MAXNERVA TECHNOLOGY SERVICES LIMITED
雲智匯科技服務有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 1037)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY AND HIGHLIGHTS

For the year ended 31 December 2019:

- Revenue increased by 32% to RMB431.0 million compared with RMB326.2 million for 2018.
- Net profit grew to RMB11.6 million compared with RMB1.4 million for 2018 mainly because of i) higher revenue due to stronger project execution; ii) a reduction in selling and distribution expenses; and iii) a significant decrease in the provision made for the impairment of the trade receivables during the reporting year.
- The Board does not recommend the payment of a final dividend.

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "**Board**") of Maxnerva Technology Services Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries ("**Group**" or "**we**") for the year ended 31 December 2019 together with comparative figures of the year ended 31 December 2018.

FINANCIAL REVIEW

Revenue and net profit increased 32% to RMB431.0 million (2018: RMB326.2 million) and 704% to RMB11.6 million (2018: RMB1.4 million) respectively. The rise in net profit was mainly because of i) higher revenue due to stronger project execution; ii) a reduction in selling and distribution expenses; and iii) a significant decrease in the provision made for the impairment of the trade receivables during the reporting year.

Inventory and Trade Receivable

As at 31 December 2019, there were approximately RMB30.7 million in inventory (2018: RMB24.8 million) and they are primarily the hardware and software products pending to be delivered to our customers. Inventory turnover for the reporting year fell to 29 days from 45 days as compared to 2018 mainly because we have hastened our project delivery schedules in the wake of growing business volume.

As at 31 December 2019, there were approximately RMB226.4 million in trade and lease receivables (2018: RMB231.1 million) which consisted of current and non-current portion of RMB198.0 million (2018: RMB196.6 million) and RMB28.4 million (2018: RMB34.4 million) respectively. Some of our projects have been structured as finance lease in which customers are eligible to pay in periodic instalments over a specific number of years. Trade and lease receivable turnover for the reporting year dropped to 194 days from 264 days as compared to 2018 solely due to significant amount of sales were made to a number of customers near year end of 2018. Most of the due balances of those sales were settled during the reporting year.

Liquidity and Financial Resources

We had a net cash position as at 31 December 2019. Cash and cash equivalents and short-term bank deposit as at 31 December 2019 were RMB183.8 million (2018: RMB141.5 million). As at 31 December 2019, our total assets of RMB527.4 million (2018: RMB457.4 million) were financed by total liabilities of RMB184.2 million (2018: RMB127.8 million) and shareholders' equity of RMB343.2 million (2018: RMB329.7 million). We had a current ratio of 2.7 (2018: 3.5). Trade payables were repayable within one year. As at 31 December 2019, no banking facilities were available to the Group (2018: Nil) and we had no bank borrowing as well.

Treasury Policy

We generally financed our operations with internally generated resources. We have adopted a prudent management approach for our treasury policies and therefore maintained a healthy liquidity position throughout the reporting year. We strive to reduce credit risk exposure by performing periodic credit evaluations of our external customers.

Foreign Exchange Exposure

We mainly operate in Mainland China, Taiwan and Hong Kong with most of the transactions settled in Chinese Yuan, US dollars, New Taiwanese dollars and Hong Kong dollars. We are exposed to foreign exchange risk from various currencies, primarily with respect to US dollars. We have a policy to require group companies to manage their foreign exchange risk against their functional currencies which includes managing the exposures arising from sales and purchases made by the relevant group companies in currencies other than their own functional currencies. We also manage our foreign exchange risk by performing regular reviews of the Group's net foreign exposures and would consider the use of foreign exchange contracts to manage for foreign exchange risks, where appropriate. We did not use derivative financial instruments for speculative or hedging purposes.

BUSINESS REVIEW

Smart Manufacturing Business

We provide full range of smart manufacturing solutions to our customers. Segment revenue and profit dropped 27% and 87% year-on-year to RMB97.1 million and RMB7.2 million respectively due to the absence of highly profitable mega projects during the reporting year. Segment margin was down to 7% from 41% due to i) fierce market competition and poor sentiment in China manufacturing sector and; ii) a larger number of small and low margin projects were being executed in order to maintain a higher staff utilization rates. We continue devoting efforts to achieve a more balanced revenue stream from Hon Hai Precision Industry Company Limited ("**Hon Hai**") and its subsidiaries (collectively, the "**Hon Hai Group**") and independent third party customers.

Other Internet of Things ("IoT") and System Integration Business

We provide a wide range of IoT and system integration solutions to our customers. Segment revenue soared 120% to RMB232.6 million during the reporting year due to the stronger execution of all sub-line businesses. There was a segment profit of RMB4.2 million for 2019 as opposed to a segment loss of RMB49.4 million in 2018. Such improvement was due to i) higher revenue; ii) the spin-off of the loss-making VPanel business in the first quarter of 2019 and iii) a significant decrease in the provision made for the impairment of the trade receivables during the reporting year. For facial recognition system, we have rolled out the system to other Hon Hai Group's industrial parks in China after our trial runs in Shenzhen. In addition, we have completed a number of video surveillance and conference, smart classroom and display-related projects for various Taiwan-based customers, including the National Taiwan University Cancer Center, Taipei Main station and a handful of primary schools in Taiwan.

Information Technology Service Business

We provide information technology ("**I.T.**") infrastructure services, including i) cloud services; ii) planning, design, deployment and maintenance; iii) related equipment procurement, to our customers. Segment revenue increased by 16% to RMB101.3 million during the reporting year but segment margin fell from 37% to 25% resulting in a 22% drop of segment profit to RMB25.1 million. Virtual desktop infrastructure ("**VDI**") continues to be the growth area for the business but the segment margin was squeezed constantly by growing price pressure from customers and ever-rising labour costs.

BUSINESS PROSPECT

Starting from the mid of 2018, the US and China have waged an escalating battle over trade, transfer of technology and network security and the conflicts have gradually expanded to social, political, ideological and even cultural areas. We have experienced all the ups and downs in the last eighteen months and the two leading economies eventually signed a pact on 15 January 2020 for their first phase of negotiation and agreed to start the next phase of negotiation later this year covering some of the most controversial topics. After a thoughtful review on the latest global landscape and the potentials of each business, we decide to include a number of new business initiatives and reposition our existing business portfolio. Starting from year 2020, we plan to divide our business into Industrial Solutions, Smart Office and New Retail.

Industrial Solution Business

Industrial Solution Business consists of our existing smart manufacturing, information technology services and a large part of other IoT and system integration businesses. This business is mainly providing solutions and services to industrial clients in a bid to improve the effectiveness and efficiency of their production lines and plant facilities, and the management of their industrial parks etc.

Smart Office Business

Smart Office Business consists of the video conference and display-related solutions plus brand licensing and supply chain management of smart office equipment. We plan to market two video conference SaaS products, namely Personify Presenter and ChromaCam. Personify Presenter transforms the way people connect at a distance without the need for a green screen. By removing the background of the presenter, it embeds the presenter in any presentation or demo, enabling it like an on-site presentation. ChromaCam makes live stream memorable by replacing the background or blurring the background without a fancy green screen.

Our Taiwan team continues to perform well and we obtained a new sizable project in February 2020 by providing digital signage solutions to 600 retail stores of a preeminent local supermarket in Taiwan. The project is expected to be completed by the third quarter of 2020. For brand licensing and supply chain management business, we licensed a US office equipment brand from its owner and plan to distribute branded goods to customers in the world. The Smart Office Business is expected to contribute significant amount of overseas revenue to the Group in the future.

New Retail Business

New Retail Business consists of our new advertising initiatives in the US alcohol industry. In the third quarter of the reporting year, we established a joint venture company tapping into the highly regulated advertising business of the US alcohol retail market. Leveraging the existing network of our local parties, the joint venture will provide interactive LCD screens with user-friendly marketing platform to promote impulse purchases in the liquor stores. According to market survey, 76% of US alcohol shoppers decide their purchase after stepping into a store but nearly none of the billions annual alcohol marketing dollars reach the retail environment. The pain points of the industry are as follows i) there is no clear resource inside the liquor stores to help shoppers making informed purchase decisions; and ii) there is no way to communicate brand messages consistently and on a large scale within retail environments. Messaging is either fragmented or non-existent. The solutions of our joint venture intend to tackle these problems. Customers are able to browse product information on-screen and the platform recommends products based on customers' input information, such as in what circumstances or functions the consumptions are taken place, with what kind of food recipes etc. Customers are eligible to register on the platform with their phone numbers if they would like to obtain further information and updates for certain products and brands. The platform collects data and conduct target marketing based on the customer's preferences and drinking habits. We obtained relevant regulatory approval for our operations in Florida and Maryland of the US by end of 2019. The trial run of the operation has kick-started in Miami, Florida and Montgomery County, Maryland of the US in early 2020 and we will accelerate our roll-out of the operations in Florida and Maryland once the result of the trial run are satisfactory. We are waiting to obtain the regulatory approval for our operations in Pennsylvania and will gradually roll out this business in other states of the US. We plan to install over 1500 interactive screens in the US liquor stores in 2020 and share the advertising revenue generated from this marketing platform.

Other than the alcohol industry, we, together with our local partners, are exploring to replicate the retail advertising business model in other verticals in Americas. We are also actively seeking other retail opportunities in Greater China and Southeast Asia regions.

After the business repositioning, sales from regions other than the PRC are expected to increase from 25% of the total revenue in 2019 to about 40% in 2020. Thus, we will achieve a more balanced sales mix from both geographic and sector perspectives.

The Outbreak of Novel Coronavirus ("COVID-19")

The outbreak of COVID-19 at Wuhan City of China in late 2019 and the widespread contagion of the pneumonia in China and the rest of the world in first quarter of 2020 have negative impacts on our business. There have been over 81,000 infected cases and over 3,300 fatalities officially reported in China up until the reporting date. To slow the spread of the endemic, the PRC government unprecedentedly prolonged the Lunar New Year holiday and halted the intercity transportation of provinces and municipalities for a protracted period. The entire country was virtually shut down for three to four weeks. Residential communities in the Chinese cities were largely fragmented and sealed off to outsiders and most restaurants and shops were closed or operating on reduced hours. Countries from the rest of the world issued travel warnings and quarantines to China shortly after the declaration of the epidemic a Public Health Emergency of International Concern by the World Health Organisation ("**WHO**") on 30 January 2020. The plague drastically paralyzed the operation of our customers in China and our office at Wuhan had been closed down till late March 2020. Our two other PRC offices in Shenzhen and Chongqing were only able to resume operation in mid February 2020. Our operations and business development activities in China were being notably distorted during the period. However, the usage of video conference, VDI and other smart office equipment has been increased tremendously during the outbreak and the performance of our overseas business has been satisfactory, which partly offset the adverse impact of the COVID-19 on our business in China. In the wake of the widespread of the COVID-19 in Japan, Korea, Middle East, Europe and Americas, WHO declared the outbreak a global pandemic on 11 March 2020. Cities and countries have been locked down one by one. Central banks and governments in the world have loosened monetary policies and released stimulus packages respectively to shield the economies from the pandemic. It will certainly affect some of our overseas business plans. We shall closely monitor the development of this incident and adopt appropriate measures with an aim to stabilize our business performance for 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

The company's business risks are mainly the following:

(i) macroeconomic conditions of the globe and China which in turn will affect the general demand of I.T. solutions, services and products;

(ii) market acceptance of our industrial, smart office and new retail solutions;

(iii) rapid technological changes may disrupt our existing solutions and products unpredictably; and

(iv) greater foreign exchange risk exposure due to the expansion of our overseas businesses and higher volatility in major functional currencies in recent years.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, SIGNIFICANT INVESTMENTS, CHARGES ON GROUP'S ASSETS, CAPITAL COMMITMENT, CONTINGENT LIABILITIES, EVENTS AFTER REPORTING DATE

We had no material acquisition, disposal of subsidiaries and significant investment during the reporting year.

As at 31 December 2019, there were no charges on the Group's assets and no significant capital commitment and contingent liabilities (2018: Nil).

Save as disclosed on the outbreak of the COVID-19, there were no material events after 31 December 2019.

CAPITAL STRUCTURE AND DIVIDENDS

As at 31 December 2019, the Company has a total of 654,863,448 issued shares with a par value of HK$0.1 each (2018: 662,239,448 shares). One of our subsidiaries repurchased 5,628,000 shares and 1,748,000 shares of the Company listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") in late 2018 and in January 2019 at an aggregate consideration (excluding expenses) of approximately HK$3.9 million and HK$1.3 million respectively before cancelling them in April 2019. Save as disclosed, neither the Company nor its subsidiaries had sold and redeemed any of the Company's listed securities during the reporting year of 2018 and 2019.

The Board does not recommend any payment of a final dividend in respect of the reporting year (2018: Nil).

EMPLOYEES, ENVIRONMENTAL POLICIES AND COMPLIANCE

As at 31 December 2019, the Group employed a total of 469 employees (2018: 488 employees) located in Mainland China, Taiwan and Hong Kong.

The board believes that the Group's remuneration policy is in line with the prevailing market practices and is determined on the basis of performance and experience of the individuals. Sales personnel are remunerated by salaries and incentives in accordance with the achievement of their sales target and account receivables collection. General staff are offered year-end discretionary bonuses, which are based on the divisional performance and individual appraisals.

We are committed to devoting more resources in providing internal and external training to the employees. Other than sending staff to participate in relevant seminars and lectures, we continue recommending qualified staff to take part in professional courses. The training programs not only enhance employees' professional knowledge and career development, but also contribute to improving the management system of the Group.

We are dedicated to creating a favourable circumstance for caring for our environment and community. It is our goal to build a more harmonious, civilized and sustainable society by maintaining a high standard operation with integrity, providing services of high quality and protecting the environment. We have complied with the relevant laws and regulations that have a significant impact on the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	3	**430,995**	326,188
Cost of sales	5	**(353,790)**	(200,357)
Gross profit		**77,205**	125,831
Other income	4	**3,743**	5,666
Other gains, net	4	**584**	3,275
Selling and distribution expenses	5	**(11,278)**	(14,096)
General and administrative expenses	5	**(55,028)**	(52,690)
Loss allowance for trade and other receivables		**(1,429)**	(57,193)
Operating profit		**13,797**	10,793
Finance income – net	6	**1,384**	2,805
Share of result of an associate		**(353)**	–
Profit before income tax		**14,828**	13,598
Income tax expense	7	**(3,253)**	(12,158)
Profit for the year		**11,575**	1,440

		2019 RMB cents	2018 RMB cents
Earnings per share for profit attributable to ordinary equity holders of the Company			
Basic earnings per share	8	**1.77**	0.22
Diluted earnings per share	8	**1.77**	0.22

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**11,575**	1,440
Other comprehensive income:		
Item that may be reclassified to profit or loss		
Currency translation differences	**2,955**	1,511
Other comprehensive income for the year	**2,955**	1,511
Total comprehensive income for the year	**14,530**	2,951

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	**2019**	2018
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Intangible assets		**2,090**	2,437
Property, plant and equipment		**12,011**	39,228
Right-of-use assets		**41,646**	–
Investment in an associate		**–**	–
Financial assets at fair value through profit or loss		**17,529**	–
Trade and lease receivables	*9*	**28,353**	34,426
Prepayments and rental deposits		**373**	1,847
Total non-current assets		**102,002**	77,938
Current assets			
Inventories		**30,728**	24,754
Contract assets		**1,523**	2,836
Trade and lease receivables	*9*	**198,001**	196,639
Prepayments, deposits and other receivables		**11,388**	13,790
Short-term bank deposits		**–**	1,330
Cash and cash equivalents		**183,786**	140,138
Total current assets		**425,426**	379,487
Total assets		**527,428**	457,425

	Note	2019 RMB'000	2018 RMB'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**64,479**	65,111
Share premium		**187,511**	191,340
Reserves		**91,195**	73,203
Total equity		**343,185**	329,654
LIABILITIES			
Non-current liabilities			
Lease liabilities		**28,389**	–
Obligation under finance leases		**–**	19,541
Total non-current liabilities		**28,389**	19,541
Current liabilities			
Trade payables	*10*	**102,716**	56,729
Accruals and other payables		**30,220**	26,970
Contract liabilities		**5,883**	8,445
Lease liabilities		**12,962**	–
Obligation under finance leases		**–**	5,837
Tax payables		**4,073**	10,249
Total current liabilities		**155,854**	108,230
Total liabilities		**184,243**	127,771
Total equity and liabilities		**527,428**	457,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Maxnerva Technology Services Limited is a limited liability company incorporated in Bermuda on 3 February 1994 as an exempted company under Companies Act 1981 of Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 14 April 1994.

As at 31 December 2019, the Group is principally engaged in the provision of system and network integration, I.T. solutions development and implementation, and related maintenance services.

These financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

2.1 Basis of preparation

(a) Compliance with HKFRS and HKCO

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(b) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which is carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(c) New and amended standards and interpretation adopted by the Group

The following new and amended standards and interpretation are relevant to the Group's operations and mandatory for its accounting periods beginning on or after 1 January 2019:

Annual Improvements Project HKFRS 1 and HKAS 38 (amendments)	Annual improvement 2015-2017 cycle
HKAS 19 (amendments)	Plan amendment, curtailment or settlement
HKAS 28 (amendments)	Long-term interests in associates and joint ventures
HKFRS 9 (amendments)	Prepayment features with negative compensations
HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over income tax treatments

The Group had to change its accounting policies following the adoption of HKFRS 16 which is disclosed in Note 2.2. The Group elected to adopt the new rules retrospectively but recognised the accumulated effect of initially applying the new standard on 1 January 2019. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New and amended standard that are not yet effective and have not been early adopted by the Group

The following published new and amended standards that are relevant to the Group's operations are mandatory for the Group's accounting periods beginning on or after 1 January 2020 and have not been early adopted by the Group:

HKAS 1 and HKAS 8 (amendments)	Definition of material[1]
HKFRS 3 (amendments)	Definition of a business[1]
HKFRS 17	Insurance contracts[2]
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting[1]
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture[3]

1 *Effective for annual periods beginning on or after 1 January 2020*

2 *Effective for annual periods beginning on or after 1 January 2021*

3 *A date to be determined*

The Group will apply the above new and amended standards when they become effective. The Group anticipates that the application of the above new and amended standards have no material impact on the results and the financial position of the Group.

2.2 Change in accounting policy

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranges from 4.75% to 5.125%.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and interpretation 4 determining whether an arrangement contains a lease.

(ii) Measurement of lease liabilities

	Total
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	14,881
Discounted using the lessee's incremental borrowing rate at the date of initial application	13,086
Add: Obligation under finance leases recognised as at 31 December 2018	25,378
Less: Short-term leases not recognised as liabilities	(527)
Lease liabilities recognised as at 1 January 2019	37,937
Of which are:	
Current lease liabilities	10,925
Non-current lease liabilities	27,012
	37,937

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018.

(iv) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of the adoption of HKFRS 16.

(v) Adjustments recognised in the consolidated balance sheet as at 1 January 2019

The table below shows the adjustments recognised for each individual line item as at 31 December 2018 and 1 January 2019. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	31 December 2018 (As originally presented)	**HKFRS 16**	**1 January 2019** (Restated)
	RMB'000	*RMB'000*	*RMB'000*
Consolidated balance sheet (extract)			
Non-current assets			
Right-of-use assets	–	35,917	35,917
Property, plant and equipment	39,228	(24,044)	15,184
	39,228	11,873	51,101
Current assets			
Prepayments, deposits and other receivables	13,790	(1,133)	12,657
Non-current liabilities			
Lease liabilities	–	27,012	27,012
Obligation under finance leases	19,541	(19,541)	–
	19,541	7,471	27,012
Current liabilities			
Lease liabilities	–	10,925	10,925
Obligation under finance leases	5,837	(5,837)	–
Accruals and other payables	26,970	(868)	26,102
	32,807	4,220	37,027
Equity			
Reserves	73,203	(951)	72,252

3 REVENUE AND SEGMENT INFORMATION

The chief operating decision maker has been identified as the executive directors (collectively referred to as the "**Chief Operation Decision Maker**" or "**CODM**") that make strategic decisions. The CODM reviews the internal reporting of the Company and its subsidiaries in order to assess performance and allocate resources. Management has determined the operating segment based on the Group's development plan and the internal reporting provided to the CODM. The management determined to divide three operating segments by the nature of operations and the type of products or services, as follows:

1. **Smart Manufacturing Business**

   – The provision of I.T. solutions within factories which include but not limited to overall system design, digital factory implementation and advanced automation.

2. **Other IoT and System Integration Business**

   – The provision of I.T. and system integration solutions other than smart manufacturing solutions.

3. **Information Technology Service Business**

   – The provision of I.T. infrastructure operating services, including i) cloud services, ii) planning, design, deployment and maintenance, and iii) related equipment procurement.

Each of the Group's operating segments represents a strategic business unit that is managed by the respective business unit leaders. CODM assesses the performance of the operating segments based on a measure of profit/(loss) before income tax. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements.

Assets of reportable segments exclude corporate assets (mainly including corporate cash and cash equivalents, short-term bank deposits, property, plant and equipment, right-of-use assets, prepayments and other receivables and financial assets at fair value through profit or loss), all of which are managed on a central basis. Liabilities of reportable segments exclude corporate liabilities (mainly including accruals, other payables, lease liabilities and tax payables). These are part of the reconciliation to total balance sheet assets and liabilities.

	For the year ended 31 December 2019			
	Smart Manufacturing Business	**Other IoT and System Integration Business**	**Information Technology Service Business**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Revenue *(Note a)*	**97,139**	**232,597**	**101,259**	**430,995**
Results of reportable segments	**7,196**	**4,241**	**25,111**	**36,548**
A reconciliation of results of reportable segments to profit for the year is as follows:				
Results of reportable segments				**36,548**
Unallocated income/(expenses) *(Note b)*				**(24,973)**
Profit for the year				**11,575**
Other segment information:				
Capital expenditures	**21,299**	**2,051**	**2,274**	**25,624**
Depreciation of property, plant, equipment	**125**	**1,085**	**1,259**	**2,469**
Depreciation of right-of-use assets	**8,661**	**–**	**–**	**8,661**
Amortisation of intangible assets	**1,526**	**379**	**48**	**1,953**
Loss allowance for trade receivables	**–**	**1,429**	**–**	**1,429**

	For the year ended 31 December 2018			
	Smart Manufacturing Business	Other IoT and System Integration Business	Information Technology Service Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue *(Note a)*	133,186	105,522	87,480	326,188
Results of reportable segments	54,714	(49,424)	32,016	37,306
A reconciliation of results of reportable segments to profit for the year is as follows:				
Results of reportable segments				37,306
Unallocated income/(expenses) *(Note b)*				(35,866)
Profit for the year				1,440
Other segment information:				
Finance income	–	403	–	403
Capital expenditures	13,792	1,174	1,065	16,031
Depreciation of property, plant, equipment	5,155	1,357	1,442	7,954
Amortisation of intangible assets	2,522	124	91	2,737
Loss allowance for trade and other receivables	–	57,193	–	57,193

Note:

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	For the year ended 31 December 2019			
Timing of revenue recognition	**Smart Manufacturing Business**	**Other IoT and System Integration Business**	**Information Technology Service Business**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
I.T. projects				
– At a point of time	**14,966**	**124,616**	**18,927**	**158,509**
– Over time	**59,777**	**49,499**	**25,466**	**134,742**
Maintenance and consulting services				
– Over time	**14,245**	**3,971**	**39,397**	**57,613**
Sales of goods				
– At a point of time	**8,151**	**52,765**	**16,764**	**77,680**
Finance lease income	**–**	**454**	**–**	**454**
Operating lease income *(Note)*	**–**	**1,292**	**705**	**1,997**
	97,139	**232,597**	**101,259**	**430,995**

	For the year ended 31 December 2018			
Timing of revenue recognition	Smart Manufacturing Business	Other IoT and System Integration Business	Information Technology Service Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
I.T. projects				
– At a point of time	19,226	75,112	5,964	100,302
– Over time	86,329	16,682	20,601	123,612
Maintenance and consulting services				
– Over time	17,844	2,389	44,560	64,793
Sales of goods				
– At a point of time	8,847	5,921	14,780	29,548
Finance lease income	–	4,534	–	4,534
Operating lease income *(Note)*	940	884	1,575	3,399
	133,186	105,522	87,480	326,188

Note:

Operating lease income represents the income mainly generated by leasing of servers, for operating the automated systems, and video conferences to its customers by charging a fixed monthly rental charge.

Revenue by geographical location is determined by the destination where the services and products were delivered. Revenue from customers on the basis of customers' locations is analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Hong Kong	**101**	38
Mainland China	**323,536**	293,013
North America	**43,888**	17,625
Other Asian countries	**63,470**	15,512
	430,995	326,188

For the year ended 31 December 2019, revenue of approximately RMB54,022,000 (2018: RMB42,154,000), representing 13% (2018: 13%) of the Group's total revenue, is derived from a single customer. For the year ended 31 December 2019, sales to the five largest customers of the Group in total accounted for approximately 49% (2018: 52%) of the Group's total revenue.

For the year ended 31 December 2019, revenue of approximately RMB237,467,000 (2018: RMB262,383,000), representing 55% (2018: 80%) of the Group's total revenue, is derived from related parties, Hon Hai Precision Industry Company Limited and its group companies.

(b) Unallocated income/(expenses) mainly include government subsidies, finance income, employment benefit expenses, depreciation of property, plant and equipment, depreciation of right-of-use assets, legal and professional fees, income tax expense and other operating expenses incurred at corporate level.

A reconciliation of operating segments' results to total profit for the year is provided as follows:

	2019	2018
	RMB'000	*RMB'000*
Segment results	**36,548**	37,306
Unallocated income/(expenses):		
– Government subsidies	**3,370**	5,284
– Finance income	**3,126**	2,402
– Depreciation of property, plant and equipment	**(3,730)**	(2,260)
– Depreciation of right-of-use assets	**(4,210)**	–
– Amortisation of intangible assets	**(481)**	(802)
– Legal and professional fees	**(3,808)**	(4,398)
– Employment benefit expenses	**(12,463)**	(18,829)
– Auditors' remuneration	**(1,400)**	(1,771)
– Income tax expense	**(3,253)**	(12,158)
– Others	**(2,124)**	(3,334)
Profit for the year	**11,575**	1,440

During the year ended 31 December 2019 and 2018, all capital expenditure were incurred in PRC, Taiwan and North America.

	As at 31 December 2019			
	Smart Manufacturing Business	**Other IoT and System Integration Business**	**Information Technology Service Business**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment assets				
Segment assets	**99,200**	**167,607**	**46,051**	**312,858**
Other unallocated assets *(Note a)*				**214,570**
Total assets per consolidated balance sheet				**527,428**
Segment liabilities				
Segment liabilities	**58,905**	**79,576**	**9,663**	**148,144**
Other unallocated liabilities *(Note b)*				**36,099**
Total liabilities per consolidated balance sheet				**184,243**

	As at 31 December 2018			
	Smart Manufacturing Business	Other IoT and System Integration Business	Information Technology Service Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets				
Segment assets	157,447	108,400	35,391	301,238
Other unallocated assets *(Note a)*				156,187
Total assets per consolidated balance sheet				457,425
Segment liabilities				
Segment liabilities	62,937	32,192	10,523	105,652
Other unallocated liabilities *(Note b)*				22,119
Total liabilities per consolidated balance sheet				127,771

Notes:

(a) As at 31 December 2019 and 2018, other unallocated assets mainly included cash and cash equivalents and short-term bank deposits, property, plant and equipment, right-of-use assets, prepayments and other receivables and financial assets at fair value through profit or loss for corporate usage.

Operating segments' assets are reconciled to total assets as follows:

	2019	2018
	RMB'000	*RMB'000*
Segment assets for reportable segments	**312,858**	301,238
Unallocated assets		
– Cash and cash equivalents and short-term bank deposits	**183,786**	141,468
– Property, plant and equipment	**6,074**	9,898
– Right-of-use assets	**4,472**	–
– Prepayments and other receivables	**2,621**	4,388
– Financial asset at fair value through profit or loss	**17,529**	–
– Others	**88**	433
Total assets per consolidated balance sheet	**527,428**	457,425

During the year, the addition to property, plant and equipment and right-of-use assets in unallocated assets were RMB13,000 and RMB5,206,000 respectively.

(b) As at 31 December 2019 and 2018, other unallocated liabilities mainly included accruals, other payables, lease liabilities and tax payables for corporate usage.

Operating segments' liabilities are reconciled to total liabilities as follows:

	2019	2018
	RMB'000	*RMB'000*
Segment liabilities for reportable segments	**148,144**	105,652
Unallocated liabilities		
– Accruals and other payables	**26,839**	11,139
– Lease liabilities	**4,519**	–
– Tax payables	**4,073**	10,249
– Others	**668**	731
Total liabilities per consolidated balance sheet	**184,243**	127,771

At 31 December 2019 and 2018, majority of the Group's non-current assets were located in PRC with others located in Hong Kong, Taiwan and North America.

4 OTHER INCOME AND OTHER GAINS, NET

	2019	2018
	RMB'000	*RMB'000*
Government subsidies	**3,370**	5,284
Others	**373**	382
Other income	**3,743**	5,666
Write back of other payables *(Note (i))*	**–**	3,321
(Loss)/gain on disposals of property, plant and equipment	**(41)**	15
Fair value loss on financial assets at fair value through profit or loss	**(728)**	–
Net exchange (losses)/gains	**(419)**	187
Gain on disposal of financial assets at fair value through profit or loss *(Note (ii))*	**1,570**	–
Gain on modification of leases	**1,341**	–
Gain on the investment in an associate	**353**	–
Provision for legal claim *(Note (iii))*	**(1,383)**	–
Others	**(109)**	(248)
Other gains, net	**584**	3,275

Note:

(i) During the year ended 31 December 2018, the write back of other payables mainly comprised forfeited receipts in advance of RMB1,043,000 from a customer and forfeited other payable of RMB2,183,000 as agreed with creditor.

(ii) During the year ended 31 March 2017, the Group acquired 1,002,673 shares of an unlisted company and the investment was fully impaired in the same year. On 15 May 2019, the Group entered into an agreement to sell all of its shares of the unlisted company at a consideration of RMB1,570,000. The transaction was completed during the year and the Group recognised a gain on disposal of RMB1,570,000.

(iii) During the year ended 31 December 2019, the Group made a provision of legal claim of RMB1,383,000 regarding a loss case near the year ended 31 December 2019. The case is currently under appeal.

5 EXPENSES BY NATURE

	2019	2018
	RMB'000	*RMB'000*
Costs of hardware and software for I.T. projects and cost of goods sold	**263,966**	90,346
Employment benefit expenses (including directors' emoluments)	**94,307**	110,326
Sub-contracting fee	**15,325**	20,176
Depreciation of property, plant and equipment	**6,199**	10,214
Depreciation of right-of-use assets	**12,871**	–
Operating lease rental in respect of land and buildings	**–**	7,016
Expenses relating to short term leases	**1,325**	–
Travelling expenses	**3,669**	6,455
Legal and professional fees	**7,338**	6,219
Office expenses	**2,233**	2,376
Amortisation of intangible assets	**2,434**	3,539
Auditors' remuneration		
– Audit services	**1,400**	1,771
Provision for impairment of inventories	**2,287**	2,032
Advertising expenses	**162**	1,532
Other expenses	**6,580**	5,141
	420,096	267,143
Representing:		
Cost of sales	**353,790**	200,357
Selling and distribution expenses	**11,278**	14,096
General and administrative expenses	**55,028**	52,690
	420,096	267,143

6 FINANCE INCOME – NET

	2019	2018
	RMB'000	*RMB'000*
Finance income		
Interest income from bank deposits	**3,126**	2,402
Interest income from finance leases receivables	**–**	403
	3,126	2,805
Finance costs		
Interest expenses for lease liabilities	**(1,742)**	–
Net finance income	**1,384**	2,805

7 INCOME TAX EXPENSE

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided for at the rate of 16.5 % (2018: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong. Group companies established and operating in Mainland China and Taiwan are subject to corporate income tax at the rate of 15% and 20% (2018: 15% to 25% and 20%), respectively, for year ended 31 December 2019.

Two of the subsidiaries in Mainland China were approved by the relevant local tax bureaus under the preferential tax policy for the high and new technology enterprises, and were entitled to a preferential corporate income tax rate of 15% from 2017 until 2019 and 2018 until 2020.

One of the subsidiaries in Mainland China was approved by the relevant local tax bureaus under the preferential tax policy for the western region of Mainland China, and was entitled to a preferential corporate income tax rate of 15% from 2017 until 2020.

	2019	2018
	RMB'000	*RMB'000*
Current taxation		
– Withholding tax	**1,958**	1,344
– PRC corporate income tax	**2,070**	9,521
– Taiwan income tax	**1,270**	1,293
Over-provision in prior years	**(2,045)**	–
	3,253	12,158

8 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue, excluding treasury shares, during the year.

	2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	**11,575**	*1,440*
Weighted average number of ordinary shares in issue *('000)*	**654,964**	661,812
Basic earnings per share *(rounded to RMB cents)*	**1.77**	0.22

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option schemes are the only dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average daily quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

For the year ended 31 December 2019, dilutive earnings per share was of the same amount as the basic earnings per share as the share options were anti-dilutive.

	2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	**11,575**	1,440
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**654,964**	663,426
Diluted earnings per share *(rounded to RMB cents)*	**1.77**	0.22

9 TRADE AND LEASE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables		
– third parties	**132,814**	80,576
– related parties	**146,577**	199,802
	279,391	280,378
Finance leases receivables – total	**9,277**	10,508
Trade and lease receivables – gross	**288,668**	290,886
Less: loss allowance	**(62,314)**	(59,821)
Trade and lease receivables – net	**226,354**	231,065
Less: trade and lease receivables – non-current portion	**(28,353)**	(34,426)
Trade and lease receivables – current portion	**198,001**	196,639

Majority of the Group's sales are made with credit terms generally ranging from 30 days to 90 days. The ageing analysis of trade receivables based on invoice date is as follows:

	2019	2018
	RMB'000	*RMB'000*
Less than 60 days	**170,493**	199,940
60 days to 120 days	**23,997**	14,508
121 days to 360 days	**23,344**	6,109
Over 360 days	**61,557**	59,821
	279,391	280,378

10 TRADE PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables		
– third parties	**99,445**	52,752
– related parties	**3,271**	3,977
	102,716	56,729

The majority of the suppliers grant credit period ranging from 30 to 75 days (2018: 30 to 60 days).

The ageing analysis of trade payables based on invoice date is as follows:

	2019	2018
	RMB'000	*RMB'000*
Less than 60 days	**89,514**	51,297
60 days to 120 days	**12,244**	1,080
Over 120 days	**958**	4,352
	102,716	56,729

11 EVENT AFTER THE REPORTING YEAR

After the outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and Hong Kong. The majority of the Group's operations are situated in China, with an office in Wuhan, which has been affected by the COVID-19 outbreak. With the extension of Chinese New Year holiday nationwide and travel restriction, the Group postponed the resumption of operation of its PRC offices after Chinese New Year. All of the Group's operation in China has been resumed operation in late March 2020. The business development activities and operations in China were being notably distorted in first quarter of 2020. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

12 DIVIDENDS

During the year ended 31 December 2019 and 2018, the Company did not recommend the payment of dividend.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "**Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the year ended 31 December 2019, save for the following deviations:

Code provisions A.4.1 and D.1.4

Under code provision A.4.1 of the Code, non-executive directors shall be appointed for a specific term and be subject to re-election while under Code provision D.1.4 issuers should have formal letters of appointment for directors setting out the key terms and conditions for their appointment. The independent non-executive directors are appointed for a specific term of office of one year while all non-executive directors and all executive directors have not entered into any service agreements or letters of appointment (as the case may be) with the Company for their directorship and have no fixed term of service therewith. However, they are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Bye-laws. As such the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the Code.

Code provision F.1.1

Mr. TSANG Hing Bun ("**Mr. Tsang**") was appointed as company secretary of the Company (the "**Company Secretary**") with effect from 3 November 2015. Although Mr. Tsang is not an employee of the Company as required under code provision F.1.1 of the Code, the Company has assigned Mr. CHENG Yee Pun, the executive director, as the contact person with Mr. Tsang. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Tsang through the contact person assigned. Hence, all directors are still considered to have access to the advice and services of the Company Secretary in light of the above arrangement in accordance with code provision F.1.4 of the Code. Having in place a mechanism that Mr. Tsang will get hold of the Group's development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Tsang as the Company Secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations. For the year ended 31 December 2019, Mr. Tsang has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding directors' securities transactions. Having made specific enquiry with all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules for the reporting year.

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

In late 2018 and January 2019, a subsidiary of the Company repurchased 5,628,000 and 1,748,000 shares of the Company listed on the Stock Exchange at an aggregate consideration (excluding expenses) of approximately HK$3.9 million and HK$1.3 million respectively. All the repurchased shares were cancelled in April 2019. Save as disclosed, neither the Company nor its subsidiaries had sold and redeemed any of the Company's listed securities during the year ended 31 December 2018 and 2019.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. TANG Tin Lok Stephen, Mr. KAN Ji Ran Laurie and Prof. ZHANG Xiaoquan. The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed with the management, the risk management, internal control and financial reporting matters of the Company, including the review of the Group's audited consolidated financial results for the reporting year.

REVIEW OF ANNUAL RESULTS

The figures in respect of the Group's results for the reporting year as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the reporting year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL REPORT

The annual report for the reporting year containing all the information required by Appendix 16 of the Listing Rules will be despatched to the shareholders and available on the Company's website (www.maxnerva.com) and the designated website of the Stock Exchange (www.hkexnews.hk) in due course.

By order of the Board
Maxnerva Technology Services Limited
CHIEN Yi-Pin
Chairman

Hong Kong, 31 March 2020

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. CHIEN Yi-Pin, Mr. CAI Liting, Mr. KAO Chao Yang and Mr. CHENG Yee Pun, two non-executive directors, namely, Mr. JEON Eui Jong and Mr. TSE Tik Yang Denis, and three independent non-executive directors, namely, Mr. TANG Tin Lok Stephen, Mr. KAN Ji Ran Laurie and Prof. ZHANG Xiaoquan.