing and improving the responsibility system for pollution prevention.

A2: Resource Consumption

The market standing of an enterprise not only depends on the quantity and quality of the resources at its disposal, but also its efficiency in utilizing its resources. Focusing on internal management and system construction, the Company formulated various management systems including quality management, technology management, facilities management, financial management, and staff management, regulating the energy and resources used in our production, operations, and management activities, raising the Company's consumption efficiency and cost-effectiveness.

Use of Energy

The main source of energy of the Company is electricity with the total electricity consumption in 2019 being approximately 8,184,895.00 kWh.

Use of Water Resources

The Company applies the concept of "saving and reusing water" to every stage of its production and operations. The total water consumption in 2019 was approximately 129,800 cubic meters.

Energy Conservation and Consumption Management

On the macro level, increasing efforts in energy conservation and consumption reduction is both the fundamental solution to the issue of China's resource scarcity, and the important security for rapid and healthy economic development. At the micro level, it is a vital practice for an enterprise to increase efforts in energy conservation and consumption reduction, both in terms of the importance to society as a whole, as well as to the sustainable development of the enterprise itself.

(a) Energy Conservation and Emission Reduction Measures

The Company vigorously promotes the spirit of energy saving and consumption reduction. We organize relevant educational activities to nurture our staff with the mindset of energy conservation and consumption reduction. The Company incorporates the practice of "resource saving and environmental protection" in each step of production and office operations.

The Company incorporates the works of energy saving and consumption reduction in daily performance evaluation and applies them to every stage of operations, including energy saving for electricity, water, office equipment, appliances, facilities, and mechanic equipment. We conduct activities about "energy saving and emission reduction", as well as receiving reasonable suggestions from our staff on energy saving and emission reduction.

(b) Energy Conservation and Consumption Reduction Measures

The Company conducts water conservation education for employees, encouraging the reuse of water so as to minimize water resource consumption and reduce the generation of waste water at the source. We work to ensure proper assembly and prompt repair of water supply equipment to maintain them in optimum condition. The Company will immediately repair the pipes if any departments spot any leakage. By managing water usage in 2019, the Company saved approximately 14,900 cubic meters of water.

The use of power in the Company's production process complies strictly with the Electric Power Law of the People's Republic of China. Our production operations adhere to the principles of conservation, safety, high efficiency, and low consumption. Our dormitory/office operations maintain electricity saving policies. Lights are switched off when no one is around. Appliances not in use are promptly turned off. Office equipment, such as computers, copiers, and printers, are configured to automatically enter low energy-consumption and hibernation modes when not in use, and are powered off to reduce stand-by electricity consumption if they are not actively used.

The Company adopts paperless office and reuse of paper policies. Waste printing paper is used for printing documents for proofreading, and documents are also checked on the computer as much as possible before printing to avoid excessive use of paper. With the exception of formal documents and data, all departments adopt electronic files as far as possible. Paper is printed on both sides and materials not related to work are not allowed to be printed and copied at office.

Prudent Distribution and Comprehensive Utilization of the Resources

Following the principles of uniformity and centrality, the Company emphasizes streamlined management, minimizing communication cost, and improving the consolidation of resources.

The Company regularly convenes meetings for senior level management, exchanging working experiences, identifying and analyzing problems, and promptly adjusting technical solutions, thereby optimizing resource allocation. Concurrent with our devotion towards making technological breakthroughs, the Company conducts regular and ad-hoc systematic meetings and spot checks to monitor work schedules and statuses, communicate up-to-date information, and work on prompt resolution of problems requiring coordination, thus strengthening the daily communication and coordination between relevant departments, realizing the mutual cooperation of various departments and project teams, and adding and creating value from available resources.

A3: Environment and Natural Resources

Considering the direct and indirect impact on the environment in the areas where the Company operates, we are devoted to reducing and alleviating any negative impact of the Company's activities as much as possible, continuously seeking performance improving methods. The Company promises to reduce environmental influence as much as possible including on the resources, such as energy and water.

The Company implements numerous measures, including upgrading hardware equipment, using clean energy sources, and improving our administrative management system. Details can be found in the previous sections, under "Emissions" and "Resource Consumption". In addition to our compliance with the relevant systems and standards and continuously enhancing product research and development, the Company is also dedicated to exploring the application of environmental-friendly materials into its products.

The Company was awarded certificate upon satisfactory environmental management system surveillance visits in 2018. The audit team of Shenzhen Southern Certification Co., Ltd. believed that the management of the Company has attached great importance to environmental protection and invested heavily in environmental protection. There was a comprehensive identification of environmental factors, while the management measures implemented were in place with controllable environmental risks. Thus, recommendation of a maintained certificate was concluded. In 2019, the automatic monitoring facilities installed and used by the Company passed the acceptance inspection, and environmental protection information was published in accordance with the relevant regulations.

B. SOCIAL

B1: Caring About Our Staff

People are the core competitiveness of enterprises and the development of any enterprise is inseparable from having excellent human resources. The Company provides a series of welfare protection for staff and always attaches importance to staff training. We adhere to the talent strategy of “people first”, offering timely and reasonable returns to our employees according to their performance and contribution. We help our employees improve themselves by providing training and clear career development paths. In addition, we have an advanced communication channel for our employees. The Company attaches great importance to our employees’ leisure, physical and mental health, and family life, encouraging them to carry out various forms of corporate culture activities to enrich their lives outside of work.

(1) The Company not only provides competitive salary for employees, but also adjusts salary in a timely manner, by performing regular studies into external labor market changes and salary standard and reviewing the Company’s business and individual performance.

(2) The Company provides abundant compensation and welfare for employees. Employee dormitory is provided for free, with gym, yoga room, KTV, indoor constant-temperature swimming pool, cinema, basketball court, football court, as well as free group activities such as dancing, fitness group, and charity activities.

(3) The Company organizes monthly cultural and sports competitions, as well as large annual festivities, to allow staff to train physically, and to strengthen team cohesiveness. These include mountain-climbing competitions, sports meet, KOL Wanghong singing competitions, football competition, awards party, and the Spring Festival Gala.

(4) The Company frequently carries out various forms of corporate culture activities such as corporate culture salons, maker and creativity contests, yacht party, and local and oversea trips.

B2: Health and Safety

The Company is committed to providing a safe and healthy working environment for our employees and to improving work satisfaction. We regard the safety and health of employees as of utmost importance in various operations of the Company.

The Company has established and improved the safety and occupational health management systems, strictly abiding by the national labor, safety, occupational health and other laws, regulations, and standards. For managers at various levels of the Company, the employees’ safety and health comes first and foremost; the safety responsibility is a part of the duties of managers at all levels. Each of the Company’s safety practices is based on both humanitarian and economic concerns. The Company takes measures to prevent our employees from occupational injury and property loss as far as possible, protecting the Company, its customers, and the public from being harmed in case of accidents.

In view of the outbreak of novel coronavirus (COVID-19) (the “Epidemic”) in the PRC in early 2020, the Company has implemented various prevention and control measures in accordance with the relevant national and local regulations on prevention and control of the Epidemic in order to comply with the national epidemic prevention policy. The Company has set up an emergency response team for epidemic prevention and control to carry out personnel management and control, environmental disinfection, epidemic publicity, supplies preparation and coordination with the community and health departments of relevant jurisdiction, and coordinate the implementation of effective measures by various departments.

The Company has prepared and ensured the comprehensive use of body temperature thermometers, personal protective equipment, disinfectants, disinfection equipment and other epidemic prevention and control supplies. All employees in the Company's premises must properly wear masks during the epidemic period. The Company keeps masks in various places to meet the needs from time to time, and approved employees who enter the office area can apply and use such masks as required due to work needs. The Company covers the elevator keypads with protective film and places tissue paper and disinfectant, and has dedicated personnel to manage, inspect and supervise the sanitary cleaning and disinfection of the elevators.

The Company requires employees to adopt remote office mode as far as possible, and control the number of centralized office personnel and reduce the density of personnel in the same office area, to implement decentralized office. On the premise of ensuring fire safety, the Company centralised the entry of personnel and vehicles, sets up health monitoring points, conducts personnel registration and body temperature measurement, and strictly controls the entry and exit of personnel in the office area.

B3: Development and training

By implementing the practical and simple corporate culture of "unconventional management", the Company provides multiple career development paths for employees, so they can advance their career vertically or diagonally through various career paths, such as management, technology, business, and profession.

The Company regularly carries out diversified training activities, such as new joiner induction training, product knowledge training, one on one tutoring by experienced tutors, management knowledge training, external studying opportunities, and high-end exchange meeting.

B4: Labor Standards

The Company strictly complies with the Labor Law, the Labor Contract Law, the Social Insurance Law and other relevant laws and regulations, emphasizes human resource management, establishes a competitive salary and welfare system, and pays attention to employee career development. The Company also respects and protects the legal rights of employees, implementing labor contract signing, renewal, change, termination, cancellation, and other operations in accordance with relevant laws. The Company has established labor contract accounts, as well as reasonably setting performance evaluation indicators, fully paying monthly labor compensation, fully paying social insurance in accordance with laws, and guaranteeing legal working hour. The Company provides welfares and security for employees in accordance with relevant national laws and regulations. The policy for selection and appointment of management is competition for posts, providing reasonable career development paths for employees, and giving professional titles to eligible employees. In 2019, the Company received the National May 1st Labor Award (全國五一勞動獎狀).

B5: Supply Chain Management

Effective supply-chain management plays an important role in pushing the sustainable development of businesses. The Company is dedicated to improving product innovation, quality supervision, supply-chain response speed, and cost effectiveness, which are of great significance for business development. By improving supply chain management, the Company can provide products for customers more efficiently.

The Company has established good long-term partnerships with most of our raw material suppliers, signing long-term supply contracts to ensure stable supply, price, and primary technologies. Moreover, the Company purchases principal raw materials through multiple channels, avoiding reliance on a single supplier, while making selections at low price to control cost and quality of raw materials. According to the forecasts of actual market demands, the Company also formulates reasonable production plans and procurement plans of raw materials to determine a reasonable inventory and reduce the risk of overstock. In order to avoid negative influence of fluctuations on prices of raw materials of the Company, it will also improve manufacturing techniques, enhance internal management and cost control, improve product quality and reduce product costs.

B6: Product Liability

Taking "satisfying or exceeding customer expectation" as our operation goal, the Company treats customers sincerely to build a harmonious internal and external environment.

Intellectual Property

Over years of development, the Company has been honoured with numerous awards, including Innovation Enterprise, New High-tech Enterprise, Key Software Enterprise in the state planning, New Key Hightech Enterprise of National Torch Program, and National Advanced Grassroots Party Organization in 2012. The Company has a national special computer engineering and technological research center, a national engineering laboratory and the nationally recognized brand "EVOC". The Company and its products have received numerous national, provincial and municipal awards. The Company has compiled 19 national standards and 2 industry standards issued by the special computer industry, and drafted development planning of the "12th Five-year Plan" of the computer industry as entrusted by the Ministry of Industry and Information Technology of China. The Company owns over 700 patents and nearly 1,000 non-patent core technologies, which effectively enhances its technological competitiveness among the peers. In 2019, the Company received the title of "Standard Innovation Demonstration Base in Shenzhen (深圳標準創新示範基地)".

Quality Assurance

The Company regards "satisfying customers and quality first; responding quickly and prevention; improving continuously and pursuing excellence" as its quality management principle and promises return and replacement of products within one month, with one-year warranty, lifelong service and 24-hour response to customer demands.

The Company has new plants, advanced production and testing equipment, outstanding human resource management, and comprehensive quality management system. The Quality Department of the Company deals with a series of quality control process from raw material inspection, process control, shipping inspection, final control of finished products, and analysis of customer complaint in supplied materials/goods/warehousing to guarantee product quality. The Quality Department has set up a quality inspection team which regularly conducts systematic examination on the production sites. Once failure to meet requirements of quality system is found in any department or step, the inspection team issues corrective and preventive reports and accountability units had to rapidly put forward solutions, take action, and locates the department that is responsible.

In 2018, the Company passed the quality management system audit of Shanghai Aeronautical Measurement-Controlling Research Institute (上海航空測控技術研究所), which set an important milestone for the Company's product upon entering a new field.

After-Sales Service

To help client realize the enhancement of competitiveness, the Company is committed to providing customers the following reassuring services:

(1) Telephone service. The Company offers customers free telephone technical support service for life. The 24-hour service hotline is 4008809666.

(2) Delivery and repair service. This service allows customers to send machines or faulty units to the maintenance center of the Company for repair. It is also called the delivery and repair service or Return Merchandise Authorisation ("RMA") service.

(3) Door-to-door service. The Company provides door-to-door service by engineers in Mainland China (excluding Xinjiang, Tibet, and Inner Mongolia). Customers who need door-to-door service can purchase the EVOC annual door-to-door service card to obtain such service.

(4) Delivery service. When it is confirmed that customers can replace damaged parts, keyboards, mouse and cable by themselves, the Company will deal with these situations by "delivery service".

(5) Customized service. The Company provides personalized service on top of basic service for customers who can purchase the service products along with the physical products. The Company currently offers various service products such as annual extended warranty card and annual door-to-door service card, in order to meet customers' diverse requirements for service offering.

B7: Anti-Corruption and Prevention of Commercial Bribery

The Company has preliminarily established relevant systems concerning anti-corruption and the prevention of commercial bribery, as well as managing our subsidiaries in a unified way. The particulars are as follows:

(1) Strengthening Integrity

The Company has established a credit file system by post commitment and service commitment. In accordance with laws and regulations as well as self-regulation industry rules, employees involved in commercial bribery shall have their opportunities stripped and limited, as a way of making them pay the price, bear the corresponding risk, and suffer the appropriate consequences, while ensuring that honest, trustworthy, and law-abiding employees have their ethical behavior and interests protected and encouraged. An advanced accounting system has been established, and bill management has been improved to reduce cash transaction.

(2) To Establish and Improve the System for Prevention of Commercial Bribery

The Company has formulated a code of conduct and professional standard, advocating the trust system of anti-commercial bribery, and strictly adheres to the rules of fair competition and lawful operation. The Human Resource Department of the Company regularly carries out relevant training of professional ethics education to raise the awareness of observing law for managers and staff and to familiarize related people with professional code of ethics, making them develop good occupational habits.

To encourage insiders to proactively report commercial bribery, the Company keeps the identity of whistleblowers strictly confidential and provides material rewards for the whistleblowers. The Company has set up reporting mailboxes to encourage staff and people in the same industry to make complaints and reports.

The Company stipulates that suppliers should be selected in an equitable manner (including bidding method) and reciprocal transactions are prohibited. If it is necessary to meet with suppliers, at least two people shall be present. The Company imposes penalties on and may even dismiss employees who violate the rules. The Company requires certain employees to sign agreements and sets the rules of prohibition to prevent employees and cooperation units from bribing related people and stakeholders in work.

B8: Community Participation

The Company insists on giving back to the community in the course of our development, actively performing corporate social responsibility and taking part in social activities for public charity activities in various ways, including initiating poverty alleviation by transfusion, leading the desertification control activity in Alxa, participating in charity auction of "Tong Meng Yuan" (童夢園), donating the Tibetan schools for the blind, caring the Water Cellar for Mothers, supporting areas hit by a devastating earthquake, caring ocean environment, helping to construct Motuo Kindergarten (墨脱幼稚園), supporting Dui Long Ga Chong Primary School (堆龍嘎沖小學) of Tibet and Li Min Da Gong Zi Di Primary School (利民打工子弟小學) of Beijing, and supporting the charity businesses of Yanbian and Ningxia. In 2018, the Company's constant temperature swimming pool, which was the first of its kind in Guangming New District was officially opened. The Company is also equipped with professional life guard, equipment administrators, and security guards to provide high-quality leisure and entertainment venues for the surrounding communities. In 2019, the Company held several social events such as "Love for Everyone" — EVOC Blood Donation Activity (「用愛加油」，研祥學雷鋒獻血)" and "EVOC's Celebration for the 70th Anniversary of the People's Republic of China (禮讚70週年，研祥紅跑，向祖國表白)".

OPERATING PRACTICE

The Company values the cooperation and development between our partners and establishes good partnership with suppliers and clients. The Company has carried out a comprehensive cooperation with INTEL, organizing several kinds of marketing promotion activities and new products seminars with INTEL and assuming the Enterprise Architecture "EA" project of the INTEL to manufacture sample products for INTEL to release to its peers as references. The Company is Microsoft's global gold partner, cooperating closely with Microsoft for many years to jointly promote the sales of copyrighted software in China. In addition, the Company has built long-term strategic cooperative relations with CNPC, Sinopec, CRS and CNR, etc. During the period under review, the Company and the Shenzhen Branch of China Unicom held a strategic contract signing ceremony to launch the cooperation in the development of "5G+ Industrial Internet".

The Company is a member of Industrial Control Computer Technical Committee and Severe Environment Computer Technical Committee of China Computer Federation. It established EVOC Intelligent Science and Technology Association, undertook building of Shenzhen Ocean Industry Association and set up the communication and cooperation platforms for more upstream and downstream relevant enterprises. As a leading brand of special computers, the Company attended all kinds of activities held by the association of Chinese computer users.

Leveraging on our own advantages, we entered into strategic partnership with domestic famous scientific research institutions, such as Institute of Computing Technology Chinese Academy of Sciences, National University of Defense Technology, Jiangnan Institute of Computing Technology, MPRC, Peking University, Beijing University of Aeronautics and Astronautics, Harbin Institute of Technology, Northwestern Polytechnical University, Sun Yat-Sen University and South China University of Technology and so on with a purpose to promote the application and development of domestic chip application engineering, network information security, Internet of Things, aerospace, ocean technology, cloud computing and other technologies.

In addition, the Company has close cooperation with and outsources part of the work to local small and medium-sized enterprises which are developing together with us, thus promoting our common development. We delivered our operation philosophy to suppliers through website, seminars, qualified supplier management system and various communications with suppliers, thus to promote the close cooperation between us.

During the period under review, the Company held the "Taking Advantage from Domestic Production and Creating a Better Future" — EVOC's Channel Partners and Dealers Marketing Summit 2019 (「乘國產東風，佔智造未來」《二零一九年度研祥渠道合作夥伴經銷商營銷峰會》), and almost 80 dealer representatives from across the country attended the summit. The summit discussed and shared the Company's market forecast with corresponding market strategies for the new financial year, and helped dealers from different places find the most suitable marketing strategies based on their actual situation.

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is a key factor in improving the confidence of existing and future shareholders, investors, employees, business partners and the community as a whole. The Company has complied throughout the period under review with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules without any deviation. None of the Directors is aware of any information that would reasonably suggest that the Company is not or was not in compliance with the requirements set out in the Code at any time during the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the behavioral code for the Directors of our Company to perform securities transactions. All Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the period from 1 January 2019 to 31 December 2019.

THE BOARD

In accordance with good corporate governance principles, the Board convened regular and interim meetings in accordance with legal procedures and complied strictly with relevant laws, legal regulations and the Articles of Association of the Company when exercising its authority, with an emphasis on protecting the interests of the Company and its shareholders.

The main responsibilities of the Board include:

- To implement resolutions of the general meetings;
- To lay down the Group's management policies, business strategies and investment plans;
- To review and approve the annual, interim and quarterly results of the Group;
- To monitor and control operating and financial performance through the determination of the annual budget;
- To review and approve the appointment of auditor of the Group;
- To review the amendment to the Articles of Association of the Company.

In addition, the Board carries the function of reviewing the corporate governance practice and disclosure system as follow:

- Develop and review the Company's policies and practices on corporate governance;
- Review and monitor the training and continuous professional development of Directors and senior management;
- Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- Develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- Review the Company's compliance with the code and disclosure in the Corporate Governance Report.

BOARD COMPOSITION

The Board comprises seven Directors, including three executive Directors and four independent non-executive Directors. The biographical details of all Directors are set out in pages 13 to 15 of this Annual Report.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All Directors are appointed for a specific term. All the executive Directors and independent non-executive Directors of the Company are engaged under a service contract/letter of appointment with the Company for a term of three years.

According to the Company's Articles of Association (the "Articles of Association"), all Directors of the Company are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings of the Company. Any new Director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the next general meeting and any new Director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, the Company has appointed four independent non-executive Directors, at least one of whom has appropriate professional accounting qualifications. The Company has received from each of its independent non-executive Directors the written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers such directors to be independent in accordance with each and every guideline set out under the Listing Rules.

DIRECTORS' TRAINING

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company.

COMPANY SECRETARY'S TRAINING

Pursuant to the new Rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided his training records to the Company indicating more than 15 hours of relevant professional development by means of attending in-house briefings, attending seminars and reading relevant guideline materials.

CHAIRMAN AND GENERAL MANAGER

The Chairman and general manager of the Company are Mr. Chen Zhi Lie and Mr. Liu Zhi Yong respectively. The roles of Chairman and general manager are separate and the division of responsibilities between the Chairman and general manager have been clearly established and set out in writing.

BOARD MEETING

In order to ensure the highest rate of Directors' attendance, notice is given to all Directors at least 14 days in advance of the Board meeting. All Directors have access to the advice and services of the Company Secretary and secretary of the Board. Minutes of Board meetings are kept by the Company Secretary and secretary of the Board and sent to all Directors for their comments and records.

The Company held five full Board meetings in the financial year ended 31 December 2019. The personal attendance record of the Board meetings by Directors is set out as follows:

	Number of meetings attended/ held during the Director's term of office			
	Board	**Audit Committee**	**Remuneration and Review Committee**	**Nomination Committee**
Executive directors:				
Mr. Chen Zhi Lie *(Chairman)*	5/5			1/1
Mr. Tso Cheng Shun	5/5			
Mr. Geng Wen Qiang	5/5		1/1	
Independent non-executive directors:				
Mr. Yu Tat Chi, Michael	5/5	2/2		
Mr. Dong Li Xin	5/5	2/2	1/1	1/1
Mr. Wen Bing	5/5			1/1
Mr. Zhang Da Ming	5/5	2/2	1/1	

BOARD COMMITTEES

The Company has established the Audit Committee, Remuneration and Review Committee and Nomination Committee. The function of each specialized committee is to study pertinent issues in its area of expertise and to provide opinions and suggestions for consideration by the Board under defined terms of reference.

REMUNERATION AND REVIEW COMMITTEE

The Remuneration and Review Committee of the Company comprises one executive Director, Mr. Geng Wen Qiang and two independent non-executive Directors, Mr. Dong Li Xin and Mr. Zhang Da Ming. Mr. Dong Li Xin is the Chairman of the Remuneration and Review Committee. Written terms of reference of the Remuneration and Review Committee which comply with the code provisions set out in the Code has been adopted by the Board and are available on the websites of the Stock Exchange and the Company. The Remuneration and Review Committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board.

During the year, the summary of Remuneration and Review Committee's responsibilities is set out below:

1. To make recommendations to the Board on the Company's policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

2. To determine, with delegated responsibility, the remuneration package of individual executive Director and senior management member, including but not limited to basic salary, deferred emolument, share options and non-monetary benefits, pension rights and bonus, and the compensation payments(including any compensation payable for loss or termination of their office or appointment) and to make recommendations to the Board on the remuneration of non-executive Directors.

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 10 to the financial statements.

AUDIT COMMITTEE

The Company has established an Audit Committee which comprises three independent non-executive Directors, including Mr. Yu Tat Chi, Michael, Mr. Dong Li Xin and Mr. Zhang Da Ming. Mr. Yu is the Chairman of the Audit Committee. Rights and duties of the Audit Committee comply with the code provisions. Written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company. The Audit Committee is responsible for reviewing and supervising the Group's financial reporting procedures and internal control system and providing advice and recommendations to the Board of Directors. The committee met on a semi-annual basis and the review covers the findings of internal auditors, internal controls, risk management and financial reporting matters. The Audit Committee reviewed and monitored the external auditor's independence and effectiveness of the audit process in accordance with applicable standard. The Audit Committee has discussed with the management and reviewed the annual results of the Group for the year ended 31 December 2019.

NOMINATION COMMITTEE

The Nomination Committee of the Company comprises one executive Director Mr. Chen Zhi Lie, and two independent non-executive Directors, Mr. Dong Li Xin and Mr. Wen Bing. Mr. Chen Zhi Lie is the Chairman of the Nomination Committee. The Nomination Committee is primarily responsible for considering and recommending to the Board suitably qualified persons to become the members of the Board and also reviewing the structure, size and composition of the Board on a regular basis and as required. Written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business development. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

During the year, the summary of Nomination Committee's responsibilities is set out below:

1. To review the structure, size and composition (including the skills, knowledge and experience) of the Board and to set up the policy on Board diversity ("Policy on Board Diversity");

2. To review the policy on Board diversity; and to review the measurable objective for implementing such policy and the progress on achieving these objectives; and

3. To assess the independence of independent non-executive Directors.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

A statement of Directors' responsibility for the financial statements is set out in "Independent Auditor's Report" of this report.

AUDITOR'S REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor. During the year under review, auditor's remuneration for audit services is approximately RMB1,943,000 (2018: RMB2,159,000). No services such as due diligence and other advisory services were provided.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence. The Company determines the remuneration of the directors on the basis of their qualifications, experience and contributions.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing and monitoring the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems in place are adequate.

The Board conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management for the year ended 31 December 2019. The assessment was made by discussions with the management of the Company, its external and internal auditors and the review performed by the Audit Committee. The Board believes that the existing internal control system is adequate and effective.

SHAREHOLDERS' RIGHTS

Shareholders' Right to Propose Resolutions at General Meeting

Pursuant to Article 8.06 of the Articles of Association of the Company, shareholders holding more than 5% (including 5%) of the total voting shares of the Company are entitled to propose to the Company any new resolutions in writing, provided such resolution shall be submitted to the Company at least ninety days before convening the annual general meeting. The Company shall include, in the agenda of such meeting, those proposed matters which are within the terms of reference of the general meeting.

Shareholders' Right to Convene an Extraordinary General Meeting ("EGM") or Class Meeting of the Shareholders ("Class Meeting")

Pursuant to the Article 8.25 of the Articles of Association of the Company, two or more shareholders holding more than one-tenth (including 10%) of the voting shares at the meeting proposed to be held may, by signing one written request or several counterparts of same stating the subject matter of the meeting, require the Board of Directors to convene an extraordinary general meeting of shareholders or a class meeting of shareholders. Upon receipt of the foregoing written request(s), the Board of Directors shall proceed to do so as soon as possible accordingly. The foregoing number of voting shares referred to shall be calculated as at the date of the delivery of the written request(s).

If the Board of Directors fails to issue a notice of convening such a meeting within thirty days from the date of the receipt of the foregoing written request(s), the shareholders who have made the request may themselves convene such a meeting in a procedure which follow that of such meetings to be convened by the Board of Directors as much as possible, within four months from the date of receipt of such request(s) by the board. Any reasonable expenses incurred by the shareholders for convening and holding the meeting by reason of the failure of the Board of Directors to duly convene a meeting according to the foregoing request for holding the meeting shall be borne by the Company and shall be set off against any sums owed to the Directors in default by the Company.

COMMUNICATION WITH THE BOARD

Shareholders are encouraged to maintain direct communication with the Board. Shareholders who have any questions for the Board may send their enquiries by letter or fax to the attention of the Company Secretary at Unit No. 1619, 16th Floor, Star House, 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong, China. Fax no. 852–23757238.

INVESTORS RELATIONS

The Company disclosed all necessary information to the shareholders in compliance with Listing Rules. Meeting with media and investors were conducted periodically as necessary. The Company also replied the inquiry from shareholders timely. Our corporate website www.evoc.com contains corporate data, interim and annual reports issued by the Group as well as recent developments of the Group which enable shareholders and investors to have timely and updated information of the Group.

REPORT OF THE SUPERVISORY COMMITTEE

To: All Shareholders

The supervisory committee of the Company has exercised its powers seriously to safeguard the interests of the Company and shareholders, complied with the principle of good faith, discharged its duties conscientiously and undertaken tasks in a diligent and proactive manner in accordance with the Company Law of the PRC, the relevant Hong Kong laws and regulations and the Company's articles of association.

The supervisory committee of the Company has reviewed in detail and approved the audited financial statements and this report which will be presented at the annual general meeting. Supervisors of the Company have reviewed prudently the operation and development plans of the Company, and carried out strict and effective supervision as regards whether major decision-making and exact decisions by the management of the Company are in compliance with the laws and regulations of the PRC and the articles of association and safeguard the interests of shareholders. Supervisors believe that during the year, the operating results of the Company were sufficient to reflect its position, and all expenses and costs incurred were reasonable. The provision for statutory surplus reserve made during the year has complied with the applicable laws and regulations of the PRC and the Company's articles of association.

During the year, supervisory committee had provided reasonable suggestions and opinions to the Board of directors in respect of the operation and development plans of the Company. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of its shareholders.

The supervisory committee of the Company is full of confidence in the future of the Company and would like to take this opportunity to express its gratitude to all shareholders, directors and staff for their strong support to the supervisory committee.

By order of the Supervisory Committee

Pu Jing
Chairperson

Shenzhen, the PRC, 15 April 2020

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TO THE SHAREHOLDERS OF 研祥智能科技股份有限公司
(known as EVOC Intelligent Technology Company Limited for identification purpose only)
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of EVOC Intelligent Technology Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 41 to 121, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of land and buildings and investment properties (Notes 14 and 15 to the consolidated financial statements)

The Group had land and buildings, and investment properties, which were stated at fair value or revalued amount less accumulated depreciation.

Management estimated the fair values of these land and buildings and investment properties to be RMB719,935,000 and RMB2,112,208,000 respectively as at 31 December 2019. Independent external valuations were obtained in order to support management's estimates. Valuations are dependent on certain key assumptions that require significant management judgement including capitalisation rates, market rents, market rental growth rates, discount rates, price and cost of construction per square meter.

Our response:

- Evaluating the independent external valuers' objectivity, competence and capabilities;

- Assessing the methodologies used and the reasonableness of the key inputs and assumptions estimated or made by the management based on our knowledge of the property industry; and

- Checking, on a sample basis, the accuracy and relevance of the input data used.

We found the key assumptions were supported by the available evidence. We found the disclosures in Notes 14 and 15 to be appropriate.

Impairment assessment of properties under development and properties held for sale (Note 19 to the consolidated financial statements)

The Group had properties under development and properties held for sale with aggregate carrying amounts of RMB623,257,000 and RMB1,441,438,000 respectively as at 31 December 2019. Management concluded that the net realisable values were higher than their carrying amounts such that no impairment provision was required. Independent external valuations were obtained in order to support management's estimates. Valuations are dependent on certain key assumptions that require significant management judgement including capitalisation rates, discount rates and price per square meter. The valuations of properties under development are also dependent upon the estimated costs to complete and expected developer's profit margin.

Our response:

- Evaluating the independent external valuers' objectivity, competence and capabilities;

- Assessing the methodologies used and the appropriateness of key assumptions based on our knowledge of the property industry;

- Checking, on a sample basis, the accuracy and relevance of the input data used; and

- Assessing the reasonableness of the capitalisation rate, discount rates, price per square meter, costs to complete and sell estimated by the management based on our knowledge of the relevant development.

We found the key assumptions were supported by the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

BDO Limited
Certified Public Accountants
Choi Man On
Practising Certificate Number: P02410

Hong Kong, 15 April 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Turnover	7	**1,688,153**	1,423,139
Cost of sales		**(1,224,954)**	(1,207,113)
Gross profit		**463,199**	216,026
Other income	7	**328,279**	329,215
Selling and distribution costs		**(46,107)**	(42,322)
Administrative expenses		**(144,456)**	(91,160)
Other operating expenses		**(178,085)**	(134,087)
Fair value gain on investment properties	15	**17,718**	11,408
Fair value gain on transfer of properties held for sale to investment properties		**220**	17,167
Finance costs	8	**(127,055)**	(98,599)
Profit before income tax	9	**313,713**	207,648
Income tax expense	11(a)	**(50,559)**	(50,708)
Profit for the year attributable to owners of the Company		**263,154**	156,940
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Surplus on revaluation of land and buildings	14 & 29	**54,023**	33,947
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**(170)**	98
Other comprehensive income for the year, net of tax		**53,853**	34,045
Total comprehensive income for the year attributable to owners of the Company		**317,007**	190,985
Earnings per share — Basic and diluted (RMB)	13	**0.213**	0.127

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	14	**804,106**	760,954
Investment properties	15	**2,112,208**	2,044,931
Right-of-use assets	16	**93,695**	—
Prepaid land lease payments	17	**—**	42,521
Deferred tax assets	27	**25,846**	24,387
Total non-current assets		**3,035,855**	2,872,793
Current assets			
Inventories	18	**71,234**	37,301
Properties under development	19	**623,257**	863,600
Properties held for sale	19	**1,441,438**	964,455
Prepaid land lease payments	17	**—**	1,016
Trade receivables	20	**295,607**	131,211
Bills receivable	20	**115,357**	34,115
Other receivables, deposits and prepayments	21	**319,896**	259,632
Contract costs	21	**1,780**	3,170
Due from related companies	34(c)	**2,831**	5,028
Income tax recoverable		**—**	3,416
Cash and bank balances	22	**1,281,633**	1,079,953
Total current assets		**4,153,033**	3,382,897
Current liabilities			
Trade payables	23	**1,000,062**	740,185
Bills payable	23	**100,238**	1,500
Contract liabilities	25	**104,942**	195,034
Other payables, accruals and receipts in advance	24	**330,175**	305,370
Due to related companies	34(c)	**142**	397
Lease liabilities	16	**8,815**	—
Bank borrowings	26	**781,225**	1,268,081
Income tax payable		**76,112**	17,585
Total current liabilities		**2,401,711**	2,528,152
Net current assets		**1,751,322**	854,745
Total assets less current liabilities		**4,787,177**	3,727,538

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Bank borrowings	26	**1,760,018**	1,109,496
Other payables, accruals and receipts in advance	24	**10,487**	—
Lease liabilities	16	**55,046**	—
Deferred tax liabilities	27	**383,952**	358,698
Total non-current liabilities		**2,209,503**	1,468,194
NET ASSETS		**2,577,674**	2,259,344
CAPITAL AND RESERVES			
Share capital	28	**123,314**	123,314
Reserves	29(a)	**2,454,360**	2,136,030
TOTAL EQUITY		**2,577,674**	2,259,344

On behalf of the directors

Chen Zhi Lie
Chairman

Tso Cheng Shun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital RMB'000 (Note 28)	Share premium RMB'000 (Note 29(c)(i))	Statutory surplus reserve RMB'000 (Note 29(c)(ii))	Properties revaluation reserve RMB'000 (Note 29(c)(iii))	Translation reserve RMB'000 (Note 29(c)(iv))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2018	123,314	8,586	79,942	444,575	445	1,411,497	2,068,359
Profit for the year	–	–	–	–	–	156,940	156,940
Other comprehensive income for the year	–	–	–	33,947	98	–	34,045
Total comprehensive income for the year	–	–	–	33,947	98	156,940	190,985
Balance at 31 December 2018 and 1 January 2019	123,314	8,586	79,942	478,522	543	1,568,437	2,259,344
Initial application of HKFRS 16	–	–	–	1,323	–	–	1,323
Balance as at 1 January 2019 (Restated)	**123,314**	**8,586**	**79,942**	**479,845**	**543**	**1,568,437**	**2,260,667**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**263,154**	**263,154**
Other comprehensive income for the year	**–**	**–**	**–**	**54,023**	**(170)**	**–**	**53,853**
Total comprehensive income for the year	**–**	**–**	**–**	**54,023**	**(170)**	**263,154**	**317,007**
Transfer between reserves	**–**	**–**	**22,790**	**–**	**–**	**(22,790)**	**–**
Balance at 31 December 2019	**123,314**	**8,586**	**102,732**	**533,868**	**373**	**1,808,801**	**2,577,674**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
Profit before income tax	**313,713**	207,648
Adjustments for:		
Depreciation:		
— Property, plant and equipment	**47,867**	37,685
— Right-of-use assets	**5,865**	—
Finance cost	**127,055**	98,599
Government subsidies	**(100,494)**	(131,451)
Loss on disposal of property, plant and equipment	**26**	98
Loss on written off of property, plant and equipment	**189**	3,706
Fair value gain on investment properties	**(17,718)**	(11,408)
Fair value gain on transfer of properties held for sale to investment properties	**(220)**	(17,167)
Reversal of impairment on inventories	**(4,640)**	(1,092)
Bank interest income	**(8,823)**	(3,164)
Operating profit before working capital changes	**362,820**	183,454
Increase in inventories	**(29,293)**	(4,335)
Increase in properties under development and properties held for sale	**(199,328)**	(145,896)
(Increase)/decrease in trade receivables	**(164,396)**	18,359
(Increase)/decrease in bills receivable	**(81,242)**	17,599
Increase in other receivables, deposits and prepayments	**(60,264)**	(11,116)
Decrease/(increase) in contract costs	**1,390**	(3,170)
Increase/(decrease) in trade payables	**259,877**	(2,487)
Increase in bills payable	**98,738**	223
(Decrease)/increase in contract liabilities	**(90,092)**	128,585
Increase in other payables, accruals and receipts in advance	**33,686**	6,171
Change in amounts due from/(to) related parties	**1,942**	(4,631)
Cash generated from operations	**133,838**	182,756
Income tax paid	**(8,664)**	(48,436)
Net cash generated from operating activities	**125,174**	134,320
Cash flows from investing activities		
Purchase of property, plant and equipment	**(37,492)**	(142,843)
Addition of investment properties	**(20,289)**	—
Change in other receivables	**—**	100,000
Decrease in pledged bank balances	**122**	—
Increase in restricted bank deposit	**(36,001)**	(9,591)
Proceeds from sale of property, plant and equipment	**818**	5,099
Interest received	**8,823**	3,164
Net cash used in investing activities	**(84,019)**	(44,171)

	Note	2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Repayment of bank borrowings		**(1,616,045)**	(1,300,880)
Interest paid		**(145,407)**	(133,762)
Proceeds from government grants		**109,190**	151,254
Proceeds from bank borrowings		**1,779,711**	1,582,405
Repayment of principal portion of lease liabilities		**(2,639)**	—
Net cash generated from financing activities		**124,810**	299,017
Net increase in cash and cash equivalents		**165,965**	389,166
Cash and cash equivalents at beginning of year		**1,030,846**	641,584
Effect of foreign exchange rate changes on cash and cash equivalent		**(164)**	96
Cash and cash equivalents at the end of year	22	**1,196,647**	1,030,846

1. GENERAL

EVOC Intelligent Technology Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC"). The address of its registered office and principal place of business is located at EVOC Technology Building, No. 31 Gaoxinzhongsi Avenue, Nanshan District, Shenzhen, the PRC. At 31 December 2019, the directors of the Company consider the ultimate holding company of the Company to be EVOC Hi-Tech Holding Limited, which was incorporated in the PRC and the ultimate controlling shareholder of the Company to be Mr. Chen Zhi Lie.

The Group, comprising the Company and its subsidiaries, is principally engaged in the research, development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories and development of properties in the PRC. The principal activities of the subsidiaries are set out in Note 31 to the consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the group's accounting policies.

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17.

For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application is recognised as at 1 January 2019. As a result, the comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

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

(i) Impact of the adoption of HKFRS 16 (Continued)

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

	RMB'000
Statement of financial position as at 1 January 2019	
Increase in right-of-use assets	35,192
Increase in investment properties (Note)	10,931
Increase in properties revaluation reserve (Note)	1,323
Decrease in prepaid land lease payments (Note)	(43,537)
Lease liabilities (non-current)	759
Lease liabilities (current)	504

Note: With the adoption of HKFRS 16, the land portion of investment property previously classified as prepaid land lease is reclassified to investment properties.

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

	RMB'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	3,585
Less: short term leases for which lease terms end before 31 December 2019	(2,211)
	1,374
Discounting effect	(111)
Total lease liabilities as of 1 January 2019	1,263

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 4.75%.

(ii) The new definition of a lease

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

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

(iii) Accounting as a lessee

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

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

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

Right-of-use asset

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

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be carried at fair value. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

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

(iii) Accounting as a lessee (Continued)

Lease liability

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

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

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

(iv) Accounting as a lessor

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

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using modified retrospective approach from 1 January 2019, and the comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16. The reclassifications and the adjustments arising from HKFRS 16 are therefore recognised in the opening balances on 1 January 2019.

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

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

(v) Transition (Continued)

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

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

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

Amendments to HKAS 19 — Plan Amendment, Curtailment or Settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

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

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]

[1] Effective for annual periods beginning on or after 1 January 2020

Amendments to HKFRS 3 — Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process". Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 1 and HKAS 8 — Definition of Material

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 — Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain land and buildings and investment properties, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

(c) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("RMB"), which is both the functional currency and presentation currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

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

(b) Subsidiaries

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries (Continued)

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

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

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

(c) Property, plant and equipment

Owner-occupied leasehold land and buildings are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of properties revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the properties revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the properties revaluation reserve to retained earnings.

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (Continued)

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

Land and buildings	Over the shorter of lease terms of related leasehold land or 50 years
Leasehold improvements	18–20%
Plant and machinery	9–10%
Furniture, fixtures and equipment	18–20%
Motor vehicles	18–20%

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

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

(d) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

When the Group holds a property interest under an operating lease to earn rental income, the Group has chosen to classify and account for these property interests as investment property.

(e) Prepaid land lease payments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Right-of-use asset

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

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 and are carried at fair value. The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at fair value.

Lease liability

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

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

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

Accounting as a lessor

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The Group as lessor

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

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

(g) 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, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence, both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(h) Financial Instruments

(i) Financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial Instruments (Continued)

(i) Financial assets (Continued)

Debt instruments

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

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

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

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

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial Instruments (Continued)

(ii) Impairment loss on financial assets

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

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

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial Instruments (Continued)

(iii) Financial liabilities

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

FVTOCI

FVTOCI include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

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

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

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

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial Instruments (Continued)

(iv) Effective interest method

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

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

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

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

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

(i) Inventories

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

(j) Properties under development and held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to be completed beyond normal operating cycle.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- 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.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

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

Sales of special computer products, electronic products and accessories and chemical products

Customers obtain control of special computer and electronic products and accessories and chemical products when the goods are delivered to and have been accepted. Revenue is thus recognised upon the customers accepted the special computer products, electronic products and accessories and chemical products. There is generally only one performance obligation. Invoices are usually payable within 60 days.

Properties development

Revenue from sale of properties developed for sale in the PRC in the ordinary course of business is recognised at the point in time when control of completed property is transferred to the customer, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable. No revenue is recognised over time since the contract does not give the Group an enforceable right to payment for performance completed to date.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Revenue recognition (Continued)

Properties development (Continued)

Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under contract liabilities. There is generally only one performance obligation and the consideration include no variable amount.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

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

Dividend income is recognised when the right to receive the dividend is established.

Contract liabilities

Contract liabilities represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customers.

Contract costs

Contract costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (mainly sales commissions) as an asset if it expects to recover these costs. The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for profit and loss items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income taxes (Continued)

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(m) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on monetary items that forms part of the Company's investment in a foreign operation, in which case, such exchange differences are reclassified to other comprehensive income in preparing the consolidated financial statements. Exchange differences arising on retranslation of non-monetary items carried at fair value are included in the profit and loss except for differences arising on retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Foreign currencies (Continued)

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the translation reserve.

(n) Employees' benefits

(i) Short term employee benefits

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

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

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

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

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

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as liabilities in the statements of financial position and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(r) 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, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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, the existence of which 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.

(s) Related parties

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

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

(ii) has significant influence over the Group; or

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Related parties (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Critical judgements in applying accounting policies

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment properties portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time.

Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined whether the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted and the Group has recognised deferred tax on changes in fair value of investment properties on the basis that the deferred tax reflects the tax consequences that will follow from the manner in which the Group expects at the end of the reporting period to recover the carrying amount of the investment properties.

Classification between investment properties and owner-occupied buildings

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Judgement is made on an individual property by property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made when determining that the portion used in the production or supply of goods or services or for administrative purposes is insignificant.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in the financial statements, other key sources of estimation uncertainty that have significant risks of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Estimated impairment of construction in progress and lease prepayments

The impairment loss for construction in progress and payment for leasehold land held for own use under operating lease is recognised when the carrying amounts of these assets exceed their estimated recoverable amounts in accordance with the accounting policies stated in Notes 4(c) and 4(e) to the consolidated financial statements. The recoverable amounts have been determined based on the valuation conducted by an independent firm of professional valuers, with reference to the best available information obtained at the end of each reporting period. Any favourable or unfavourable changes to the assumptions of market conditions would result in changes in the carrying amounts of the assets.

Estimated impairment loss on trade and other receivables

The Group recognises allowance for impairment loss on trade and other receivables when the recoverability of the outstanding debts is uncertain. Such allowance is estimated after taking into account various considerations including the age of the debts, creditworthiness of the debtors, past track records for recovery of debts with similar credit risk characteristics and market conditions. Where the expectation is different from the original estimates, such difference will impact the carrying amounts of receivables and allowance for impairment losses in the period in which such estimate had been changed.

Revaluation of investment properties and land and buildings

In determining the fair values of investment properties and land and buildings, the valuer has based on valuation techniques which involve, inter alia, certain estimates including comparable transactions in the relevant market, current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, directors have exercised judgement and are satisfied that the method of valuation is appropriate with reference to the current market condition.

Net realisable value of properties under development and properties held for sale

Management determines the net realisable value of properties under development and properties held for sale by using market valuation report available from independent qualified professional valuer. Such valuations are made based on certain assumptions, which are subject to uncertainties and might materially differ from the actual result. In making the judgement, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the reporting date. These estimates are regularly compared to actual market data and actual transactions in the market.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty (Continued)

PRC enterprise income tax

The Group is subject to enterprise income taxes in Mainland China. Due to the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provision in the period in which the differences realise.

PRC land appreciation tax ("LAT")

LAT in Mainland China is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sale of properties less deductible expenditures including land costs, borrowing costs, other property development expenditures.

When calculating the LAT, the Group needs to estimate the deductible expenditures and make judgement on the relevant tax rate on individual property basis under the relevant applicable tax laws and regulations. Given the uncertainties of the calculation basis of LAT to be interpreted by the local tax bureau, the actual outcomes may be higher or lower than that estimated. Where the final tax outcome of these matters is different for the amounts that were initially recorded, such difference will impact the LAT expense and LAT provision in the period in which the differences are realised.

6. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers (the "CODM") that are used to make strategic decisions.

The Group has two reportable and operating segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

— Research, development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories

— Development of properties for sale and investment purposes

6. SEGMENT INFORMATION (CONTINUED)

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Corporate expenses, corporate assets and corporate liabilities are not allocated to the reportable segments as they are not included in the measure of the segments' profit, segments' assets and segments' liabilities that are used by the CODM for assessment of segment performance.

For the year ended 31 December 2019

	Special computer products and electronic products and accessories RMB'000	Property development RMB'000	Others* RMB'000	Elimination RMB'000	Total RMB'000
External revenue	1,376,755	239,055	72,343	—	1,688,153
Intersegment revenue	—	—	104,149	(104,149)	—
Reportable segment profit	183,461	58,243	180	—	241,884
Interest income	8,811	—	12	—	8,823
Research and development costs	(146,601)	—	—	—	(146,601)
Other income	153,532	—	12	—	153,544
Depreciation:					
— Property, plant and equipment	(36,697)	(11,170)	—	—	(47,867)
— Right-of-use assets	(5,144)	(721)	—	—	(5,865)
Reversal of impairment loss on inventories	4,640	—	—	—	4,640
Fair value loss on investment properties	—	(15,265)	—	—	(15,265)
Fair value gain on transfer of properties held for sale to investment properties	—	220	—	—	220
Reportable segment assets	2,052,354	3,378,792	88,228	—	5,519,374
Additions to non-current assets	29,135	8,357	—	—	37,492
Reportable segment liabilities	(1,025,943)	(874,342)	(813)	—	(1,901,098)

* The revenue is generated from trading of chemical products and is below the quantitative threshold of 10 per cent of the combined revenue of all operating segment and hence is not considered as a reportable segment.

6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2018

	Special computer products and electronic products and accessories RMB'000	Property development RMB'000	Total RMB'000
External revenue	1,338,759	84,380	1,423,139
Reportable segment profit	142,384	8,870	151,254
Interest income	3,164	—	3,164
Research and development costs	(104,781)	—	(104,781)
Other income	162,466	—	162,466
Depreciation and amortisation	(30,040)	(7,645)	(37,685)
Reversal of impairment loss on inventories	1,092	—	1,092
Fair value gain on investment properties	—	15,833	15,833
Fair value gain on transfer of properties held for sale to investment properties	—	17,167	17,167
Reportable segment assets	1,653,946	3,065,763	4,719,709
Additions to non-current assets	54,368	101,151	155,519
Reportable segment liabilities	(622,989)	(727,412)	(1,350,401)

Notes:

(a) The following is an analysis of Group's revenue from its major customers which represent 10% or more of the Group's revenues during the year and is attributable to the reportable segment of "research and development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories":

	2019 RMB'000	2018 RMB'000
Customer A	**847,487**	558,367
Customer B	**—**	266,144

6. SEGMENT INFORMATION (CONTINUED)

Notes: (Continued)

(b) Reconciliation of reportable segment revenues, results, assets and liabilities

	2019 RMB'000	2018 RMB'000
Revenue		
Total of reportable segments' revenue and consolidated revenue	**1,688,153**	1,423,139

	2019 RMB'000	2018 RMB'000
Profit before income tax		
Total of reportable segments' profit	**241,884**	151,254
Unallocated other income	**174,735**	166,749
Unallocated fair value gain/(loss) on investment properties	**32,983**	(4,425)
Unallocated corporate expenses	**(8,834)**	(7,331)
Finance costs	**(127,055)**	(98,599)
Profit before income tax	**313,713**	207,648

	2019 RMB'000	2018 RMB'000
Total of reportable segments' assets		
Reportable segment assets	**5,519,374**	4,719,709
Deferred tax assets	**25,846**	24,387
Unallocated property, plant and equipment	**260,635**	254,768
Unallocated investment properties	**1,317,499**	1,239,971
Unallocated corporate assets	**65,534**	16,855
Consolidated total assets	**7,188,888**	6,255,690

	2019 RMB'000	2018 RMB'000
Total of reportable segments' liabilities		
Reportable segment liabilities	**1,901,098**	1,350,401
Unallocated bank borrowings	**2,250,052**	2,269,662
Deferred tax liabilities	**383,952**	358,698
Income tax payable	**76,112**	17,585
Consolidated total liabilities	**4,611,214**	3,996,346

(c) Geographic information

All revenue from external customers and non-current assets other than deferred tax assets are located in the PRC (place of domicile).

The geographical location of customers is based on the location at which the goods were delivered and the services were provided. The geographical location of the non-current assets other than deferred tax assets is based on the physical location of the assets.

6. SEGMENT INFORMATION (CONTINUED)

Notes: (Continued)

(c) Geographic information (Continued)

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment.

	Special computer products and electronic products and accessories		Property development		Others		Total	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Primary geographical markets								
PRC	1,376,755	1,338,759	239,055	84,380	72,343	–	1,688,153	1,423,139
Major products and services								
Sales of special computer products	529,268	404,157	–	–	–	–	529,268	404,157
Sales of mobile phones and accessories	847,487	595,570	–	–	–	–	847,487	595,570
Sales of computer components	–	339,032	–	–	–	–	–	339,032
Sales of properties	–	–	239,055	84,380	–	–	239,055	84,380
Others	–	–	–	–	72,343	–	72,343	–
	1,376,755	1,338,759	239,055	84,380	72,343	–	1,688,153	1,423,139
Timing of revenue recognition								
At a point in time	1,376,755	1,338,759	239,055	84,380	72,343	–	1,688,153	1,423,139

7. TURNOVER AND OTHER INCOME

Turnover represents the invoiced value of goods sold and services provided to customers and excludes value added tax. The amounts of each significant category of revenue recognised during the year are as follows:

	2019 RMB'000	2018 RMB'000
Turnover		
Sales of special computer products	529,268	404,157
Sales of electronic products and accessories		
— Computer components	–	339,032
— Mobile phones and accessories	847,487	595,570
Sales of chemical products	72,343	–
Sales of properties	239,055	84,380
	1,688,153	1,423,139

7. TURNOVER AND OTHER INCOME (CONTINUED)

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	2019 RMB'000	2018 RMB'000
Receivables (Note 20)	**295,607**	131,211
Contract liabilities (Note 25)	**104,942**	195,034

The contract liabilities mainly relate to the advance consideration received from customers. RMB167,143,000 of the contract liabilities as of 31 December 2018 has been recognised as revenue for the year ended 31 December 2019 at a point in time when the customers obtained control of the assets.

The Group has applied the practical expedient to its sales contracts for special computer products, electronic products and accessories and sales of properties. Therefore, the information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for special computer products, electronic products and accessories and sales of properties that had an original expected duration of one year or less is not provided.

	2019 RMB'000	2018 RMB'000
Other income		
Gross rentals from investment properties	**168,649**	158,022
Less: direct operating expenses (including repairs and maintenance) arising from leasing of investment properties reimbursed from tenants	**(274)**	(2,524)
	168,375	155,498
Bank interest income	**8,823**	3,164
Value-added tax ("VAT") concessions (Note (a))	**21,397**	9,137
Government subsidies (Note (b))	**100,494**	131,451
Repairs and maintenance income	**5,524**	2,257
Sub-contracting income	**—**	39
Exchange gain	**331**	—
Sundry income	**23,335**	27,669
	328,279	329,215

7. TURNOVER AND OTHER INCOME (CONTINUED)

Notes:

(a) VAT refunds were obtained from local tax authority in respect of sales of approved software and integrated circuit products.

(b) Financial incentives were granted by the PRC government for development of high-technology products and purchases of specified property, plant and equipment for development of specified project. Included in the amount of government grants recognised as other income for the year ended 31 December 2019, RMB14,129,000 (2018: RMB20,478,000) related to grants that the Group has fulfilled the relevant granting criteria immediately upon receipt of payment and the grant was not capital in nature, RMB47,549,000 (2018: RMB68,914,000) and RMB26,532,000 (2018: RMB31,291,000) related to grants that compensated for research and development costs that were incurred and expensed for development of high-technology products during the current year and the preceding year respectively and RMB12,284,000 (2018: RMB10,768,000) related to grants that are recognised over the expected useful lives of the relevant specified property, plant and equipment for development of specified project.

8. FINANCE COSTS

	2019 **RMB'000**	2018 RMB'000
Interest on bank borrowings	**148,448**	124,418
Less: Interest capitalised	**(22,348)**	(38,291)
	126,100	86,127
Interest on lease liabilities	**869**	—
Other interest expenses (Note)	**26**	12,398
Bank charges	**60**	74
	127,055	98,599

Borrowing costs capitalised during the year arose mainly on the general borrowing pool and are calculated by applying a capitalisation rate of 5.8% (2018: 5.8%) to expenditure on qualifying assets for the year ended 31 December 2019.

Note: Other interest expenses represents the interest expenses incurred for the discounting of bank acceptance bills.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2019 RMB'000	2018 RMB'000
Auditor's remuneration	**1,943**	2,159
Cost of inventories recognised as an expense (Note (a))	**1,107,235**	1,151,357
Cost of sales of properties recognised as an expense	**117,719**	55,756
Depreciation:		
— Property, plant and equipment	**47,867**	36,669
— Right-of-use-assets (Note (b))	**5,865**	—
Amortisation of prepaid land lease payments	**—**	1,016
Foreign exchange difference, net	**(331)**	285
Loss on disposal of property, plant and equipment	**26**	98
Loss on written off of property, plant and equipment	**189**	3,706
Reversal of impairment on inventories (Note (c))	**(4,640)**	(1,092)
Minimum lease payments under operating leases	**—**	3,821
Research and development costs (Note (d))	**146,601**	104,781
Staff costs (including directors' emoluments):		
Wages, salaries, bonus and allowances	**96,873**	87,357
Contributions to retirement benefits schemes	**11,167**	8,930
	108,040	96,287

Notes:

(a) Cost of inventories sold includes, but not limited to, the staff costs of RMB21,809,000 (2018: RMB23,855,000), depreciation charges of RMB3,730,000 (2018: RMB4,374,000), costs of raw materials and parts used in assembling of mobiles phones of RMB726,197,000 (2018: RMB554,104,000) and subcontracting fees in assembling of mobile phones of RMB7,369,000 (2018: RMB7,621,000).

(b) The Group has initially applied HKFRS 16 using the modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application is recognised as at 1 January 2019. After initial recognition of right-of-use assets at 1 January 2019, the group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. See note 2(a)(i).

(c) Reversal of impairment on inventories is included in "Other income" in the consolidated statement of comprehensive income.

(d) Research and development costs are included in other operating expenses which mainly consists of depreciation charge of RMB2,350,000 (2018: RMB2,470,000), consumable and material expenses amounting to RMB87,384,000 (2018: RMB48,303,000), staff costs amounting to RMB30,503,000 (2018: RMB28,957,000) and inspection fee amounting to RMB1,544,000 (2018: RMB4,781,000).

The depreciation charges and staff costs included in the cost of inventories sold. Research and development costs are included in the total amounts of depreciation charges and staff costs of the Group shown in the table above.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments paid or payable to directors are as follows:

	2019 RMB'000	2018 RMB'000
Fees	**69**	66
Other emoluments:		
Salaries, allowances and benefits in kind	**768**	587
Contributions to retirement benefits schemes	**83**	63
	851	650
	920	716

(a) Independent non-executive directors

The directors' fees paid or payable to independent non-executive directors during the reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Mr. Yu Tat Chi, Michael	**33**	30
Mr. Wen Bing	**12**	12
Mr. Dong Li Xin	**12**	12
Mr. Zhang Da Ming	**12**	12
	69	66

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

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Executive directors

The emoluments of executive directors during the reporting period are set out below:

	Fees	Salaries, allowances and benefits in kind	Contributions to retirement benefits schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2019				
Mr. Chen Zhi Lie	**–**	**516**	**83**	**599**
Mr. Tso Cheng Shun	**–**	**30**	**–**	**30**
Mr. Geng Wen Qiang	**–**	**222**	**–**	**222**
	–	**768**	**83**	**851**
2018				
Mr. Chen Zhi Lie	–	396	63	459
Mr. Tso Cheng Shun	–	30	–	30
Mr. Geng Wen Qiang	–	161	–	161
	–	587	63	650

Salaries, allowances and other benefits paid to or for the executive directors are generally emoluments in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(c) Supervisors

The emoluments of supervisors during the reporting period are set out below:

	Salaries, allowances and benefits in kind	Contributions to retirement benefits schemes	Total
	RMB'000	RMB'000	RMB'000
2019			
Ms. Pu Jing	**243**	**–**	**243**
Mr. Zhan Guo Nian	**168**	**37**	**205**
Mr. Zhang Zheng An	**147**	**30**	**177**
Mr. Wu Man Kang	**12**	**–**	**12**
Ms. Guo Jia Wen	**12**	**–**	**12**
	582	**67**	**649**
2018			
Ms. Pu Jing	165	–	165
Mr. Zhan Guo Nian	115	25	140
Mr. Zhang Zheng An	60	18	78
Mr. Wu Man Kang	12	–	12
Ms. Guo Jia Wen	12	–	12
	364	43	407

(d) During the reporting period, no emoluments were paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil). There were no arrangements under which any director or supervisor waived or agreed to waive any emoluments in respect of each of the reporting period.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(e) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, none of them was director of the Company in respect of the reporting period (2018: Nil). The emoluments of the five (2018: five) individuals, during the reporting period were as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	3,870	2,763
Contributions to retirement benefits schemes	209	30
	4,079	2,793

Their emoluments were within the following band:

	2019 No. of individuals	2018 No. of individuals
Nil to HK$1,000,000	3	5
HK$1,000,001 to HK$1,500,000	2	—

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

11. INCOME TAX EXPENSE

(a) The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2019 RMB'000	2018 RMB'000
Current tax — the PRC		
Enterprise income tax ("EIT")		
— Current year	6,742	22,414
Land appreciation tax ("LAT")		
— Current year	38,029	15,500
	44,771	37,914
Deferred taxation (Note 27)		
Origination and reversal of temporary differences, net	5,788	12,794
Income tax expense	50,559	50,708

In accordance with the PRC Enterprise Income Tax Law, the PRC EIT is calculated at 25% on the estimated assessable profit for the year. Certain of the Company's subsidiaries established in the PRC are exempted from income tax for two years starting from their first profit making year after utilisation of tax losses brought forward and are entitled to 50% relief on the income tax in the following three years. During the current year, one of these subsidiaries is entitled to 50% relief on the income tax (2018: 50% relief from income tax).

The Company which has been approved as new and high technology enterprise is entitled to a concessionary tax rate of 15%. The Company needs to re-apply for the preferential tax treatment when the preferential tax period expires on 1 December 2020.

Other subsidiaries are subject to income tax rate of 25% (2018: 25%) during the reporting period.

The PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax under a two-tiered profits tax rates regime. The first HK$2 million of profits are taxed at 8.25%, and the remaining profits above HK$2 million are taxed at 16.5%.

No Hong Kong profits tax has been provided for the years ended 31 December 2019 and 2018 as there was no estimated assessable profit.

11. INCOME TAX EXPENSE (CONTINUED)

(b) The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

	2019 RMB'000	2018 RMB'000
Profit before income tax expense	**313,713**	207,648
Tax at applicable tax rate of 25% (2018: 25%)	**78,428**	51,912
Effect of tax exemption, reduction and concessions	**(84,054)**	(32,906)
Tax effect of non-taxable income	**(30,658)**	(9,051)
Tax effect of non-deductible expenses	**40,596**	1,222
Tax effect of tax losses and temporary differences not recognised	**19,133**	24,031
Utilisation of tax losses previously not recognised	**(10,915)**	—
LAT	**38,029**	15,500
Income tax expense	**50,559**	50,708

12. DIVIDENDS

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

13. EARNINGS PER SHARE

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

	2019	2018
Profit for the year attributable to the owners of the Company for the purpose of earnings per share calculation (RMB'000)	**263,154**	156,940
Weighted average number of domestic and H shares in issue	**1,233,144,000**	1,233,144,000
Basic and diluted earnings per share (RMB)	**0.213**	0.127

There was no potential domestic and H shares in issue during the reporting period, the amount of diluted earnings per share is the same as basic earnings per share for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:							
As at 1 January 2018	714,232	56,353	27,268	94,463	15,034	120,548	1,027,898
Additions	–	27,471	128	23,004	1,579	103,337	155,519
Transfer from construction in progress	44,604	14,671	–	–	–	(59,275)	–
Transfer to investment properties (Note (a))	(265,177)	–	–	–	–	–	(265,177)
Disposals	–	–	–	(5,646)	(147)	–	(5,793)
Written off	–	–	(842)	(6,100)	(120)	–	(7,062)
Revaluation surplus	33,447	–	–	–	–	–	33,447
As at 31 December 2018 and 1 January 2019	**527,106**	**98,495**	**26,554**	**105,721**	**16,346**	**164,610**	**938,832**
Additions	**–**	**12,018**	**–**	**16,334**	**548**	**8,592**	**37,492**
Transfer from construction in progress	**154,385**	**279**	**–**	**–**	**–**	**(154,664)**	**–**
Transfer to investment properties (Note (a))	**(17,470)**	**–**	**–**	**–**	**–**	**–**	**(17,470)**
Disposals	**–**	**(179)**	**–**	**(836)**	**(289)**	**–**	**(1,304)**
Written off	**–**	**–**	**(300)**	**(1,303)**	**(84)**	**–**	**(1,687)**
Revaluation surplus	**55,914**	**–**	**–**	**–**	**–**	**–**	**55,914**
As at 31 December 2019	**719,935**	**110,613**	**26,254**	**119,916**	**16,521**	**18,538**	**1,011,777**
Accumulated depreciation:							
As at 1 January 2018	–	48,432	18,374	77,426	12,745	–	156,977
Charge for the year	11,816	17,882	1,874	4,743	354	–	36,669
Written back on disposal	–	–	–	(464)	(132)	–	(596)
Written back on written off	–	–	(319)	(2,975)	(62)	–	(3,356)
Eliminated on revaluation upon transfer (Note (a))	(356)	–	–	–	–	–	(356)
Eliminated on revaluation	(11,460)	–	–	–	–	–	(11,460)
As at 31 December 2018 and 1 January 2019	**–**	**66,314**	**19,929**	**78,730**	**12,905**	**–**	**177,878**
Charge for the year	**16,116**	**23,819**	**613**	**6,749**	**570**	**–**	**47,867**
Written back on disposal	**–**	**(50)**	**–**	**(200)**	**(210)**	**–**	**(460)**
Written back on written off	**–**	**–**	**(262)**	**(1,161)**	**(75)**	**–**	**(1,498)**
Eliminated on revaluation	**(16,116)**	**–**	**–**	**–**	**–**	**–**	**(16,116)**
As at 31 December 2019	**–**	**90,083**	**20,280**	**84,118**	**13,190**	**–**	**207,671**
Carrying value:							
As at 31 December 2019	**719,935**	**20,530**	**5,974**	**35,798**	**3,331**	**18,538**	**804,106**
As at 31 December 2018	527,106	32,181	6,625	26,991	3,441	164,610	760,954

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) For the year ended 31 December 2019, the use of certain properties with a total carrying amount and fair value of RMB17,470,000 (2018: RMB265,177,000) have changed to investment property purposes, as evidenced by the end of self-occupation for office use and by the entering into by the Group of long term lease agreements with tenants and hence these properties were transferred to investment properties.

(b) The fair value of the Group's land and buildings in the PRC at 31 December 2019 and 2018 were with reference to valuation carried out by qualified valuers from CBRE Limited, an independent firm of chartered surveyors.

The valuations were carried out in accordance with HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors. The revaluation surplus net of applicable deferred taxes was credited to properties revaluation reserve.

Had the revalued land and buildings been measured at historical cost less accumulated depreciation, the carrying values of the Group as at 31 December 2019 would have been RMB417,903,000 (2018: RMB287,858,000).

(c) The fair value of the Group's land and buildings is a level 3 recurring fair value measurements using significant unobservable inputs. During the years, there were no transfers of fair value measurements between level 1 and level 2, and no transfers into or out of level 3. A reconciliation of the opening and closing fair value balance is provided below.

	2019 RMB'000	2018 RMB'000
At beginning of year	**527,106**	714,232
Depreciation charge	**(16,116)**	(11,816)
Transfer from construction in progress	**154,385**	44,604
Transfer to investment properties	**(17,470)**	(265,177)
Revaluation gain included in other comprehensive income	**72,030**	45,263
At end of year	**719,935**	527,106

There were no changes to the valuation techniques during the year.

For the Group's land and buildings in the PRC as at 31 December 2019 and 2018, the valuation of the leasehold land and buildings was determined using depreciated replacement cost approach, a weight of income capitalisation approach and income approach — discounted cash flow approach, a weight of direct comparison approach and income approach — discounted cash flow approach and direct comparison approach.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(c) (Continued)

For the buildings valued using the depreciated replacement cost approach, the fair value is based on estimated new replacement cost of the buildings and other site works from which adjustments are then made to account for age, condition, and functional obsolescence, while taking into account the site formation cost and those public utilities connection charges to the properties. These adjustments are based on unobservable inputs. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of buildings.

For the land and buildings valued using the income approach — discounted cash flow approach, fair value is based on assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of net cash flows on a property interest. A market-derived discount rate is applied to the projected net cash flow in order to establish the present value of the income stream associated with the asset.

For the land and buildings valued using the income capitalisation approach, the fair value is based on rental income derived from the existing leases with due allowance for the revisionary income potential of the leases, which are then capitalised into the value at appropriate rates. The key inputs are capitalisation rates and monthly rent using direct market comparables.

For the land and buildings valued using a weight of income capitalisation approach and income approach — discounted cash flow approach, a suitable weighting has been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is capitalisation rate, discount rate, average market rent growth rate and market rent.

For the land and buildings valued using a weight of direct comparison approach and income approach — discounted cash flow approach, a suitable weighting has been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is price per square meter.

For the buildings valued using the direct comparison approach, the fair value is based on prices for recent market transactions in similar properties and adjusted to reflect the conditions and locations of the Group's properties. The most significant input into this valuation approach is price per square feet and taking into account of time of transaction, location and other individual factors such as size of property, age of property, site view and building quality, etc..

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(c) (Continued)

Information about fair value measurements using significant unobservable inputs (Level 3) is provided below:

	Description	Fair value (RMB'000) 2019	Fair value (RMB'000) 2018	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs 2019	Range of unobservable inputs 2018	Relationship of unobservable inputs to fair value
i)	Buildings in the PRC	**145,576**	148,959	Depreciated replacement cost approach	Estimated cost of construction sq.m, taking into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use	**RMB6,000/sq.m**	RMB6,300/sq.m	Higher the estimated cost of construction per sq.m will result in correspondingly higher fair value
					Age adjustment on the cost of buildings, taking into account of remaining useful life of buildings	**22%**	22%	Higher the rate of age adjustment on the cost of buildings will result in correspondingly lower fair value
ii)	Leasehold land and buildings in the PRC	**267,556**	291,405	Income capitalisation approach	Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation	**5.5%**	5.75%	The higher the capitalisation rate, the lower the fair value
				Income approach — discounted cash flow approach	Average market rent per sq.m, taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB27/sq.m to RMB60/sq.m**	RMB27/sq.m to RMB59/sq.m	The higher the average market rent, the higher the fair value
					Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**8.75%**	9%	The higher the discount rate, the lower the fair value
					Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties	**4.6%**	4.6%	The higher the rental growth rate, the higher the fair value
iii)	Leasehold land and buildings in the PRC	**25,328**	26,772	Income approach — discounted cash flow approach	Average market rent per sq.m, taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB70/sq.m**	RMB71/sq.m	The higher the average market rent, the higher the fair value
					Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**8.5%**	8.50%	The higher the discount rate, the lower the fair value
					Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties	**5%**	5%	The higher the rental growth rate, the higher the fair value

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(c) (Continued)

Description	Fair value (RMB'000) 2019	Fair value (RMB'000) 2018	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs 2019	Range of unobservable inputs 2018	Relationship of unobservable inputs to fair value
iii) Leasehold land and buildings in the PRC (Continued)			Direct comparison approach	Price per sq.m, using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**RMB12,200/sq.m**	RMB13,000/sq.m	Higher the price per sq.m will result in correspondingly higher fair value
iv) Buildings in the PRC	**42,500**	42,500	Direct comparison approach	Price per sq.m, using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**RMB8,000/sq.m**	RMB8,000/sq.m	Higher the price per sq.m will result in correspondingly higher fair value
v) Leasehold land and buildings in the PRC	**N/A***	17,470	Income capitalisation approach	Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation	**N/A***	6.25%	The higher the capitalisation rate, the lower the fair value
			Income approach – discounted cash flow approach	Average market rent per sq.m, taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**N/A***	RMB56/sq.m to RMB81/sq.m	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**N/A***	10.5%	The higher the discount rate, the lower the fair value
				Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties	**N/A***	4.2%	The higher the rental growth rate, the higher the fair value
vi) Leasehold land and buildings in the PRC	**238,975**	N/A#	Income capitalisation approach	Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation	**6.25%**	N/A#	The higher the capitalisation rate, the lower the fair value
			Income approach – discounted cash flow approach	Average market rent per sq.m, taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB30/sq.m**	N/A#	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**9.75%**	N/A#	The higher the discount rate, the lower the fair value
				Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties	**4.6%**	N/A#	The higher the rental growth rate, the higher the fair value

* The building was transferred from property, plant and equipment to investment properties during the year.

\# The building was transferred from construction in progress to property, plant and equipment during the year.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(d) As at 31 December 2019, the Group had pledged the land and buildings with total carrying values of RMB342,761,000 (2018: RMB224,971,000) to secure banking facilities granted to the Group. Accordingly, land and buildings of the Group with carrying amount of RMB342,761,000 (2018: RMB224,971,000) were not freely transferable.

(e) An analysis of gross carrying amounts of the Group's property, plant and equipment:

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Group							
At valuation	**719,935**	**—**	**—**	**—**	**—**	**—**	**719,935**
At cost	**—**	**110,613**	**26,254**	**119,916**	**16,521**	**18,538**	**291,842**
As at 31 December 2019	**719,935**	**110,613**	**26,254**	**119,916**	**16,521**	**18,538**	**1,011,777**
At valuation	527,106	—	—	—	—	—	527,106
At cost	—	98,495	26,554	105,721	16,346	164,610	411,726
As at 31 December 2018	527,106	98,495	26,554	105,721	16,346	164,610	938,832

15. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Carrying amount, at fair values		
As at 31 December 2018	**2,044,931**	1,708,894
Initial adoption of HKFRS 16 (Note (c))	**10,931**	—
As at 1 January 2019	**2,055,862**	1,708,894
Addition	**20,289**	—
Transfer from property, plant and equipment (Note (b))	**17,470**	265,177
Transfer from property held for sale (Note (a))	**869**	59,452
Increase in fair value	**17,718**	11,408
At end of year	**2,112,208**	2,044,931

Notes:

(a) During the year ended 31 December 2019, the use of certain properties with a total carrying amount of RMB649,000 (2018: RMB42,285,000) have changed to investment property purposes, as evidenced by the entering into by the Group of long term lease agreements with tenants. Accordingly, these properties were transferred from properties held for sale to investment properties and fair value gain of RMB220,000 (2018: RMB17,167,000) was recognised in profit or loss at the date of transfer. The leases were commenced during the year.

(b) For the year ended 31 December 2019, the use of certain properties with a total carrying amount of RMB17,470,000 (2018: RMB265,177,000) have changed to investment property purposes, as evidenced by the end of self-occupation for office use by the Group, and by the entering into by the Group of long term lease agreements with tenants and hence these properties were transferred from property, plant and equipment. As at the date of change of use, the carrying amount of these properties approximate their fair value.

(c) As at 1 January 2019, with the adoption of HKFRS 16, the land portion of investment properties previously classified as prepaid land lease with a fair value of RMB10,931,000 are reclassified to investment properties. The fair value gain of RMB1,323,000 arising from the revaluation of the land portion from its carrying amount to its fair value as at the date of reclassification was recognised in properties revaluation reserves as at 1 January 2019.

(d) Pursuant to the Shenzhen Special Economic Zone High-Tech Industrial Park Vacant Factories Adjustments Management Measures ("深圳經濟特區高新技術產業園區協議類空置廠房調劑管理辦法") Condition No.3, when the owner occupied not less than 50% of the gross floor area of the subject property, they become qualified to submit written applications to administrative authorities of High-Tech Industrial Park to lease the remaining portions of the property to third parties, which the maximum gross floor area of the subject property can be leased to third parties would then be 50%. A building located in Shenzhen, PRC, is subject to these measures and the maximum area that can be leased to third parties is 32,140 sq.m and the carrying amount of the investment property with such restriction involved is RMB51,115,000 as at 31 December 2019 (2018: RMB48,945,000).

The fair value of the Group's investment properties in the PRC at 31 December 2019 and 2018 were with reference to valuation carried out by qualified valuers from CBRE Limited, an independent firm of chartered surveyors. The valuations were carried out in accordance with HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors.

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(d) (Continued)

The fair value of investments properties is a level 3 recurring fair value measurements using significant unobservable inputs. During the years, there were no transfers of fair value measurements between level 1 and level 2, and no transfers into or out of level 3.

There were no changes to the valuation techniques during the year.

For the Group's investment properties in the PRC as at 31 December 2019 and 2018, the valuation was determined using direct comparison approach, depreciated replacement cost approach, a weight of income capitalisation approach and income approach — discounted cash flow approach and a weight of direct comparison approach and income approach — discounted cash flow approach.

For the investment properties using the direct comparison approach, the fair value is based on prices for recent market transactions in similar properties and adjusted to reflect the conditions and locations of the Group's properties. The most significant input into this valuation approach is price per square feet and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc..

For the investment properties using the depreciated replacement cost approach, the fair value is based on estimated new replacement cost of the buildings and other site works from which adjustments are then made to account for age, condition, and functional obsolescence, while taking into account the site formation cost and those public utilities connection charges to the properties. These adjustments are based on unobservable inputs. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of buildings.

For the investment properties using the income capitalisation approach, the fair value is based on rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates. The key inputs are capitalisation rate and monthly rent using direct market comparables.

For the investment properties using the income approach — discounted cash flow approach, fair value is based on assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of net cash flows on a property interest. A market-derived discount rate is applied to the projected net cash flow in order to establish the present value of the income stream associated with the asset. The key inputs are average market rent per square meter and discount rate.

For the investment properties using a weight of direct comparison approach and income approach — the discounted cash flow approach, a suitable weighting have been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is price per square meter using market direct comparables.

For the investment properties using a weight of income capitalisation approach and income approach — the discounted cash flow approach, a suitable weighting have been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input are capitalisation rate, discount rate, average market rental growth rate and market rent.

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(d) (Continued)

Information about fair value measurements using significant unobservable inputs (Level 3) is provided below:

Description	Fair value (RMB'000) 2019	2018	Valuation technique(s)	Significant unobservable inputs	Range of unobservable input 2019	2018	Relationship of unobservable inputs to fair value
i) Investment properties in the PRC	**31,000**	31,400	Direct comparison approach	Price per sq.m, using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**RMB26,900/sq.m**	RMB27,300/sq.m	Higher the price per sq.m will result in correspondingly higher fair value
ii) Investment properties in the PRC	**125,765**	129,085	Depreciated replacement cost approach	Estimated cost of construction per sq.m, taking into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use	**RMB6,000/sq.m**	RMB6,300/sq.m	Higher the estimated cost of construction per sq.m will result in correspondingly higher fair value
				Age adjustment on the cost of buildings, taking into account of remaining useful life of buildings	**22%**	22%	Higher the rate of age adjustment on the cost of buildings will result in correspondingly lower fair value
iii) Investment properties in the PRC	**876,444**	837,573	Income capitalisation approach	Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation	**5.5%**	5.75%	The higher the capitalisation rate, the lower the fair value
			Income approach – discounted cash flow method	Average market rent per sq.m, taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB27/sq.m to RMB60/sq.m**	RMB27/sq.m to RMB59/sq.m	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**8.75%**	9%	The higher the discount rate, the lower the fair value
				Average market rental growth rate,taking into account of annual market rental income growth rate of comparable properties	**4.6%**	4.6%	The higher the average market growth rate, the higher the fair value
iv) Investment properties in the PRC	**715,730**	732,803	Income approach – discounted cash flow approach	Average market rent per sq.m, taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB70/sq.m**	RMB71/sq.m	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**8.5%**	5.5%	The higher the discount rate, the lower the fair value
				Average market rental growth rate,taking into account annual market rental income growth rate of comparable properties	**5%**	5%	The higher the average market rental growth rate, the higher the fair value

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(d) (Continued)

Description	Fair value (RMB'000) 2019	Fair value (RMB'000) 2018	Valuation technique(s)	Significant unobservable inputs	Range of unobservable input 2019	Range of unobservable input 2018	Relationship of unobservable inputs to fair value
iv) Investment properties in the PRC (Continued)			Direct comparison approach	Price per sq.m, using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**Office premises: RMB6,300/sq.m** **Retail premises: RMB6,300/sq.m to RMB13,000/sq.m**	Office premises: RMB6,400/sq.m Retail premises: RMB6,400/sq.m to RMB13,000/sq.m.	Higher the price per sq.m will result in correspondingly higher fair value
v) Investment properties in the PRC	**21,269**	20,540	Direct comparison approach	Price per sq.m, using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**Office premises: RMB8,400/sq.m**	Office premises: RMB8,300/sq.m	Higher the price per sq.m will result in correspondingly higher fair value
vi) Investment properties in the PRC	**342,000**	293,530	Income capitalisation approach	Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation	**6.25%**	6.25%	The higher the capitalisation rate, the lower the fair value
			Income approach – discounted cash flow method	Average market rent per sq.m, taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB63/sq.m to RMB77/sq.m**	RMB62/sq.m to RMB74/sq.m	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**10.25%**	10.5%	The higher the discount rate, the lower the fair value
				Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties	**6.5%**	6.5%	The higher the average market growth rate, the higher the fair value

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

(e) All investment properties held by the Group were located in the PRC and held under medium term leases. All property interests held under operating leases are classified and accounted for as investment property.

(f) As at 31 December 2019, the Group had pledged investment properties with total carrying values of RMB1,613,041,000 (2018: RMB1,494,471,000), to secure general banking facilities granted to the Group. Accordingly, the investment properties of the Group with carrying value of RMB1,613,041,000 (2018: RMB1,494,471,000) are not freely transferable.

16. LEASES

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

The Group lease certain of its office properties under operating lease arrangements. Lease for the properties are negotiated for terms ranging from one to five years.

Right-of-use assets

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

	Prepaid land lease payments (Note) RMB'000	Lease contracts RMB'000	Total RMB'000
At 31 December 2018	—	—	—
Initial adoption of HKFRS16 (Note 2(a)(i))	33,929	1,263	35,192
At 1 January 2019	**33,929**	**1,263**	**35,192**
Addition	**—**	**64,368**	**64,368**
Depreciation charges	**(784)**	**(5,081)**	**(5,865)**
As at 31 December 2019	**33,145**	**60,550**	**93,695**

Note:

All the land was acquired at a concessionary discount on land premium and is not freely transferable unless, among others, additional premium, if any, is paid and government approval is obtained.

16. LEASES (CONTINUED)

Lease Liabilities

Movement of the Group's leases liabilities is analysed as follows:

	2019 RMB'000
At 1 January 2019 (Note 2(a)(i))	**1,263**
Additions	**64,368**
Interest expense	**869**
Lease payments	**(2,639)**
As at 31 December 2019	**63,861**

Future lease payments are due as follows:

	Minimum lease payments 31 December 2019 RMB'000	Interest 31 December 2019 RMB'000	Present value 31 December 2019 RMB'000
Not later than one year	**11,859**	**(3,044)**	**8,815**
Later than one year and not later than five years	**14,707**	**(2,470)**	**12,237**
Later than five years	**46,405**	**(3,596)**	**42,809**
	72,971	**(9,110)**	**63,861**

	Minimum lease payments 1 January 2019 (Note) RMB'000	Interest 1 January 2019 (Note) RMB'000	Present value 1 January 2019 (Note) RMB'000
Not later than one year	801	(41)	760
Later than one year and not later than five years	511	(8)	503
	1,312	(49)	1,263

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application is recognised as at 1 January 2019, to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. See note 2(a)(i) for further details about transition.

16. LEASES (CONTINUED)

Lease Liabilities (Continued)

The present value of future lease payments of the Group's leases are analysed as:

	2019 RMB'000
Current	8,815
Non-current	55,046
	63,861

As lessee

As at 31 December 2018, the Group lease certain of its office properties under operating lease arrangements. Lease for the properties are negotiated for terms ranging from one to five years.

	2018 RMB'000
Within one year	3,007
More than one year but no later than five years	578
	3,585

Operating leases — lessor

At the end of reporting period, the Group's total future minimum lease receivables under non-cancellable operating lease are as follows:

	2019 RMB'000	2018 RMB'000
Not later than one year	130,869	158,836
Later than one year and not later than two years	61,814	88,869
Later than two years and not later than three years	22,811	30,905
Later than three years and not later than four years	10,942	12,506
Later than four years and not later than five years	8,597	7,344
Later than five years	6,683	11,647
	241,716	310,107

17. PREPAID LAND LEASE PAYMENTS

	2019 RMB'000	2018 RMB'000
Opening balance	**43,537**	44,553
Initial application of HKFRS 16 (Note 2(a)(i))	**(43,537)**	–
Amortisation	**–**	(1,016)
Ending balance	**–**	43,537
Represented by:		
Current portion	**–**	1,016
Non-current portion	**–**	42,521
	–	43,537

All the land as at 31 December 2018 was acquired at a concessionary discount on land premium and is not freely transferable unless, among others, additional premium, if any, is paid and government approval is obtained. The analysis by location is as below:

	2018 RMB'000
Hangzhou, Zhejiang, the PRC	7,438
Shenzhen, Guangdong, the PRC	4,384
Nantong, Jiangsu, the PRC	31,715

Upon the adoption of HKFRS 16 on 1 January 2019 (Note 2(a)(i)), the carrying amounts of these assets were reclassified to right of use assets and investment properties.

18. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**44,785**	29,797
Work-in-progress	**18,856**	7,402
Finished goods	**8,909**	6,058
	72,550	43,257
Less: Allowance for inventories	**(1,316)**	(5,956)
	71,234	37,301

The cost of inventories recognised as an expense during the reporting period was RMB1,107,235,000 (2018: RMB1,151,357,000), of which RMB4,640,000 (2018: Net reversal of write-off of inventories amounted to RMB1,092,000) was in respect of net reversal of write-off of inventories made in prior years.

19. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

All properties under development and held for sale are located in the PRC.

As at 31 December 2019, the properties under development and held for sale with carrying amount of RMB623,257,000 and RMB1,441,438,000 (2018: RMB771,506,000 and RMB964,455,000) respectively were pledged as collateral for the Group's borrowings (Note 26).

As at 31 December 2019, properties under development amounting to approximate RMB623,257,000 (2018: RMB302,041,000) were not expected to be realised within twelve months from the end of the reporting period.

20. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables (Notes (a) and (b))	**295,607**	131,211
Bills receivable (Note (c))	**115,357**	34,115
Total	**410,964**	165,326

Note:

Goods sold to customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranged from 30 days to 90 days, extending up to 180 days for major customers. Each customer has a maximum credit limit. The Group and the Company recognised impairment loss based on the accounting policy stated in Note 4(h)(ii).

(a) The aging analysis of gross trade receivables at the end of reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
0 to 90 days	**275,362**	123,235
91 to 180 days	**11,659**	7,199
181 to 365 days	**146**	682
Over 1 year	**8,440**	95
Gross trade receivables	**295,607**	131,211

(b) The Group has assessed credit risk over the trade receivables as presented in Note 36(a).

(c) Bills receivable are with maturity of less than a year. At 31 December 2019, the Group endorsed certain bills receivable in the PRC (the "Endorsed Bills") with a carrying amount of RMB113,941,000 (2018: RMB31,818,000) to certain of its suppliers in order to settle the trade payables due to such suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amount of the Endorsed Bills and the associated trade payables settled. Subsequent to the endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB113,941,000 (2018: RMB31,818,000) as at 31 December 2019.

(d) As at 31 December 2019, the Group discounted certain bills receivable (the "Derecognised Discounted Bills") with a carrying amount of Nil (2018: RMB210,475,000) by the issuing bank in the PRC. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Discounted Bills have a right of recourse against the Group if the bills default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Discounted Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Discounted Bills and the undiscounted cash flows to repurchase these Derecognised Discounted Bills is equal to their carrying amounts of Nil (2018: RMB210,475,000). In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Discounted Bills are not significant. All Derecognised Discounted Bills have a maturity period from six months to a year.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Discounted Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

Trade debtors and bills receivables are due within 30 days from the day of billing. Further details on the group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 36(a).

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS/CONTRACT COSTS

	2019 RMB'000	2018 RMB'000
Other receivables (Note (a))	**10,703**	12,102
Non-trade deposits	**8,596**	8,605
Advances to suppliers (Note (b))	**210,307**	166,185
Prepayments (Note (c))	**90,290**	72,740
	319,896	259,632
Contract costs (Note (d))	**1,780**	3,170

The above balances are interest-free and are not secured with collateral. None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there were no recent history or default.

No ECLs are provided for the financial assets included in the above balances as the Group considered the credit risks are immaterial. See Note 36(a) for details.

Notes:

(a) The amount mainly comprises the receivables from tenants of RMB5,075,000 (2018: RMB5,984,000) and fund advances to staff for daily operation of RMB4,577,000 (2018: RMB5,289,000).

(b) Advances to suppliers are mainly related to electronic products and accessories business. These suppliers are privately-owned companies located in the PRC that engaged in manufacturing of mobile phones or distribution of mobile phones and its accessories. Among the balance of RMB210,307,000 (2018: RMB166,185,000), RMB106,242,000 (2018: RMB52,636,000) was advanced to mobile phone manufacturers. The remaining balances amounting to RMB104,065,000 (2018: RMB113,549,000) are advances to mobile phone and electronic components suppliers who are manufacturers and distributors.

(c) The amount mainly comprises the prepayments for construction project costs to constructors of RMB62,861,000 (2018: RMB60,890,000) and is not expected to be realised within twelve months from the end of the reporting period.

(d) The Group had paid commission to properties agents in PRC in advance after entering into pre-sales agreements and receiving deposits from customers. These payments are refundable to the Group if the customers have not completed the purchase of properties. The commission paid are expected to be recognised as expense in profit or loss within twelve months from the end of reporting period at the point in time that the properties are ready for transfer and the control transferred to customers.

22. CASH AND BANK BALANCES

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**1,196,714**	1,031,035
Restricted bank deposit	**84,919**	48,918
	1,281,633	1,079,953
Less:		
Pledged bank balances (Note (a))	**(67)**	(189)
Restricted bank deposit for loan (Note (b))	**(10,848)**	(40,312)
Restricted bank deposit for construction projects (Note (c))	**(74,071)**	(8,606)
	(84,986)	(49,107)
Cash and cash equivalents	**1,196,647**	1,030,846

Notes:

(a) Pledged bank balances represent deposits placed in banks as a reserve for any compensation of the damages during the construction.

(b) Restricted bank deposit of RMB10,848,000 (2018: RMB40,312,000) represents the deposits pledged to banks to secure short-term loan facilities.

(c) Restricted bank deposit of RMB74,071,000 (2018: RMB8,606,000) represents the deposits restricted in use in order to secure the Group's obligations in relation to specific construction projects which are required by the banks and local authority.

(d) Cash at banks earns interest at floating rates based on daily bank deposit rates.

(e) At the end of reporting period, majority of the bank balances and cash of the Group are denominated in RMB. RMB is not freely convertible into other currencies. Under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group are permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

23. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**1,000,062**	740,185
Bills payable	**100,238**	1,500
	1,100,300	741,685

23. TRADE AND BILLS PAYABLES (CONTINUED)

The ageing analysis of trade payables, based on invoice date, as of the end of reporting period is as follows:

	2019 RMB'000	2018 RMB'000
0 to 90 days	**775,775**	636,568
91 to 180 days	**59,533**	35,693
181 to 365 days	**16,996**	13,441
Over 1 year	**147,758**	54,483
	1,000,062	740,185

At the end of reporting period, the Group has endorsed certain bills receivable with recourse to suppliers and the carrying amount of liabilities of RMB113,941,000 (2018: RMB31,818,000) relating to these bills receivable (Note 20(c)) continue to be recognised as trade payables.

24. OTHER PAYABLES, ACCRUALS AND RECEIPTS IN ADVANCE

	2019 RMB'000	2018 RMB'000
Construction and other payables	**168,393**	152,785
Receipts in advance	**31,719**	24,019
Government grants (Note)	**122,990**	114,294
Accruals	**17,560**	14,272
	340,662	305,370
Less: Non-current portion		
Government grants (Note)	**(10,487)**	—
Current portion	**330,175**	305,370

Note: The balance represents grants obtained from the PRC government in relation to the development of high-technology products and purchase of specified property, plant and equipment for development of specified project by the Group. At the end of reporting period, the conditions required by the relevant government subsidy schemes have not been fully fulfilled and as such, the related income has not yet been recognised. As at 31 December 2019, the government grants amounting to approximately RMB10,487,000 were not expected to be realised within twelve months from the end of the reporting period.

25. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities arising from:		
Manufacturing and trading of special computer	**23,575**	27,105
Properties development	**81,367**	167,929
	104,942	195,034

Typical payment terms which impact on the amount of contract liabilities are as follows:

Manufacturing and trading of special computer
The Group requests certain new customers to place deposit on acceptance of the order, with the remainder of the consideration at the delivery of the finished goods.

Properties development
The Group takes deposits for the selling price of residential units stated in the sales and purchase agreement before the transfer of residential units.

Movements in contract liabilities

	2019 RMB'000	2018 RMB'000
Balance as at 1 January	**195,034**	66,449
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(167,143)**	(367,110)
Increase in contract liabilities as a result of receiving deposits from customers	**77,051**	495,695
Balance at 31 December	**104,942**	195,034

Among the balance of RMB195,034,000 as at 1 January 2019, RMB167,143,000 is recognised as revenue during the year 2019. The amount received and included in the balance as at 31 December 2019 is expected to be recognised as income within one year.

26. BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Secured bank borrowings	**2,541,243**	2,377,577

At the end of reporting period, total bank borrowings were scheduled to be repaid as follows:

	2019 RMB'000	2018 RMB'000
On demand or within one year	**781,225**	1,268,081
After one year but within two years	**595,400**	79,478
After two years but within five years	**429,618**	245,018
More than five years	**735,000**	785,000
	1,760,018	1,109,496
	2,541,243	2,377,577

The Group has bank borrowings with fixed rate and floating rates which carry prevailing market interest rates, as follows:

	2019		2018	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings				
Bank borrowings	**N/A**	**–**	3.65%	89,000
Floating rate borrowings				
Bank borrowings	**4.36%–6.62%**	**2,541,243**	4.35%–6.37%	2,288,577

At 31 December 2019, the secured bank borrowings with carrying amount of RMB1,421,743,000 (2018: RMB1,219,077,000) and general banking facilities are secured by way of charge over certain assets, including land and buildings, investment properties, prepaid land lease payments and construction in progress, together with the personal guarantees given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company, his spouse and the ultimate holding company.

26. BANK BORROWINGS (CONTINUED)

The remaining secured bank borrowings amounting to RMB1,119,500,000 (2018: RMB1,158,500,000) are secured by way of personal guarantees given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company, his spouse and the ultimate holding company.

As at 31 December 2019, the Group's floating-rate bank borrowings carry interest at rates ranging from 4.36% to 6.62% based on the People's Bank of China's corresponding year's benchmark interest rate plus 10%–30% and National Inter-bank Funding Center's loan prime rate plus 0.21%–20%.

At the end of reporting period, the Group had available undrawn committed borrowing facilities of RMB1,281,256,000 (2018: RMB728,873,000) in respect of which all conditions precedent had been met.

27. DEFERRED TAXATION

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the reporting period are as follows:

	Capitalised interests on borrowings	Unrealised profit on inter company transactions	Revaluation of properties	Allowance for impairment losses	Temporary difference on recognition of expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	31,876	(967)	301,532	(14,945)	(7,295)	310,201
Charged/(credited) to profit or loss	6,831	(1,338)	7,143	158	–	12,794
Charged to other comprehensive income	–	–	11,316	–	–	11,316
At 31 December 2018 and 1 January 2019	**38,707**	**(2,305)**	**319,991**	**(14,787)**	**(7,295)**	**334,311**
Charged/(credited) to profit or loss	**2,803**	**(805)**	**4,485**	**(695)**	**–**	**5,788**
Charged to other comprehensive income	**–**	**–**	**18,007**	**–**	**–**	**18,007**
At 31 December 2019	**41,510**	**(3,110)**	**342,483**	**(15,482)**	**(7,295)**	**358,106**

Deferred tax balances are presented in the consolidated statement of financial position as follows:

	2019	2018
	RMB'000	RMB'000
Deferred tax assets	**(25,846)**	(24,387)
Deferred tax liabilities	**383,952**	358,698
	358,106	334,311

The Group has estimated unused tax losses arising in the PRC of RMB100,479,000 (2018: RMB90,243,000) that can be carried forward for five years for offsetting against its future taxable profits.

27. DEFERRED TAXATION (CONTINUED)

The unused tax losses arising in the PRC will expire as follows:

	2019 RMB'000	2018 RMB'000
Year of expiry		
2019	–	22,445
2020	5,687	6,097
2021	2,652	6,870
2022	6,828	37,339
2023	31,853	17,492
2024	53,459	–
	100,479	90,243

No deferred tax assets have been recognised for the unused tax losses as the availability of future taxable profits to utilise the temporary differences is not probable.

28. SHARE CAPITAL

	Number of shares	RMB'000
Registered, issued and fully paid		
At 1 January 2018, 31 December 2018 and 2019	1,233,144,000	123,314
Of which:		
Domestic shares of RMB0.1 each	924,792,000	92,479
Overseas listed H Shares of RMB0.1 each	308,352,000	30,835
	1,233,144,000	123,314

Domestic shares and overseas listed H shares are both ordinary shares of the Company. However, overseas listed H shares may only be subscribed for by, and traded in Hong Kong dollars between legal and natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC whereas domestic shares may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 44.

(b) Company

	Share premium RMB'000 (Note (c)(i))	Statutory surplus reserve RMB'000 (Note (c)(ii))	Properties revaluation reserve RMB'000 (Note (c)(iii))	Translation reserve RMB'000 (Note (c)(iv))	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	8,586	69,260	412,717	1,224	1,314,894	1,806,681
Total comprehensive income for the year, net of tax	–	–	31,407	(317)	130,540	161,630
At 31 December 2018 and 1 January 2019	**8,586**	**69,260**	**444,124**	**907**	**1,445,434**	**1,968,311**
Total comprehensive loss for the year, net of tax	**–**	**–**	**(11,668)**	**(171)**	**(1,731)**	**(13,570)**
At 31 December 2019	**8,586**	**69,260**	**432,456**	**736**	**1,443,703**	**1,954,741**

(c) Nature and purpose of reserves

(i) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share.

(ii) Statutory surplus reserve

In accordance with the PRC Company Law, the Company and its PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies). The statutory surplus reserve is non-distributable and can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(iii) Properties revaluation reserve

This has been set up and is dealt with in accordance with the accounting policy in Note 4(c).

(iv) Translation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. This reserve is dealt with in accordance with the accounting policy in Note 4(m).

30. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	2019 RMB'000	2018 RMB'000
Non-current assets		
Property, plant and equipment	**498,296**	543,009
Investment properties	**1,033,209**	998,056
Right-of-use assets	**59,651**	—
Prepaid land lease payments	**—**	4,258
Investments in subsidiaries	**1,093,193**	1,079,743
Deferred tax assets	**39**	748
Total non-current assets	**2,684,388**	2,625,814
Current assets		
Inventories	**8,052**	44,726
Prepaid land lease payments	**—**	126
Trade receivables	**290,253**	130,178
Bills receivable	**30,492**	23,930
Other receivables, deposits and prepayments	**222,792**	178,954
Due from subsidiaries	**1,574,863**	1,291,549
Dividend receivable	**16,730**	—
Cash and bank balances	**1,017,486**	898,175
Total current assets	**3,160,668**	2,567,638
Current liabilities		
Trade payables	**381,873**	304,785
Bills payable	**100,238**	—
Contract liabilities	**15,530**	19,717
Other payables, accruals and receipts in advance	**250,648**	178,510
Due to related companies	**119**	217
Lease liabilities	**7,611**	—
Bank borrowings	**649,500**	1,183,500
Due to subsidiaries	**694,664**	276,982
Income tax payable	**14,645**	15,734
Total current liabilities	**2,114,828**	1,979,445
Net current assets	**1,045,840**	588,193
Total assets less current liabilities	**3,730,228**	3,214,007

30. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Bank borrowings		**1,405,000**	935,000
Other payables, accruals and receipts in advance		**10,487**	—
Lease liabilities		**53,193**	—
Deferred tax liabilities		**183,493**	187,382
Total non-current liabilities		**1,652,173**	1,122,382
NET ASSETS		**2,078,055**	2,091,625
CAPITAL AND RESERVES			
Share capital	28	**123,314**	123,314
Reserves	29(b)	**1,954,741**	1,968,311
TOTAL EQUITY		**2,078,055**	2,091,625

On behalf of the directors

Chen Zhi Lie	**Tso Cheng Shun**
Chairman	*Director*

31. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries, the business structure of which were corporations, as at 31 December 2019 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid up registered capital	Attributable equity interests held by the Company directly	Attributable equity interests held by the Company indirectly	Principal activities
深圳市研祥軟件技術有限公司 Shenzhen EVOC Software Technology Company Limited*	PRC	RMB6,000,000	100%	–	Investment holding
深圳市研祥新特科技有限公司 Shenzhen EVOC Xinteer Technology Company Limited*	PRC	RMB10,000,000	–	100%	Trading of electronic accessories
上海市研祥智能科技有限公司 Shanghai EVOC Intelligent Technology Company Limited*	PRC	RMB30,000,000	–	100%	Research, development, manufacture and distribution of special computer products
北京市研祥興業國際智能科技有限公司 Beijing EVOC Xingye International Technology Company Limited*	PRC	RMB30,000,000	100%	–	Research, development and distribution of special computer products
無錫深港國際服務外包產業發展有限公司 Wuxi SHIOC International Outsourcing Industry Development Company Limited*	PRC	RMB306,122,400	100%	–	Property development
昆山研祥智能科技有限公司 Kunshan EVOC Intelligent Technology Company Limited*	PRC	RMB100,000,000	90%	10%	Property development
浙江研祥智能科技有限公司 Zhejiang EVOC Intelligent Technology Company Limited*	PRC	RMB70,000,000	90%	10%	Property development
江蘇研祥智能科技有限公司 Jiangsu EVOC Intelligent Technology Company Limited*	PRC	RMB100,000,000	90%	10%	Property development

31. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid up registered capital	Attributable equity interests held by the Company directly	indirectly	Principal activities
南通研祥智能科技有限公司 Nantong EVOC Intelligent Technology Company Limited*	PRC	RMB50,000,000	90%	10%	Property development
深圳市研祥特種計算機工業有限公司 Shenzhen EVOC Special Computer Industry Company Limited*	PRC	RMB100,000,000	–	100%	Research, development and distribution of special computer products
深圳市研祥通軟件有限公司 Shenzhen EVOC STONE Software Company Limited*	PRC	RMB10,000,000	100%	–	Research, development, manufacture and distribution of special computer software products
研祥智慧物聯科技有限公司（前稱：深圳市特種計算機軟件有限公司） EVOC Intelligent Logistic Technology Company Limited* (As previous name: Shenzhen Special Computer Software Company Limited*)	PRC	RMB50,000,000	100%	–	Research, development, manufacture and distribution of special computer software products
深圳市天之祥科技有限公司 Shenzhen Tianzhixiang Technology Company Limited*	PRC	RMB1,000,000	–	100%	Research, development and distribution of special computer products
南寧市研祥特種計算機軟件有限公司 Nanning Special Computer Software Company Limited*	PRC	RMB5,000,000	–	100%	Research, development, manufacture and distribution of special computer software products
香港研祥國際科技有限公司 Hong Kong EVOC International Technology Company Limited*	Hong Kong	HK$100,000	100%	–	Trading of electronic accessories

31. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid up registered capital	Attributable equity interests held by the Company directly	Attributable equity interests held by the Company indirectly	Principal activities
深圳市研祥集成電路設計有限公司 Shenzhen Integrated Circuit Design Company Limited*#	PRC	RMB10,000,000	–	100%	Research, development and distribution very large scale integration

* For identification purpose only
\# The Company was incorporated during the year

All subsidiaries established in the PRC are companies incorporated with limited liability.

The above table lists the subsidiaries of the Company, which, in the opinion of the directors, would have a comparatively significant impact on the results, assets, or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excess length.

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

32. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

	Bank borrowings (Note 26) RMB'000	Lease liabilities (Note 16) RMB'000
At 1 January 2019	2,377,577	1,263
Changes from cash flows:		
Repayment of bank borrowings	(1,616,045)	–
Proceeds from bank borrowings	1,779,711	–
Addition of new lease	–	64,368
Interest on lease liabilities	–	869
Repayment of principal portion of lease liabilities	–	(2,639)
Total changes from financing cash flows	163,666	62,598
At 31 December 2019	2,541,243	63,861

33. CAPITAL COMMITMENTS

	2019 RMB'000	2018 RMB'000
Contracted but not provided for:		
— Construction of buildings and properties under development	**677,908**	419,989

34. RELATED PARTY TRANSACTIONS

During the year, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship
深圳市共贏創小額貸款公司 Shenzhen Win-Win Creation Small Loan Co. Ltd.*	Owned by ultimate controlling shareholder and an executive director of the Company
無錫風水隆國際置業有限公司 Wuxi Fengshuilong International Real Estate Co. Ltd.*	Wholly owned by the spouse of ultimate controlling shareholder and an executive director of the Company
無錫風水隆物業管理有限公司 Wuxi Fengshuilong International Property Management Co. Ltd.*	Wholly owned by the spouse of ultimate controlling shareholder and an executive director of the Company
上海研祥旺客高科技有限公司 Shanghai EVOC Wangke High-Tech Co. Ltd.*	Wholly owned by ultimate controlling shareholder and an executive director of the Company
南寧研祥裝備科技有限公司 Nanning EVOC Equipment Technology Co. Ltd.*	Owned by ultimate controlling shareholder and an executive director of the Company
深圳市有祥創業投資有限公司 Shenzhen Youxiang Industrial Investment Co. Ltd.*	Owned by ultimate controlling shareholder and an executive director of the Company
深圳市歐范婦幼關愛用品有限公司 Shenzhen Oufan Women And Children Care Products Co. Ltd.*	Wholly owned by ultimate controlling shareholder and an executive director of the Company

* For identification purpose only

34. RELATED PARTY TRANSACTIONS (CONTINUED)

Other than as disclosed elsewhere in the consolidated financial statements, during the year and in the ordinary course of business, the Group had the following material transactions with related parties:

(a) The Group's bank borrowings are secured by, among others, corporate guarantees given by the ultimate holding company and personal guarantees given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company.

(b) Transactions with related parties

The Group entered into the following related party transactions during the year.

	2019 RMB'000	2018 RMB'000
Sales of goods		
南寧研祥裝備科技有限公司 Nanning EVOC Equipment Technology Co. Ltd.*	–	111
Rental income, management fee income and electricity fee income		
深圳市共贏創小額貸款公司 Shenzhen Win-Win Creation Small Loan Co. Ltd.*	71	41
深圳市有祥創業投資有限公司 Shenzhen Youxiang Industrial Investment Co. Ltd.*	171	–
深圳市研祥通訊終端技術有限公司 Shenzhen EVOC Communication Terminal Technology Co. Ltd.*	–	47
Rental expense		
上海研祥旺客高科技有限公司 Shanghai EVOC Wangke Hi-Tech Co. Ltd.*	690	1,035
南寧研祥裝備科技有限公司 Nanning EVOC Equipment Technology Co. Ltd.*	149	–
Management fee and electricity fee		
無錫風水隆國際置業有限公司 Wuxi Fengshuilong International Real Estate Co. Ltd.*	–	700
無錫風水隆物業管理有限公司 Wuxi Fengshuilong International Property Management Co. Ltd.*	965	–

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

	2019 RMB'000	2018 RMB'000
Amounts due from related parties		
上海研祥旺客高科技有限公司 Shanghai EVOC Wangke Hi-Tech Co. Ltd.*	48	192
無錫風水隆國際置業有限公司 Wuxi Fengshuilong International Real Estate Co. Ltd.*	–	3,408
無錫風水隆物業管理有限公司 Wuxi Fengshuilong International Property Management Co. Ltd.*	2,744	–
南寧研祥裝備科技有限公司 Nanning EVOC Equipment Technology Co. Ltd.*	39	1,428
Amounts due to related parties		
無錫風水隆物業管理有限公司 Wuxi Fengshuilong International Property Management Co. Ltd.*	61	–
無錫風水隆國際置業有限公司 Wuxi Fengshuilong International Real Estate Co. Ltd.*	–	397
深圳市有祥創業投資有限公司 Shenzhen Youxiang Industrial Investment Co. Ltd.*	41	–
深圳市共贏創小額貸款公司 Shenzhen Win-Win Creation Small Loan Co. Ltd.*	14	–
深圳市歐范婦幼關愛用品有限公司 Shenzhen Oufan Women And Children Care Products Co., Ltd.*	26	–

* For identification purpose only

Note: The amounts are unsecured, interest free and repayable on demand. As at 31 December 2019, there is no significant increase in credit risk since their initial recognition for the amounts due from related parties with and the provision for impairment were assessed to be immaterial.

(d) Compensation of key management personnel

The emoluments of directors and the senior management during the year were as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	2,015	1,616
Contributions to retirement benefits schemes	188	146
	2,203	1,762

The emoluments paid or payable to the directors and the senior management were within the following bands:

	2019 No. of Individuals	2018 No. of Individuals
Nil to HK$1,000,000	16	16

35. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is 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, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. For the purpose the Group defines net debts as total debt (which includes bank borrowings, trade payables, bills payable, other payables, accruals and receipts in advance, contract liabilities, amounts due to related companies and lease liabilities), less cash and bank balances. Equity comprises share capital and reserves, less unaccrued proposed dividends, if any.

The gearing ratio at the end of reporting period was as follows:

	2019 RMB'000	2018 RMB'000
Debt	**4,151,150**	3,620,063
Cash and bank balances	**(1,281,633)**	(1,079,953)
Net debt	**2,869,517**	2,540,110
Equity	**2,577,674**	2,259,344
Net debt to equity ratio	**111%**	112%

36. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivables, other receivables and cash and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In regard of trade receivables and bills receivables, the Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk at 66.5% and 95.1% (2018: 67.8% and 75.2%) of the total trade receivables was due from the Group's largest and five largest trade debtors respectively. These large trade debtors are privately-owned companies located in the PRC that are engaged in the distribution of mobile phones, telecommunication and information technology industries.

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

The Group applies the simplified approach to account for ECLs prescribed by HKFRS 9, which permit the use of the lifetime ECLs. The provision rates are based on days past due for grouping of various customer segments with similar loss patterns. The calculation reflects the probability-weighed outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. No ECLs are provided as the Group considered the credit risk are immaterial.

In respect of other receivables, the Group has applied the general approach to provide for ECLs of the financial assets measured at amortised cost including other receivables and non-trade deposits. The Group assessed that the credit standing of the debtors is good and tenor of such receivables is short. And of the deposits, in situation of a default, the Group might reduce the loss by negotiating settlement based on obtaining a right or use over lease assets. No ECLs were provided as it is assessed that the overall ECLs for above financial assets measured at amortised cost is immaterial. As at 31 December 2019, there is no significant increase in credit risk since their initial application for the financial assets included in other receivables and non-trade deposits and the provisions for impairment were assessed to be immaterial.

In respect of cash and bank balances, the credit risk is considered negligible as it is placed with reputable banks with high quality external credit ratings, these was no recent history of default of cash and cash equivalent from such financial institutions.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2019						
Trade payables	**1,000,062**	**1,000,062**	**1,000,062**	**–**	**–**	**–**
Bills payable	**100,238**	**100,238**	**100,238**	**–**	**–**	**–**
Other payables and accruals	**185,953**	**185,953**	**185,953**	**–**	**–**	**–**
Due to related companies	**142**	**142**	**142**	**–**	**–**	**–**
Bank borrowings	**2,541,243**	**3,360,184**	**862,156**	**731,931**	**623,822**	**1,142,275**
Lease liabilities	**63,861**	**72,971**	**11,859**	**14,707**	**43,921**	**2,484**
	3,891,499	**4,719,550**	**2,160,410**	**746,638**	**667,743**	**1,144,759**
2018						
Trade payables	740,185	740,185	740,185	–	–	–
Bills payable	1,500	1,500	1,500	–	–	–
Other payables and accruals	167,057	167,057	167,057	–	–	–
Due to a related company	397	397	397	–	–	–
Bank borrowings	2,377,577	3,167,149	1,377,410	150,678	426,492	1,212,569
	3,286,716	4,076,288	2,286,549	150,678	424,492	1,212,569

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile is monitored by management.

It is estimated that as at 31 December 2019, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year, and retained profits by RMB19,800,000 (2018: RMB19,200,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis is performed on the same basis for 2018.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk

The Group's main operations are in the PRC and have no significant exposure to any specific foreign currency.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2019 and 2018.

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2019 and 2018 may be categorised as follows:

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost		
— Trade receivables	295,607	131,211
— Bills receivables	115,357	34,115
— Other receivables and non-trade deposits	19,299	20,707
— Due from related companies	2,831	5,028
— Cash and cash equivalents	1,281,633	1,079,953
	1,714,727	1,271,014
Financial liabilities		
Financial liabilities measured at amortised cost		
— Trade payables	1,000,062	740,185
— Bills payable	100,238	1,500
— Other payables	185,953	167,057
— Due to related companies	142	397
— Bank borrowings	2,541,243	2,377,577
Lease liabilities	63,861	—
	3,891,499	3,286,716

38. SUBSEQUENT EVENTS

The outbreak of COVID-19 since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's business and operations. The Group's property presold activities in China have resumed but not yet returned to the normal level of operations due to ongoing quarantine enforcement measures and restrictions on movement of people and transportation. There is also disruption to the Group's properties construction and manufacturing and distribution of special company products. Management is closely monitoring the situation and is taking appropriate measures to minimise any potential disruption to the construction. As at the date of this report, COVID-19 has not resulted in material impact to the Group's financial position. Depending on the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report.

39. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 15 April 2020.

PARTICULARS OF PROPERTIES

Name and location of property	Location	Purpose	Approximate gross floor area (square metres)	Contract term	Interest attributable to Group (%)
Major properties in progress					
1. Nantong EVOC Intelligence Valley The development block located at East of Dasheng Road, West of Zilang College, Gangzha District, Nantong City, Jiangsu Province	Nantong	Industrial	143,314	2063	100
2. EVOC International Finance Center EVOC International Finance Center, Huaqiao Town, Kunshan City, Jiangsu Province	Jiangsu	Commercial and office	162,206	2052	100
3. Kunshan Dianshan Lake Project Hemashiwan Community, Dianshanhu Town, Kunshan City, Jiangsu Province	Kunshan	Commercial and business	131,931	2053	100
4. Kunshan Dianshan Lake Project Hemashiwan Community, Dianshanhu Town, Kunshan City, Jiangsu Province	Kunshan	Residential	88,170	2083	100

Name and location of property	Location	Purpose	Approximate gross floor area (square metres)	Contract term	Interest attributable to Group (%)
Major properties completed					
1. EVOC Building No. 31, Gaoxinzhong Si Road, Nanshan District, Shenzhen	Shenzhen	R&D office building and parking lot	61,306	2053	100
2. Tianxiang Building Unit Nos. 10B1 and 10B2, Level 10, Tianxiang Building, Tianan Cyber Park, Chegongmiao, Futian District, Shenzhen	Shenzhen	Plant	1,152	2038	100
3. Guangming High Profile Office Park, Guangming Hitech Park, Boan District, Shenzhen	Shenzhen	R&D office building, plant and apartment, parking lot	245,482	2058	100
4. 60 units in Fu'an Yayuan, Guanlan Street, Bao'an District. Shenzhen	Shenzhen	Residential use for staff quarters	5,311	2080	100
5. Wuxi SHIOC International Outsourcing Base Section A1 SHIOC International Section A1, Xishan District, Wuxi City, Jiangsu Province	Jiangsu	Commercial, office and apartment, parking lot	170,463	2044	100
6. Wuxi SHIOC International Outsourcing Base Section A2 SHIOC International Section A2, Xishan District, Wuxi City, Jiangsu Province	Jiangsu	Commercial	102,661	2044	100
7. EVOC City Plaza in Hangzhou A parcel of development land located at the Northwest Corner of Cross of Jianghong Road and Binkang Road, Bin Jiang District, Hangzhou City, Zhejiang Province	Zhejiang	Industrial	65,510	2062	100
8. Nantong EVOC Intelligence Valley (Phase 1) The development block located at East of Dasheng Road, West of Zilang College, Gangzha District, Nantong City, Jiangsu Province	Nantong	Industrial	72,800	2063	100

FINANCIAL HIGHLIGHTS

COMPARISON OF KEY FINANCIAL FIGURES

Financial year		2019	2018	2017	2016	2015
		Year ended 31 December				
Revenue	RMB'000	**1,688,153**	1,423,139	1,305,200	1,141,666	1,444,099
Gross profit	RMB'000	**463,199**	216,026	177,332	203,652	219,051
Gross margin	%	**27.4**	15.2	13.6	17.84	15.17
Profit for the year	RMB'000	**263,154**	156,940	35,481	269,058	229,721
Net margin	%	**15.6**	11	2.72	23.57	15.91
Basic earnings per share (Note)	RMB	**0.213**	0.127	0.029	0.218	0.186
Net cash generated from/(used in) operations	RMB'000	**125,174**	134,320	(195,913)	193,048	239,084
Trade receivables turnover	Days	**89**	42	56	12	33
Dividend per share	RMB	**—**	—	—	—	0.015

FINANCIAL POSITION

Financial year		2019	2018	2017	2016	2015
		Year ended 31 December				
Total Assets	RMB'000	**7,188,888**	6,255,690	5,591,708	4,694,454	4,220,481
Total Liabilities	RMB'000	**4,611,214**	3,996,346	3,523,349	2,675,997	2,476,372
Total Time Deposits and Cash and Cash Balances	RMB'000	**1,281,633**	1,079,953	681,100	426,562	418,671
Shareholders' Funds	RMB'000	**2,577,674**	2,259,344	2,068,359	2,018,457	1,744,109
Net Assets per Share	RMB	**2.09**	1.83	1.68	1.64	1.414

Note:

The calculation of basic earnings per share amounts is based on the profit attributable to owners of the Company for the year of RMB263,154,000 (2018: RMB156,940,000) and the 1,233,144,000 (2018: 1,233,144,000) ordinary shares in issue during the year.