ANNUAL REPORT 2018

YONGAN HOLDINGS

浙江永安融通控股股份有限公司

ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

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

Stock Code: 8211

**For identification purpose only*

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** English name is for identification only*

EXECUTIVE DIRECTORS

Mr. Jiang Ning *(Chairman of the Board)*
Mr. He Weifeng *(Deputy Chairman)*
Ms. He Lianfeng *(Chief Executive Officer)*
Mr. Hu Hua Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Song Ke
Mr. Wang Hui
Mr. Wang Zhong

SUPERVISORS

Ms. Wang Ai Yu *(Chairman of Supervisory Committee)*
Mr. Chen Wei

INDEPENDENT SUPERVISOR

Mr. Pan Xing Biao

COMPANY SECRETARY

Ms. Chen Yen Yung — *CPA (Aust.), CPA*

AUDIT COMMITTEE

Mr. Wang Hui *(Chairman of Audit Committee)*
Mr. Song Ke
Mr. Wang Zhong

REMUNERATION COMMITTEE

Mr. Song Ke *(Chairman of Remuneration Committee)*
Mr. Wang Hui
Mr. Wang Zhong
Mr. He Weifeng

NOMINATION COMMITTEE

Mr. Wang Zhong *(Chairman of Nomination Committee)*
Mr. Wang Hui
Mr. Song Ke
Ms. He Lianfeng

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Mr. Hu Hua Jun

AUTHORISED REPRESENTATIVES

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Mr. Hu Hua Jun

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STOCK CODE

8211

For the year ended 31 December 2018,

— revenue of the Group decreased slightly from approximately RMB159.44 million in year 2017 to approximately RMB151.29 million in year 2018, representing a decrease of approximately 5.11% when compared to the year ended 31 December 2017;

— loss for the year was approximately RMB3.57 million; and

— the Directors do not recommend the payment of a final dividend for the year ended 31 December 2018.

On behalf of the board of directors (the "Board" or the "Directors") of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd*) (the "Company"), I am pleased to present to our shareholders the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

FINANCIAL PERFORMANCE

For the year ended 31 December 2018, the Group recorded a revenue of approximately RMB151.29 million, represents a decline of approximately 5.11% when compared with the same period in 2017. It was mainly due to dropping of revenue from both domestic sales and export sales of woven fabrics. Gross profit increased by approximately RMB1.84 million mainly resulted from slight upward of average selling price during the year ended 31 December 2018 when compared with the same period in 2017.

The selling and distribution costs increased by approximately 16.35% for the year ended 31 December 2018 when compared with the correspondence period in 2017 mainly due to increase of exhibition expenses.

Administrative expenses increased significantly by approximately RMB3.43 million or 26.97% during the year ended 31 December 2018. It was mainly due to research and development expense and staff retirement funds increased as additional qualify staff were engaged under the research and development department for further enhancing new product development. The consolidation of administrative expenses of a subsidiary acquired by the Company in April 2017 and a new subsidiary established in June 2018 also led to the increase of administrative expenses during the year ended 31 December 2018 when compared with that in 2017.

Other income raised by approximately RMB2.41 million or 102.16% mainly due to reversal of impariment loss of trade receivables, refund of land use tax, gain from changes in fair value of financial assets designated in FVTPL and gain on disposal of property, plant and equipment during the year ended 31 December 2018.

Finance cost of approximately RMB6.01 million for the year ended 31 December 2018 represents imputed interest in interest-free loan due to immediate holding company.

The respective loss per share for the year ended 31 December 2018 and 2017 were approximately RMB0.34 cents and RMB0.21 cents respectively.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018.

OUR STRATEGIES GOING FORWARD

In 2018, the fellow textile manufacturers were facing the pressures of rising of raw material prices and wages; on the other hand, the trade war between China and U.S., caused devaluation of RMB which result in the increasingly severe of export situation of the fellow PRC textile manufacturers and the keen competition with the textile enterprises in the Southeast Asia and many other unfavorable factors. However, all employees of the Group closely focus on the working methods and standards of "full-load work, full-asset operation, new thinking, new ways, new normal healthy development", always bearing in mind the various operational indicators requested by the board of directors of the Company at the beginning of the year. The Group has achieved the goals of stable staff team, reliable product quality, improved operational efficiency, and steady progress in work.

As a traditional labour-intensive textile manufacturer, in addition to further enhance the competitiveness of the Group and product value-added, enhance the corporate image, the Directors consider to implement the following plans. Apart from that, in 2018, the Group has successfully developed the asset management business in order to diversify the business risk.

(A) Environmental protection and enhance production efficiency

The Group will actively follow the local government policies in respect of energy-saving emission reduction in order to protect the environment and eliminate backward production capacity so as to enhance the production efficiency. In 2018, the Company had sold certain aged and low efficiency production machines and ordered some new and advanced production machines that are to be installed in early 2019.

(B) Streamlining operations, saving cost, enhance product quality and expand market share

In order to streamline operation and saving cost, the Group will continue to optimise the management system, improve management capabilities, and implement assessment criteria. In addition, the Group will further improve the production process in an all-round way and strictly control the quality of products. In order to enhance and expand the market share, the Group will continue the efforts in market promotion and expansion activities and maintaining the professional capabilities of the salesman.

As a veteran listed company that has been listing on the GEM for nearly 17 years, in the coming year, according to the new thinking and new methods of guidance, the Group will integrate its internal resources, optimise the industrial structure, sharpen the corporate culture, and enhance core competitiveness and sustainability.

PROSPECTS

In order to enhance competitiveness and market share of the textile sector, the Group will continue to eliminate backward production capacity by introduction of advanced equipment; improve product quality and output by strengthen the research and development of Group and further develop the domestic market.

As discussed under the section of business and operation review on page 8 of the annual report, and with reference to the announcement of the Company dated 14 March 2019, while the negotiation is still on-going, the Group intends to purchase 41.67% interest in the entire issued share capital of the Target Company from one of the Vendor only. The Directors consider that the New Proposed Acquisition is in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group. In view of the business prospects of the Target Group and the experienced management team, the Directors believe that the Proposed Acquisition will enable the Group to capture the opportunities arising from the potential growth of related businesses such as water management, planning and operation and maintenance.

Guizhou Anheng will continue to engaged in the assets management and investment advisory services. At present, the Guizhou Anheng team is also actively exploring investment opportunities to enhance the Group's long-term growth. Guizhou Anheng will serve as a platform for the Group to develop its asset management business and the Group will make full use of the new policies of relevant government departments to seize opportunities and gradually expand the business of Guizhou Anheng, including equity funds, securities investment funds and industrial funds.

Under the leadership of the management team. The Board believes that the Group will be able to meet the upcoming challenges in 2019 and will therefore pay off for its shareholders.

APPRECIATION

On behalf of the Board, I wish to extend our appreciation to our customers, vendors, banks and shareholders for their enthusiasm and support, and to every employee for their hard work and dedication to the Group throughout the year.

Jiang Ning
Chairman

Zhejiang, the PRC, 15 March 2019

BUSINESS AND OPERATION REVIEW

In 2018, the fellow textile manufacturers were facing the pressures of rising of raw material prices and wages which also happened in the fashion and garment industries in the PRC. In additions, the volatility of RMB exchange rate was widen and the increasing trade tension between China and the U.S., led to more cautious to accept medium to long-term orders, as such the woven fabrics for export sales and domestic sales during the year ended 31 December 2018 were dropped by approximately 22.95% and approximately 7.2% respectively. The Group has to balance the existing policies in developing both domestic and overseas market so as to minimise the market risk of the Group.

貴州安恒永晟投資管理有限公司 (Guizhou Anheng Yongcheng Investment Management Co., Ltd.*) ("Guizhou Anheng"), a wholly owned subsidiary of the Company is principally engaged in assets management. During the year ended 31 December 2018, approximately RMB57,000 of assets management fee income and approximately RMB974,000 of investment advisory services income were contributed by Guizhou Anheng. Guizhou Anheng was actively in exploring potential investment opportunities and finding potential projects for asset management so as to enhance the return of the shareholder of the Company and diversify the investment risk of the Group. In view of the current changes in the economy and the securities market in the PRC, private equity funds in the PRC tend to be more cautious and exercise higher level of diligence in identifying investment projects. After completion of the services contract on the first private equity fund management in June 2018 and the investment advisory services in November 2018, Guizhou Anheng did not entered into any new assets management services contract during the year ended 31 December 2018.

Up until now, 深圳南山金融科技雙創股權投資基金合夥企業(有限合夥) (Shenzhen Nanshan Fintech Entrepreneurship and Innovation Equity Investment Fund Partnership Enterprise (Limited Liability Partnership)*) ("Nanshan Fintech" or the "Fund") has yet to identify any suitable investment opportunities due to the current economy condition and securities market in the PRC. In order to enhance efficiency in the utilization of the capital, the partners of the Fund (the "Partners") agreed to adjust the payment method of the Capital Contribution and amend certain terms of the Limited Partnership Agreement. On 14 September 2018, the Second Supplemental Agreement were entered into between the Partners. Please refer to the announcement of the Company dated 14 September 2018 for the terms of the Second Supplemental Agreement. The Directors are of the view that the entering into of the Second Supplemental Agreement will not change the total capital commitment of each Partner in the Fund and the proportion of the capital contribution of each Partner. Given that by entering into of the Second Supplemental Agreement, the Company can re-liquidate its capital, thereby increasing its cash-flow which allows the Company to reallocate its resources for better investment, the Directors consider that the terms of the Second Supplemental Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

In order to diversify the business risk and enhance the return of capital investment of the shareholders of the Company, on 9 November 2018, the wholly owned subsidiary of the Company, 深圳永安慧聚水務科技有限公司 (Shenzhen Yongan Huiju Water Technology Co., Ltd.*) ("Shenzhen Yongan Huiju"), entered into a non-legally binding memorandum of understanding (the "MOU") with each of the two connected parties ("Vendors") respectively, please refer to the announcement of the Company dated 9 November 2018 for details. Although Shenzhen Yongan Huiju intends to purchase and the Vendors intend to sell a total of 50% of the total issued share capital of 北京太比雅科技股份有限公司 (Beijing Taibiya Technology Co., Ltd.*) (the "Target Company"), the actual percentage of interest in the Target Company that the Group is to acquire from the Vendors is subject to the final decisions of the board of Directors. With reference to the announcement of the Company dated 14 March 2019, while the negotiation is still on-going, the Group intends to purchase 41.67% interest in the entire issued share capital of the Target Company from one of the Vendor only. The Directors consider that the New Proposed Acquisition is in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group. The Target Group is principally engaged in providing information planning and design, software development, system integration and project-based systems operation and maintenance services for water management systems. The relevant systems and services are used in waterworks planning and management, water resources conservation and utilization, flood prevention and drought control, water environment management and aquatic ecological restoration. The Target Company is listed on the NEEQ (Stock code: 838941) and is based in Beijing, the PRC. In light of the business prospects and the experienced management team of the Target Group, the Directors are confident that the Proposed Acquisition will allow the Group to capture the opportunities arising from the potential growth in water management, planning, operation and maintenance-related business. The MOU are not legally binding. If Shenzhen Yongan Huiju proceeds with the New Proposed Acquisition, it will enter into legally binding agreement with the Vendor in respect of the New Proposed Acquisition.

Production Facilities

During the year ended 31 December 2018 under review, the Group spent approximately RMB357,000 in additions of furniture, fixtures and equipment and approximately RMB54,000 in plant and machinery.

Product research and development

During the year ended 31 December 2018 under review, the Group continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

Sales and marketing

During the year ended 31 December 2018, the Group actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularise the Group's new products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year ended 31 December 2018, the Group financed its operations mainly by internally generated cash and financial support from the immediate holding company, 貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Ltd.*) ("Guizhou Yongan").

As at 31 December 2018, the Group's current assets and net current assets were approximately RMB216.57 million (31 December 2017: approximately RMB202.27 million) and approximately RMB187.10 million (31 December 2017: approximately RMB150.25 million) respectively. The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was approximately 7.35 (31 December 2017: approximately 3.89).

CAPITAL COMMITMENTS

As at 31 December 2018, the Group has capital commitments of approximately RMB34,670,000 (2017: Nil) for acquisition of plant and equipment contracted for but not provided in the consolidated financial statements.

SIGNIFICANT INVESTMENTS

During the year ended 31 December 2017, the Group injected RMB74,500,000 in an unlisted fund in the PRC (the "Fund") by way of a subscription for a limited partnership. During the year ended 31 December 2018, paid-up capital of the Fund of RMB49,274,000 has been returned to the Group in order to enhance efficiency in the utilisation of the capital. Details of which were set out in the Company's announcement dated 14 September 2018.

Reference is made to the announcement of the Company dated 9 November 2018, Shenzhen Yongan Huiju entered into the MOU with each of the Vendors, pursuant to which the Group intended to purchase and the Vendors intended to sell in aggregate 50.0% of the entire issued share capital of the Target Company. However, the actual percentage of interest in the Target Company that the Group is to acquire from the Vendors is subject to the final decisions of the board of Directors. With reference to the announcement of the Company dated 14 March 2019, while the negotiation is still on-going, the Group intends to purchase 41.67% interest in the entire issued share capital of the Target Company from one of the Vendor only. The Directors consider that the New Proposed Acquisition is in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group.

The MOU are not legally binding. If the Group proceeds with the New Proposed acquisition, it will enter into legally binding agreement with the Vendor in respect of the New Proposed Acquisition. Please also refer to the section of business and operation review under Management Discussion and Analysis on page 8 for further discussion in respect of the Target Company.

MATERIAL DISPOSALS

The Group did not have any material disposals during the years ended 31 December 2018 and 2017.

SEGMENT INFORMATION

Segment information of the Group is set out in note 9.

CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group did not have any material contingent liabilities.

CHARGES ON COMPANY ASSETS

As at 31 December 2018 and 2017, the Group did not have any charges on company assets.

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2018, the Group had 390 employees (31 December 2017: 374), comprising 7 (31 December 2017: 10) in research and development, 10 (31 December 2017: 9) in sales and marketing, 321 (31 December 2017: 302) in production, 36 (31 December 2016: 37) in quality control, 5 (31 December 2017: 5) in management, and 11 (31 December 2017: 11) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

The Group operates in the PRC with most of the transactions denominated and settled in Renminbi ("RMB"). However, foreign currencies, mainly United States Dollars, Euro and Hong Kong Dollars, are required to settle the Group's expenses and additions on plant and equipment. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government, the Group has used forward contracts, foreign currency borrowings and other means to hedge its foreign currency exposure. The Group considers it has no material foreign exchange risk.

EXECUTIVE DIRECTORS

Mr. Jiang Ning (蔣寧先生), aged 47, is currently the Chairman and executive Director of the Company and is responsible for the strategic planning and corporate investment of the Company. Mr. Jiang is also a vice general manager of Guizhou Yongan, which has been the immediate holding company of the Company since 14 November 2016. Since October 2015, Mr. Jiang has taken up various posts concurrently in four subsidiaries of Guizhou Yongan, including the posts of director and legal representative of Guiyang Yongan Internet Financial Investments Services Limited* (貴陽永安互聯網金融投資服務有限公司), Shenzhen Yongan Chengxiang Investment Management Co., Ltd* (深圳永安呈祥投資管理有限責任公司) and Guiyang Qingqing Internet Technology Co., Ltd* (貴陽青青互聯網科技有限公司), and also a director of Hong Kong Liren Holding Limited (香港利仁控股有限公司). He is also a general manager of Shenzhen Blockchain Financial Services Limited* (深圳區塊鏈金融服務有限公司). Since July 2018, Mr. Jiang also has been a general manager of Hangzhou Biao Pu Data Technology Co., Ltd* (杭州標普數據科技有限公司). Mr. Jiang has over 19 years of experience in banking industry. Mr. Jiang has worked for various banks, including Agriculture Bank of China from July 1993 to September 1997 and China Everbright Bank from October 1997 to February 2003, mainly engaged in credit management and international settlement business work. Upon the completion of his master degree in the United Kingdom in 2005, Mr. Jiang joined Shenzhen Development Bank and acted as an assistant general manager in Internal Audit Department (稽核部) of the head office from September 2005 to March 2007. From April 2007 to November 2014, Mr. Jiang has served as a general manager of various departments in Ping An Bank, including the Small and Medium Enterprise Department (中小企業部), the Trade Finance Department (貿易融資部) and the International Business Department (國際業務部) of the head office and the Corporate Department (公司部) of the Western District. In November 2014, Mr. Jiang joined Webank and acted as a general manager of the Small-micro-scale Enterprise Business Department (小微企業事業部) until September 2015, mainly engaged in the promotion of a small micro- platform financial model (小微平臺金融模式) planning and implementation. From January 2017 to now, Mr. Jiang is an independent non-executive director of Jilin Jiutai Rural Commercial Bank Limited* (吉林九臺農村商業銀行股份有限公司) (stock code 6122), a company listed on the main board of the Stock Exchange of Hong Kong. Mr. Jiang graduated from Huazhong University of Science and Technology, Hankou Branch* (華中理工大學漢口分校 now known as Jianghan University* (江漢大學)) in 1993 with a bachelor degree in Engineering. He also obtained a master degree in Business Administration in the University of Birmingham in 2005. Mr. Jiang has been appointed as an executive Director of the Company at the extraordinary general meeting ("EGM") held on 28 February 2017 and elected as a Chairman of the Board on the same day.

Mr. He Weifeng (何偉楓先生), aged 39, is currently a deputy Chairman and an executive Director of the Company and is responsible for the strategic and overall management of the Company. Mr. He is the son-in-law of Mr. Zhou Yongli ("Mr. Zhou"). Mr. Zhou is the controlling shareholder of 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*) ("Zhejiang Yongli"), the ultimate parent and ultimate controlling party of the Company. Mr. He joined Zhejiang Yongli in June 2005. Mr. He had held the positions of vice general manager and general manager in Wuxi Huaqiang Properties Development Co., Ltd.* (無錫華強房地產開發有限公司), a subsidiary of Zhejiang Yongli. Mr. He formed Yongli Properties Group* (永利地產集團) which is a company with Grade 1 qualification in the PRC, where he acted as the chief executive officer. While working in Yongli Properties Group* (永利地產集團), he led a number of large-scale commercial real estate projects, in which he accumulated extensive experience in the acquisition and development of real-estate, as well as engineering, cost control, and corporate structure management. Mr. He's leadership and managerial experience was demonstrated by his vast contribution to the development of Yongli Properties Group* (永利地產集團) from a single industry company to an integrated industries company, which involved sole development, equity cooperation and debenture cooperation in the development of real estate, commercial buildings and hotel operation. Currently, Mr He acts as vice-chairman of Zhejiang Yongli where he focuses on the group's strategic planning. Mr He concurrently acts as vice general manager of Guiyang Yongan Internet Finance Investment Management Co., Ltd* (貴陽永安互聯網金融投資管理有限公司), where he is responsible for the development in real estate and finance. Mr. He has taken part in several major funds, merger and acquisition projects, which showcase his rich experience in corporate management, investment and development, as well as his insights in the cross-border projects of real-estate and finance. Mr. He graduated from the University of Leicester in July 2005 with a bachelor degree in commerce and economics. He also obtained a master degree in EMBA from Cheung Kong Graduate School of Business in September 2011. Mr. He has been appointed as an executive Director of the Company at the EGM held on 28 February 2017 and elected as a deputy Chairman of the Board on the same day.

Ms. He Lianfeng (何連鳳女士), aged 45, is currently an executive Director, Chief Executive Officer and also a general manager of the Company. She is responsible for the sales and production of the Company. Before joining the Company, she acted as the workshop director of Zhejiang Yongli Warp Knitting Co. Ltd. from September 1990 to July 2007, the general manager assistant of Zhejiang Yongli Warp Knitting Co. Ltd. from August 2007 to February 2013. She is familiar with the trends of textile market in the PRC and has gained more than 23 years of valuable experience in production management in textile enterprises. In March 2013, she joined the Company as the deputy general manager. She has been re-appointed as an executive Director of the Company on 18 May 2014 and elected as a deputy Chairman of the Board on the same day. She resigned as a deputy Chairman of the Board on 28 February 2017.

Mr. Hu Hua Jun (胡華軍先生), aged 33, is currently an executive Director of the Company. He is responsible for all secretarial work of the Chairman and the routine management of administrative department. Prior to joining the Company, Mr. Hu worked in the finance department and the general manager's office of Zhejiang Yongli from July 2008 to May 2010 and from May 2010 to December 2010, respectively. He received a bachelor degree in Accounting at Economics and Management Faculty in 湖南南華大學 (University of South China, Hunan*). He joined the Company in December 2010 and was appointed as an executive Director in May 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Song Ke (宋科先生), aged 36, is currently an independent non-executive Director of the Company. He has served as an assistant to the dean of The School of Finance of Renmin University of China since January 2018, as a deputy professor and an assistant professor in the Faculty of Currency Finance of The School of Finance of Renmin University of China* (中國人民大學財政金融學院貨幣金融系) since September 2015, and as the council director and deputy director of the International Monetary Institute of Renmin University of China* (中國人民大學國際貨幣研究所) since January 2014. Mr. Song served as league secretary general of The School of Finance of Renmin University of China* (中國人民大學財政金融學院) from July 2004 to September 2009 and post-doctorate of School of Statistics of Renmin University of China* (中國人民大學統計學院) from July 2012 to July 2015, and he was assigned as deputy commissioner of the Banking Commission of the Guizhou People's Government Finance Office* (貴州省政府金融辦銀行處) from November 2012 to December 2013. He graduated from The School of Finance of Renmin University of China (Beijing, China)* in July 2004, majoring in finance and obtained a bachelor's degree in economics. He continued his master and doctoral studies at The School of Finance of Renmin University of China (Beijing, China)* from September 2006 to July 2012, and obtained a doctoral degree in economics. Mr. Song has been appointed as the independent supervisor of Bank of Zhengzhou Co., Ltd. (stock code: 6196) since 19 May 2017. He has been appointed as an independent non-executive Director of the Company at the EGM held on 12 December 2017.

Mr. Wang Zhong (王中先生), aged 51, is currently an independent non-executive Director of the Company. He graduated from the Law School of Renmin University of China* (中國人民大學法學院) with a bachelor's degree in law and graduated from the Business School of China University of Political Science and Law* (中國政法大學商學院) with a master's degree in business administration (MBA). He practiced in Beijing Zhong Lun Law Firm* (北京中倫律師事務所) from September 1993 to June 1994. From July 1994 to June 1998, he practiced in and as a partner of Beijing Li Wen & Partners Law Firm* (北京李文律師事務所). He has been practiced in and as a partner of Beijing Wu Huan Law Firm* (北京市五環律師事務所) since July 1998. He is the licensed lawyer in the PRC and has the PRC securities legal business qualification, the PRC senior management of listed companies (independent director) qualification and the PRC practicing qualification in the fund industry. He has been appointed as an independent non-executive Director of the Company at the EGM held on 12 December 2017.

Mr. Wang Hui (王暉先生), aged 47, is currently an independent non-executive Director of the Company. He graduated from the auditing profession of Jianghan University* (江漢大學) in 1992. He also obtained a bachelor's degree in monetary banking and a master's degree in business administration (MBA) in 1998 and 2007, respectively from Zhongnan University of Economics and Law* (中南財經政法大學). He worked with Daxin CPA Company Limited* (大信會計師事務有限公司) as a senior audit manager from July 1993 to May 2005. From May 2006 to February 2009, he served as the financial director of Wuhan Hi-tech Venture Development Company Limited* (武漢高技術創業發展股份有限公司). From May 2009 to September 2011, he acted as the chief financial officer of Guangzhou Hi-Target Navigation Tech Co., Ltd.* (廣州中海達衛星導航技術股份有限公司), a PRC company listed on the ChiNext of the Shenzhen Stock Exchange (stock code: 300177). From September 2011 to February 2016, he was a vice president and a chief financial officer of Shenzhen Gongjin Electronics Co., Ltd.* (深圳市共進電子股份有限公司), a PRC company listed on the main board of the Shanghai Stock Exchange (stock code: 603118), and also as a deputy general manager of Shenzhen Gongjin Investment Management Co., Ltd.* (深圳市共進投資管理有限公司), a subsidiary of Shenzhen Gongjin Electronics Co., Ltd.*. From September 2016 to July 2017, he served as the vice president of finance and secretary of the board of Wuhan Qimi Network Technology Co., Ltd.* (武漢奇米網絡科技有限公司). Since July 2017, he has been the chief financial officer of Orsun Group Co., Ltd.* (奧山集團有限公司). He is a PRC certified public accountant and has the PRC securities and futures auditing business qualification. He has been appointed as an independent non-executive Director of the Company at the EGM held on 12 December 2017.

INDEPENDENT SUPERVISORS

Mr. Pan Xing Biao (潘興彪先生), aged 53, is an independent Supervisor of the Company. He is a certified public accountant and certified tax accountant. Mr. Pan graduated in Financial Accounting major from 浙江台州供銷學校 (Zhejiang Taizhou Supply and Marketing School*) in July 1985. He worked as the chief accountant of 紹興縣畜產品有限公司 (Shaoxing Livestock Product Co., Ltd.*) from August 1985 to April 1990, 紹興縣土特產有限公司 (Shaoxing Native Products Co., Ltd.*) from May 1990 September 1991, 紹興縣供銷貿易有限公司 (Shaoxing Supply and Marketing Trade Co., Ltd.*) from October 1991 to December 1994 and 紹興縣化纖供應有限公司 (Shaoxing Chemical Fiber Supply Co., Ltd.*) from January 1995 to June 1997. He worked as a department head at 紹興縣第一稅務師事務所 (Shaoxing First Tax Accountant Office*) from July 1997 to December 1999 and has been a director of 紹興益地稅務師事務所 (Shaoxing Yidi Tax Accountant Office*) since January 2000. He was reappointed as an independent Supervisor at the EGM held in May 2015.

SUPERVISORS

Ms. Wang Ai Yu (王愛玉女士), aged 56, is a Supervisor of the Company. She is currently an internal audit manager of the internal audit department of Zhejiang Yongli. She graduated from Chong Qing University. Ms. Wang was a teacher of 楊汛橋中心小學 (Yangxunqiao Zhongxing Primary School*) in Shaoxing County from February 1979 to January 1980 and working in the accounting department of 紹興市蜜餞廠 (Shaoxing County Mijian Factory*) from February 1980 to February 1987. She has acted as an internal audit manager of Zhejiang Yongli since February 1987. Ms. Wang has an extensive experience in finance and is well versed of the national taxation law, the accounting rules and the relevant finance, taxation, audit rules and policies. She is good at analysis and has accumulated substantial experience in data analysis, capital operation from different finance projects. She has established a set of comprehensive rules and regulations for internal control for Zhejiang Yongli in order to reduce the investment risk of the enterprises. She also has standardised the audit method for the corporate finance of and enhanced the quality of financial information, thereby enhancing the supervision in finance and accounting. She was re-appointed as a Supervisor of the Company by the AGM held on 16 May 2016 and a chairman of the Supervisory Committee.

Mr. Chen Wei (陳偉先生), aged 37, is a Supervisor of the Company. He is currently the manager of the production department of the Company since March 2015. He was a workshop supervisor in 浙江偉創紡織有限公司 (Zhejiang Wei Chuang Textiles Company Limited*) from 1998 to January 2006 and a production manager in 萬邦紡織有限公司 (Wan Bang Textiles Company Limited*) from 2006 to 2007. He was re-appointed as a Supervisor in May 2015.

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiary (the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The Group is principally engaged in (i) the manufacture and sale of woven fabrics, (ii) provision of subcontracting services; (iii) assets management services; and (iv) investment advisory services.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 44 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2018.

PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2018, the Group spent approximately RMB357,000 in additions of furniture, fixtures and equipment, approximately RMB54,000 in plant and machinery.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

BUSINESS REVIEW

Details of the financial performance and business review are discussed under Chairman's Statement on page 4 and Management Discussion and Analysis on pages 7 to 8 respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company ("Supervisors") during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors:

Mr. Jiang Ning *(Chairman)*
Mr. He Weifeng *(Deputy Chairman)*
Ms. He Lianfeng *(Chief Executive Officer)*
Mr. Hu Hua Jun

Independent Non-Executive Directors:

Mr. Song Ke
Mr. Wang Hui
Mr. Wang Zhong

Supervisors:

Ms. Wang Ai Yu *(Chairman of supervisory committee)*
Mr. Chen Wei

Independent Supervisor:

Mr. Pan Xing Biao

Each of the Directors and Supervisors (including the independent non-executive Directors and independent Supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the Directors and Supervisors was appointed as a Director and Supervisor respectively subject to termination in certain circumstances as stipulated in the relevant services contracts.

In accordance with the provisions of the Company's articles of association, the Directors and Supervisors acting for the shareholders are elected and approved by the shareholders of the Company ("Shareholders") at the general meeting of the Company for a term of three years, renewable upon re-election and re-appointment. None of the Directors who are proposed for re-election at the forthcoming annual general meeting to be held on 15 May 2019 has a service contract with the Company, which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for termination of executive Directors, independent non-executive Directors' and Supervisors' contracts by either party is not less than three months.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2018, Ms. He Lianfeng, an executive Director and her spouse totally have approximately 0.039% of interest in Zhejiang Yongli, the ultimate holding company of the Company. Mr. He Weifeng is also the deputy chairman of Zhejiang Yongli. Mr. Jiang Ning is vice general manager of Guizhou Yongan, the Company's immediate holding company, and a director of four other subsidiaries of Guizhou Yongan. Ms. Wang Ai Yu, a supervisor of the Company ("Supervisor"), is a manager of the internal audit department of Zhejiang Yongli. Zhejiang Yongli and Guizhou Yongan are associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) by virtue of being a holding company of the Company.

Save as disclosed above, as at 31 December 2018, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) 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 he/she is taken or deemed to have such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE H SHARES OR DEBENTURES

At no time during the year ended 31 December 2018 was the Company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and neither the Directors nor the Supervisors, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 32 to the consolidated financial statements, no other contracts of significance to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

CONNECTED TRANSACTIONS

During the year ended 31 December 2018 and as disclosed in note 32 to the consolidated financial statements, there were connected transactions that were exempted from the reporting, announcement or independent shareholder's approval requirements under Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors have reviewed the connected transactions set out in note 32 to the consolidated financial statements and in their opinion, these transactions entered into by the Group were:

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

(ii) on normal commercial terms or on terms no less favourable than terms available to/from independent third parties; and

(iii) carried out in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, so far as it is known to the Directors or chief executive or Supervisors of the Company, the interests and short positions of person in the shares or underlying shares of the Company, other than the interest of the Directors or Supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested directly or indirectly 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 any member of the Company were as follows:

Long positions in the shares of the Company

Domestic shares of the Company ("Domestic Shares")

Name of shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic Shares as at 31 December 2018	Approximate percentage of interests in total registered capital as at 31 December 2018
Guizhou Yongan	Beneficial owner *(Note)*	588,000,000	100.00%	55.29%
Zhejiang Yongli	Interest in controlled corporation *(Note)*	588,000,000	100.00%	55.29%
Mr. Zhou Yongli	Interest in controlled corporation *(Note)*	588,000,000	100.00%	55.29%
Ms. Xia Wanmei	Interest of spouse *(Note)*	588,000,000	100.00%	55.29%

Notes:

Mr. Zhou Yongli and his spouse Ms. Xia Wanmei, own approximately 94.25% and approximately 3.49% in Zhejiang Yongli respectively. Zhejiang Yongli owns 65% in Guizhou Yongan. Mr. Zhou Yongli and Ms. Xia Wanmei are therefore deemed to be interested in the 588,000,000 domestic shares of the Company held by Guizhou Yongan, representing 55.29% of the total issued share capital of the Company.

H shares of RMB0.1 each of the Company ("H Shares")

Name of shareholder	Capacity	Number of H Shares held	Approximate percentage of interests in H Shares as at 31 December 2018	Approximate percentage of interests in total registered capital as at 31 December 2018
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

Save as disclosed above, as at 31 December 2018, so far as was known to the Directors, chief executives and Supervisors of the Company, no other person (other than the Directors, chief executives or Supervisors of the Company) has an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

As at 31 December 2018, none of the Directors, Supervisors or the controlling shareholders (as defined in the GEM Listing Rules) of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2018, the five largest suppliers and customers of the Group accounted for approximately 56.66% and 26.36% of the Group's purchases and revenue respectively. The largest supplier and customer accounted for approximately 24.31% and 7.94% of the purchases and revenue of the Group respectively.

At no time during the year did a Director, a Supervisor, an associate or a shareholder of the Company, which to the knowledge of the Directors, own more than 5% of the Company's issued share capital, have any interest in the share capital of any of the five largest suppliers or customers of the Group.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities for the year ended 31 December 2018.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Pursuant to Appendix 20 Environmental, Social and Governance Reporting Guide (the "ESG Guide") of the GEM Listing Rules, the Group is required to prepare an ESG Report, which explains the management approaches, strategies, policies, measures taken and results of its activities on environmental and social areas and aspects, and evaluate their impact on the sustainable development of the environment and society.

Since the Company has been established in 2002, it has been working towards developing itself as an international leader in woven fabrics design, manufacture and sale. The Group's objectives are to bring new technology and products to fashion industries, returns to its investors, shareholders and employees, and positive contributions to the environment and society. The Group has adopted and implemented the strategies, policies, rules and regulations in relation to the environmental and social areas and aspects of the ESG Guide with responsibility and a high Code of Standards, which can be summarised in the first ESG report dated and published on 28 June 2017. Another ESG report for further disclosure of Aspect A1 emissions matters as required under the ESG Guide was published on the Stock Exchange's website and the Company's website on 25 June 2018. A separate and updated ESG report for updating disclosure of Aspect A1 emission matters will be published on the Stock Exchange's website and the Company's website no later than three months after the publication of this annual report.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in May 2002 and the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong. Mr. Wang Hui is the chairman of the Audit Committee.

The first quarterly results for the three months ended 31 March 2018, the interim results for the six months ended 30 June 2018, the third quarterly results for the nine months ended 30 September 2018 and the annual results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

EMOLUMENT POLICY

The Company has established a remuneration committee (the "Remuneration Committee") in January 2005 and the primary duties of the Remuneration Committee are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the Directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration. During the year ended 31 December 2018, the Remuneration Committee comprises three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong and the executive Director Mr. He Weifeng. Mr. Song Ke is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code on 31 March 2012. The primary duties of the Nomination Committee are to make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors. During the year ended 31 December 2018, the Nomination Committee comprised three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong and the executive Director, Ms. He Lianfeng. Mr. Wang Zhong is the chairman of the Nomination Committee.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 were audited by SHINEWING (HK) CPA Limited ("SHINEWING").

A resolution will be submitted to the forthcoming annual general meeting to be held on 15 May 2019 to re-appoint SHINEWING as international auditor and 浙江中興會計師事務所有限公司 (Zhejiang Zhongxing CPA Company Limited*) ("Zhejiang Zhongxing") as domestic auditor of the Group.

On behalf of the Board of
Zhejiang Yongan Rongtong Holdings Co., Ltd.*

Jiang Ling
Chairman

Zhejiang, the PRC, 15 March 2019

To: All Shareholders

We are the supervisory committee ("Supervisory Committee") of Zhejiang Yongan Rongtong Holdings Co., Ltd.*, in accordance with the company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association") during the year ended 31 December 2018, exercised conscientiously its authority, safeguarded the interest of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

The Supervisory Committee followed strictly the relevant regulations and carried out its duties honestly, including strengthening internal management and control of the Group, enforcing strict execution of various approval procedures, hiring professional consultation bodies, if necessary, standardising different aspect of management, conducting strict and effective monitoring of various significant decision making process and concrete decisions as to whether or not they comply with state laws and regulations and the Company's articles of association, whether or not shareholder's interests are protected etc., preventing abuse of authority by our senior management.

After review, we consider that the consolidated financial statements of the Group for the year ended 31 December 2018, audited by the auditor, SHINEWING, truly and sufficiently reflects the operating results and asset positions of the Group. The Committee also reviewed the Report of the Board of Directors and the Corporate Governance Report and considers that the reports meet the requirements of the relevant regulations and Articles of Association.

We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, working diligently and acting sincerely in the best interest of the Group. None of the Directors, general manager and the officers have abused their powers, caused damage to the interests of the Group and infringed upon the interests of the Group and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

By order of the Supervisory Committee of
Zhejiang Yongan Rongtong Holdings Co., Ltd.*

Wang Ai Yu
Chairman of the Supervisory Committee

Zhejiang, the PRC, 15 March 2019

During the year ended 31 December 2018, the Company has complied with all the code provisions of the Code on Corporate Governance (the “CG Code”) and the Corporate Governance Report as set out in the Appendix 15 of the GEM Listing Rules.

DIRECTORS’ AND SUPERVISORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transaction by Directors and Supervisors on terms no less exacting than the required standard of securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors and Supervisors, all Directors and Supervisors of the Company confirmed that they had complied with the required standard and the code of conduct regarding securities transactions by Directors and Supervisors adopted by the Company.

SENIOR MANAGEMENT’S AND STAFF’S SECURITIES TRANSACTIONS

Senior management and those staff who are more likely to be in possession of inside information in relation to the securities of Company have adopted the Dealing Rules. These senior management and staff have been individually notified and provided with a copy of the Dealing Rules.

BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group affairs.

The Board currently comprises four executive Directors, namely Mr. Jiang Ning (Chairman), Mr. He Weifeng (Deputy Chairman), Ms. He Lianfeng (Chief Executive Officer) and Mr. Hu Hua Jun; and three independent non-executive Directors (representing at least one-third of the Board), namely Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong. Their brief biographical details are set out in the “Directors and Senior Management” on pages 11 to 14 of the annual report. Moreover, one of the independent non-executive Director, Mr. Wang Hui has appropriate professional qualifications, accounting and related financial management expertise so that he has sufficient calibre and views to carry weight.

Saved as disclosed in this report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board. Please refer to the Directors’ Report on page 16 for the terms of appointment of each Director.

The board confines itself to making board policy decisions, such as the Group’s overall strategies and policies, annual budgets and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Group’s business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions. The management must obtain prior approval from the Board before making decision or entering into any commitment on behalf of the Group.

CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rules 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

BOARD MEETINGS

During the year ended 31 December 2018, regular meeting was held to approve the financial results for the year of 2018 and the annual results for the year ended 31 December 2017. The Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each Board meeting. Notice of at least 14 days is normally given to all Directors for the regular Board meetings to be held and for other Board meetings, reasonable notice is also given. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association. In addition, if a substantial shareholder or a Director as a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by physical Board meeting. Independent non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at that meeting. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meeting. She also keeps the minutes, which are opened for inspection at any reasonable notice by any Director.

There were ten (10) Board meetings held during the financial year ended 31 December 2018. Individual attendance of each Board member at these meetings is as follows:

Name of Directors	**Attendance/number of meetings**
Executive Directors	
Mr. Jiang Ning	10/10
Mr. He Weifeng	10/10
Ms. He Lianfeng	10/10
Mr. Hu Hua Jun	10/10
Independent Non-executive Directors	
Mr. Song Ke	10/10
Mr. Wang Hui	10/10
Mr. Wang Zhong	10/10

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2018, all Directors have participated in continuous professional development by attending training course on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2018 is summarised below:

Name of Directors	Attended training course on topics related to corporate governance and regulations
	Yes/No
Executive Directors	
Mr. Jiang Ning	Yes
Mr. He Weifeng	Yes
Ms. He Lianfeng	Yes
Mr. Hu Hua Jun	Yes
Independent Non-executive Directors	
Mr. Song Ke	Yes
Mr. Wang Hui	Yes
Mr. Wang Zhong	Yes

All Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code A.2.1 of the CG Code provides, inter alia, that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executives should be clearly established and set out in writing.

Mr. Jiang Ning is the chairman of the Company, Mr. He Weifeng is the deputy chairman of the Company and Ms. He Liangfeng is the chief executive officer of the Company.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the mandatory provisions set out in the CG Code.

The primary duties of the audit committee of the Company (the "Audit Committee") are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong. Mr. Wang Hui is the chairman of the Audit Committee. Mr. Wang Hui is a PRC certified public accountant and possess the qualifications as required under rule 5.05(2) of the GEM Listing Rules. None of the members of the Audit Committee is a member of the former or existing auditors of the Group. The Audit Committee has adopted the principles set out in the CG Code.

The Audit Committee has reviewed the results for the three months ended 31 March 2018, six months ended 30 June 2018, and nine months ended 30 September 2018 of the Group. It also has reviewed the audited consolidated financial statements for the year ended 31 December 2018 with management and the Group's external auditors and recommended its adoption to the Board.

The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Audit Committee meetings. She also keeps the minutes, which are opened for inspection at any reasonable notice by any members of the Audit Committee. There were four meetings held by the Audit Committee during the year ended 31 December 2018 for reviewing the consolidated annual results of the Group for the year ended 31 December 2017 and the three quarterly results in 2018. Individual attendance of each independent non-executive Director at these meetings is as follows:

Name of Directors	**Attendance/number of meetings**
Independent Non-executive Directors	
Mr. Song Ke	4/4
Mr. Wang Hui	4/4
Mr. Wang Zhong	4/4

The authorities of the Audit Committee include (1) investigation of any activity within its terms of reference; (2) seeking any information from any employee of the Group when required; and (3) obtaining outside legal or other independent professional advice if it considers necessary.

The main duties of the Audit Committee are as follows:

(a) to consider appointment of the external auditors, the audit fee, and any question of resignation or dismissal;

(b) to discuss with the external auditors the nature and scope of the audit;

(c) to review and monitor the external auditors, independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(d) to develop and implement policy on the engagement of external auditors to supply non-audit services;

(e) to review the Company's quarterly, interim and annual consolidated financial statements before submission to the Board;

(f) to discuss problem and reservations arising from the final audits and any matters that the external auditors may wish to discuss;

(g) to review the Group's statement on risk management and internal control system and financial reporting system prior to endorsement by the Board;

(h) to consider the major findings of any internal investigation in relation to the risk management and internal control matters as delegated by the Board and the management's response;

(i) to consider other topics as defined by the Board; and

(j) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness.

AUDITOR'S REMUNERATION

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Group.

The remuneration in respect of services provided by the international auditor and domestic auditors for the year ended 31 December 2018 is analysed as follows:

	2018 **RMB'000**
Audit service	**723**
Performed agreed-upon procedures regarding information on preliminary annual result announcement of the Group	**20**
Professional services in connection with major acquisition transactions	**263**
	1,006

The audit services fee for the years ended 31 December 2018 represent services provided by SHINEWING and Zhejiang Zhongxing. The other services fee for the year ended 31 December 2018 represents the services provided by SHINEWING.

REMUNERATION COMMITTEE

According to the CG Code, the Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the CG Code in January 2005. The primary duties of the Remuneration Committee of the Company are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the Directors and Senior Management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. According to the written terms of reference of the Remuneration Committee, the duties of the Remuneration Committee shall be:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policy;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(f) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(g) to advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under Rule 17.90 of the GEM Listing Rules.

The Remuneration Committee shall be appointed by the Board and shall consist of not less than three members and a majority of whom should be independent non-executive Directors. During the year ended 31 December 2018, the Remuneration Committee comprises three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong and the executive Director, Mr. He Weifeng. Mr. Song Ke is the chairman of the Remuneration Committee.

During the year ended 31 December 2018, the Remuneration Committee held one meeting for reviewing the remuneration of the re-elected, re-designated Directors and Supervisors and relevant matters; the procedural rules of the Remuneration Committee and made recommendation to the board. Individual attendance of each member of Remuneration Committee at the meeting is as follows:

Name of Directors	**Attendance/number of meetings**
Executive Director	
Mr. He Weifeng	1/1
Independent Non-executive Directors	
Mr. Song Ke	1/1
Mr. Wang Hui	1/1
Mr. Wang Zhong	1/1

Based on the advice provided from Remuneration Committee, the emoluments of the Directors are recommended by the Board of Directors, having regard to their duties and responsibilities and approved by the shareholders of the Company.

NOMINATION COMMITTEE

According to the CG Code, the Company has established a nomination committee (the "Nomination Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the CG Code on 30 March 2012. The primary duties of the Nomination Committee are to make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors. According to the written terms of reference, the duties of the Nomination Committee shall be:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Group's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorship;

(c) to assess the independence of the independent non-executive directors of the Company; and

(d) to make recommendations to the Board on:

- (i) the role, responsibilities, capabilities, skills, knowledge and experience required from members of the Board;
- (ii) the policy on the terms of employment of non-executive Directors;
- (iii) the composition of the Audit Committee, Remuneration Committee and other board committees of the Company;
- (iv) proposed changes to the structure, size and composition of the Board;
- (v) candidates that are suitable and qualified to become members of the Board;
- (vi) the selection of individuals nominated for directorship;
- (vii) the re-election by shareholders of the Company of any Directors who are to retire by rotation having regard to their performance and ability to continue to contribute to the Board;
- (viii) the continuation (or not) in service of any independent non-executive Director serving more than nine years and to provide recommendation to the shareholders of the Company as to how to vote in the resolution approving the re-election of such independent non-executive Director;
- (ix) the appointment or re-appointment of Directors;
- (x) succession planning for Directors in particular the Chairman and the Chief Executive Officer; and
- (xi) the policy concerning diversity of Board members;

(e) to give full consideration to the followings in discharging of its duties as mentioned above or elsewhere in the terms of reference:

  (i) the succession planning of Directors;

  (ii) the need of leadership of the Group with a view of maintaining or fostering the competitive edge of the Group over others;

  (iii) the changes in market environment and commercial needs of the market in which the Group operates;

  (iv) the skills and expertise required from members of the Board;

  (v) the Board's policy concerning diversity of Board members adopted from time to time; and

  (vi) the relevant requirements of the GEM Listing Rules with regard to the Directors;

(f) in respect of any proposed service contracts to be entered into by any members of the Group with its director or proposed director, which require the prior approval of the shareholders of the Company at general meeting, to review and provide recommendations to the shareholders of the Company (other than shareholders who are Directors with a material interest in the relevant service contracts and their respective associates) as to whether the terms of the service contracts are fair and reasonable and whether such service contracts are in the interests of the Company and the shareholders as a whole, and to advise shareholders on how to vote;

(g) to ensure that on appointment to the Board, non-executive Directors receive a formal letter of appointment setting out what is expected of them in terms of time commitment, committee service and involvement outside meetings of the Board;

(h) to conduct exit interviews with any Director upon their resignation in order to ascertain the reasons for his departure; and

(i) to consider other matters, as defined or assigned by the Board from time to time.

The Nomination Committee shall be appointed by the Board and shall consist of not less than three members and a majority of whom should be independent non-executive Directors. During the year ended 31 December 2018, the Nomination Committee comprises three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong and the executive Director, Ms. He Lianfeng. Mr. Wang Zhong was elected as the chairman of the Nomination Committee.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Group's own business model and specific needs from time to time.

During the year under review, the Nomination Committee held one meetings for discussion of the existing structure of the board of directors of the Company and the procedures of appointment of Directors and Supervisors; and assessment of re-appointment of Directors and Supervisors in order to make recommendation to the board of Directors. Individual attendance of each member of Nomination Committee at the meeting is as follows:

Name of Directors	Attendance/number of meetings
Executive Director	
Ms. He Lianfeng	1/1
Independent Non-executive Directors	
Mr. Song Ke	1/1
Mr. Wang Hui	1/1
Mr. Wang Zhong	1/1

With the existing Board members coming from a variety of business and professional background, the Nomination Committee considers that the Board possess a balance of skills, experience and diversity appropriate to the requirement of the Company's business.

DIRECTOR NOMINATION POLICY

The purpose of the Director nomination policy of the Company is to :

(i) set out the criteria and process in the nomination and appointment of Director;

(ii) ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company; and

(iii) ensure continuity of the Board and appropriate leadership at Board level.

Criteria for nomination and appointment of Directors

The criteria for selecting any candidate for directorship are set out as follows:

(i) bringing an independent judgment and make constructive recommendation on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

(ii) taking the lead where potential conflicts of interests arise;

(iii) serving on the Audit Committee, and the Remuneration Committee and the Nomination Committee (in the case of candidate for non-executive Director) and other relevant Board Committees, if invited;

(iv) devoting sufficient time to the Board and/or any Committee(s) on which he or she serves so as to allow them to benefit from his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board;

(v) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;

(vi) ensuring the Nomination Committees on which he or she serves to perform their powers and functions conferred on them by the Board; and

(vii) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the GEM Listing Rules, where appropriate.

If a candidate is proposed to be appointed as an independent non-executive Director ("INED"), his or her independence shall be assessed in accordance with, among other things, the factors as set out in Rule 5.09 under the GEM Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an INED with such qualifications or expertise as required under Rule 5.02(2) under the GEM Listing Rules.

Nomination process

(a) Appointment of New Directors

(i) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of a new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(ii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iii) The Nomination Committee should then recommend the Board to appoint the appropriate candidate for directorship, as applicable.

(iv) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of Director at the general meeting.

(b) Re-election of Director at General Meeting

(i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as a Director at the general meeting, an announcement will be published and a circular in respect of the relevant information of the candidate will be disclosed to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the GEM Listing Rules and/or applicable laws and regulations.

(c) Re-election of INED at General Meeting

Where the Board proposes a resolution to elect an individual as an INED at the general meeting, an announcement will be published and a circular in respect of the relevant information of the candidate will be disclosed to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the GEM Listing Rules and/or applicable laws and regulations:

(i) the process used for identifying the individual and why the Board believes the individual should be elected and the reasons why it considers the individual to be independent;

(ii) if the proposed INED will be holding his/her seventh (or more) listed company directorship, reasons should be given by the Board that the individual would still be able to devote sufficient time to the Board;

(iii) the perspectives, skills and experience that the individual can bring to the Board; and

(iv) how the individual contributes to diversity (including gender diversity) of the Board.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the current nomination policy and where, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs, to comply with all applicable laws and regulations from time to time and maintain good corporate governance practice.

A board diversity policy has been adopted by the Board in order to set out the approaches for achieving diversity on the Board. All Board appointments will be based on merit while taking into account diversity including gender diversity. The Nomination Committee will regularly review the measurable objectives to ensure its effectiveness to achieve diversity on the Board. The following measurable objectives have been set for implementing the board diversity policy:

- ensuring that there is no limitation on gender on selection of Directors;
- inclusion of candidates for Board members with working experience in other industries; and
- inclusion of candidates for Board members with knowledge and skills in different aspects.

The Nomination Committee has adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, will be given an induction package containing all key legal and the GEM Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a Director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's businesses and activities.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and its subsidiaries and in presenting the quarterly and annual consolidated financial statements, and announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Company's position and prospects. In preparing the financial statements for the year ended 31 December 2018, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis.

The Directors' responsibilities in preparing financial statements and the auditor's responsibilities for the audit of the financial statements are set out in the Independent Auditor's Report on page 41 of this annual report.

INSIDE INFORMATION, RISK MANAGEMENT AND INTERNAL CONTROL

The Group has established policy and procedure for handling and dissemination of insider information. The policy requires sensitive information (if any) to be protected with high level of care and the persons receiving potential sensitive information are required to comply with the applicable laws, regulations and rules in respect of insider information. The Group follows the requirements of the GEM Listing Rules and the Securities and Futures Ordinance when disclosing information to public. Inside information (if any) will be disseminated timely in a way which aims at preventing any person be placed in a privileged dealing position, letting the market be appropriately informed for the latest information, and allowing investors to have reasonable time to respond to such information.

The Board recognises its responsibility to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's objectives, and ensure the Group establishes and maintains a sound and effective risk management and internal control system. The Board acknowledged that an effective risk management and internal control systems are systems that are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board should oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems.

The Group's risk management system is established under a structured framework with clearly defined objective. A top-down approach and methodology is adopted to identify risk, assess and prioritize risk, develop risk response, monitor risk and report risk. The Group has set up appropriate governance body to enforce the risk management system. Risks are identified through periodic assessment performed by different departments of the Group following the preset program. Identified risks are then summarized, prioritized according to the risk assessment criteria as set out in the Group's risk policy documented in report, and communicated within the Group to ensure that risk owners and action plans are properly assigned to the identified risks.

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks. The Group share the internal audit function with its ultimate holding company, Zhejiang Yongli. Hence, the risk management and internal control system is evaluated independently by the Internal Audit Department of Zhejiang Yongli ("Internal Audit Department") on an on-going basis. At the year end, the Company normally will appoint an independent professional party to carry out annual review of risk management and internal control systems covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls if the Board consider that it is necessary. During the year under review, no major issue had been identified and reported to the Board and the Audit Committee by the Internal Audit Department, therefore the Board decided to rely on the on-going review of the internal control system and risk management of the Group by Internal Audit Department for the year of 2018. During the year ended 31 December 2018, the Board has conducted annual review to assess the effectiveness of the Group's risk management and internal control system through the following:

(i) reviewing the policy of the Group's risk management system;

(ii) reviewing the risk reports prepared by the Group and evaluating the risk inventory list and the related action plan assigned for the identified risks;

(iii) assessing the program and findings of the team and governance body who are in charge of risk management system and internal audit function;

(iv) conducting regular management meetings to discuss and handle the identified risks and internal control issues; and

(v) reviewing the findings made by the auditor in respect of issues encountered during the process of annual audit and interim review.

Based on the results of the assessment, no major issue has been identified that indicates significant inadequacy and ineffectiveness of the Group's risk management and internal control system. Appropriate actions are being taken to address the areas for improvement identified. The Board and the Audit Committee considered that the key areas of the Company's risk management and internal control systems are reasonably implemented.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Details of the remuneration of the Directors and senior management are contained in note 14 to the consolidated financial statements.

COMPANY SECRETARY

Ms. Chen Yen Yung ("Ms. Chen") was appointed as the company secretary of the Company in June 2002. She is responsible to the Board for ensuring the board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance developments.

During the year ended 31 December 2018, Ms. Chen has undertaken not less than 15 hours of relevant professional training.

SHAREHOLDER'S RIGHTS

Shareholder's rights are set out in a number of sources, such as the Articles of Association, and the GEM Listing Rules. With reference to the above sources, the Company sets out below details of shareholder's rights in the following aspects:

1. **The way in which shareholders of the Company ("Shareholders") can convene an extraordinary general meeting or class meeting**

   Pursuant to Article 79 of the Articles of Association, Shareholders who request the convening of an extraordinary general meeting or a class meeting shall do so in accordance with the following procedures:

   (a) two (2) or more shareholders with combined title to more than 10% (including 10%) of shares with voting rights at the meeting to be convened may sign one or several written requests in the same format and with the same contents to the board of directors to convene an extraordinary general meeting or class meeting of shareholders and which shall also specify the meeting's agenda. After receiving the aforesaid written request, the board of directors shall promptly convene an extraordinary general meeting or class meeting of shareholders. The aforesaid number of shares held by shareholders shall be calculated as at the date of the written request;

   (b) if the Board fails to issue notification convening a meeting within thirty (30) days after receiving the aforesaid written request, the Shareholders who raised the request may convene the meeting within four (4) months after the Board received that request. The procedures for convening such a meeting shall be, as much as possible, the same as the procedures for convening a general meeting by the Board.

   The written request must be signed by the Shareholders and sent to the Head office and principal place of business in Hong Kong of the Company as disclosed in the "Corporate Information" section to the annual report (the "Hong Kong Office"), for the attention of the Company Secretary of the Company. The request will then be verified with the Company's H Share share registrar and transfer office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will forward the request to the Board.

2. **The procedures for sending enquiries to the Board**

   Shareholders and other stakeholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Hong Kong Office and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling.

3. The procedures for making proposals at shareholder's meetings

To put forward proposals at an annual general meeting or an extraordinary general meeting, the shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Hong Kong Office. The request will be verified with the H Share share registrar and transfer office and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting. Moreover, the notice period concerning the notice to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to the Article 58 of the Articles of Association of the Company:

"When convening a general meeting of shareholders, written notification shall be made to the Shareholders registered in the Shareholders Register forty-five (45) days (including the date of meeting but excluding the date of notice issuance) before the convening of the meeting of those matters to be discussed at the meeting and the date and location of the meeting. Shareholders intend to attend the general meeting shall send their written acknowledge to the Company twenty (20) days before the convening of the meeting."

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company has disclosed all necessary information to the Shareholders and investors in compliance with the GEM Listing Rules and uses a number of formal communications channels to account to Shareholders and investors for the Company. These include (i) the Company replying to the enquiries from Shareholders timely; (i) updated and key information of the Company available on website of the Company; (iii) the Company's website offering communication channel between the Company and its Shareholders and investors; and (iv) the Company's H Share share registrar in Hong Kong serves the shareholders regarding all H Shares share registration matters.

CONSTITUTIONAL DOCUMENTS

An extraordinary ordinary meeting was held on 31 July 2018 to approve the amendment of the Articles of Association, among other things, to conform with the relevant requirements of the GEM Listing Rules.

DIVIDEND POLICY

The holders of the H Shares will share proportionately, on a per Share basis, all dividends and other distributions declared by the Board of Directors. For holders of the H Shares, cash dividend payments, if any, shall be declared by the Board in Renminibi and paid in HK dollars.

The declaration of dividends is subject to the discretion of the Board. The amounts of dividends actually declared and paid to holders of H shares will depend upon the following factors:

— general business conditions of the Group;
— financial results of the Group;
— capital requirements of the Group;
— interests of the Company's shareholders; and
— any other factors which the Board may deem relevant.

The Company may only distribute dividends after it has made allowances for:

— recovery of losses, if any;
— allocations to the statutory surplus reserve fund;
— allocations to the statutory welfare fund; and
— allocations to a discretionary surplus reserve fund if approved by its shareholders.

Dividends payable in respect of H Shares shall be calculated and declared in RMB and paid in Hong Kong dollars ("HK$"). Conversion of RMB into HK$ will be subject to the relevant PRC foreign exchange regulations and will be calculated at an exchange rate which will be the average of the People's Bank of China ("PBOC") Exchange Rate one (1) calendar week preceding the date of declaration of dividends. If the Company does not have sufficient foreign exchange reserves to pay its HK$ dividends, it intends to exchange the required HK$ from authorised banks in the PRC or through other means.

LOOKING FORWARD

The Board believes that good corporate governance can safeguard the effective allocation of resources and safeguard shareholder's interest. The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the Code Provisions.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.
(Established as a joint stock limited company in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Zhejiang Yongan Rongtong Holdings Co., Ltd. (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") set out on pages 44 to 115, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "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 AND IMPAIRMENT ASSESSMENT OF INVENTORIES

Refer to note 21 to the consolidated financial statements and the accounting policies on page 58.

The key audit matter	How the matter was addressed in our audit
At 31 December 2018, the Group maintained inventories of approximately RMB29 million, net of accumulated allowance for inventories of approximately RMB5.4 million. We have identified the valuation of inventories as a key audit matter due to the use of significant degree of judgments and estimates in identifying obsolete and slow moving inventories and in determining the net realisable value ("NRV") which are based on conditions and the marketability of the inventories. NRV represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Group carried out the inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow moving items so as to write off or write down inventories to their NRVs.	Our audit procedures were designed to evaluate the management's assessment of the conditions and the marketability of the obsolete and slow moving inventories and identify any valuation risk of inventories. We have assessed the reasonableness of the basis of determining the NRV and evaluate the condition and marketability of the inventories adopted by the management. We have tested the subsequent sales on a sample basis, to source documents. We have also assessed the sufficiency of allowance on obsolete and slow moving inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sampling basis.

RECOVERABILITY AND IMPAIRMENT ASSESSMENT OF TRADE RECEIVABLES

Refer to note 22 to the consolidated financial statements and the accounting policies on page 61 to 64.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, trade receivables of the Group amounted to approximately RMB31 million, net of loss allowance for expected credit loss ("ECL") of approximately RMB639,000. We have identified the impairment assessment of the trade receivables as a key audit matter in view of the significance of the carrying amount of trade receivables and the ECL estimation performed by the management involved significant judgements and estimates, including use of significant unobservable inputs used in the valuation performed by the management at the end of the reporting period.	Our audit procedures were designed to review the management estimation on ECL of trade receivables and challenge the reasonableness of the significant judgements and estimates, including use of significant unobservable inputs adopted in the ECL estimation by the management. We have also assessed the appropriateness of the ECL provisioning methodology and reviewed the inputs data used in assessment of ECL with reference to the latest available general economic data and the cash collection performance against the Group's historical trends and credit loss experience.

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

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

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

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

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kwan Chi Fung.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Kwan Chi Fung
Practising Certificate Number: P06614

Hong Kong
15 March 2019

For the year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
Revenue	8	**151,288**	159,442
Cost of sales		**(134,027)**	(144,019)
Gross profit		**17,261**	15,423
Other income and gains	8	**4,777**	2,363
Selling and distribution costs		**(2,953)**	(2,538)
Administrative expenses		**(16,148)**	(12,718)
Finance costs	10	**(6,006)**	(3,776)
Loss before taxation		**(3,069)**	(1,246)
Income tax expenses	11	**(502)**	(963)
Loss for the year	12	**(3,571)**	(2,209)
Other comprehensive income (expense) for the year			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of properties		**2,738**	4,259
Income tax relating to revaluation of properties		**(684)**	(1,065)
		2,054	3,194
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on financial assets at fair value through other comprehensive income		**457**	—
Fair value loss on available-for-sale investments		**—**	(1,171)
Income tax relating to items that may be reclassified subsequently		**(114)**	292
		343	(879)
Other comprehensive income for the year, net of tax		**2,397**	2,315
Total comprehensive (expense) income for the year		**(1,174)**	106
		RMB	RMB
Loss per share			
Basic and diluted	13	**(0.34) cents**	(0.21) cents

	Notes	**2018 RMB'000**	2017 RMB'000
Non-current assets			
Property, plant and equipment	17	**98,675**	102,940
Prepaid lease payments	18	**6,080**	6,268
Goodwill	19	**1,230**	1,230
Financial asset at fair value through other comprehensive income	20	**635**	—
Financial asset at fair value through profit or loss	20	**25,129**	—
Deposits paid for acquisition of property, plant and equipment		**19,370**	—
Available-for-sale investments	20	**—**	73,807
		151,119	184,245
Current assets			
Inventories	21	**29,246**	27,843
Trade and other receivables	22	**33,525**	37,713
Prepaid lease payments	18	**188**	188
Amount due from ultimate holding company	23	**—**	71
Tax recoverable		**187**	—
Bank balances and cash	24	**153,425**	136,451
		216,571	202,266
Current liabilities			
Trade and other payables	25	**26,194**	41,152
Contract liabilities	26	**3,273**	—
Tax payables		**—**	8
Amount due to a fellow subsidiary	27	**—**	4,432
Amount due to immediate holding company	30	**—**	6,426
		29,467	52,018
Net current assets		**187,104**	150,248
Total assets less current liabilities		**338,223**	334,493
Non-current liabilities			
Deferred tax liabilities	29	**11,451**	11,085
Amount due to immediate holding company	30	**32,543**	26,537
		43,994	37,622
Net assets		**294,229**	296,871

	Notes	2018 RMB'000	2017 RMB'000
Capital and reserves			
Share capital	31	**106,350**	106,350
Share premium and reserves		**187,879**	190,521
		294,229	296,871

The consolidated financial statements on pages 44 to 115 were approved and authorised for issue by the board of directors on 15 March 2019 and are signed on its behalf by:

Mr. Jiang Ning
Director

Mr. Hu Hua Jun
Director

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note (a))	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (note (b))	Accumulated losses RMB'000 (note (c))	Total RMB'000
At 1 January 2017	106,350	69,637	343,903	34,550	12,496	(257,932)	309,004
Loss for the year	—	—	—	—	—	(2,209)	(2,209)
Fair value loss on available-for-sale investment, net of tax	—	—	—	(879)	—	—	(879)
Gain on revaluation of properties, net of tax	—	—	—	3,194	—	—	3,194
Other comprehensive income for the year	—	—	—	2,315	—	—	2,315
Total comprehensive income (expense) for the year	—	—	—	2,315	—	(2,209)	106
Adjustment of deemed capital contribution arising from changes in cash flow estimates on amount due to immediate holding company *(note 30)*	—	—	(12,239)	—	—	—	(12,239)
At 31 December 2017 (as originally stated)	106,350	69,637	331,664	36,865	12,496	(260,141)	296,871
Effect of changes in accounting policies *(note 2)*	—	—	—	566	—	(2,034)	(1,468)
At 1 January 2018 (as restated)	**106,350**	**69,637**	**331,664**	**37,431**	**12,496**	**(262,175)**	**295,403**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(3,571)**	**(3,571)**
Gain on revaluation of properties, net of tax	**—**	**—**	**—**	**2,054**	**—**	**—**	**2,054**
Fair value gain on financial assets, net of tax	**—**	**—**	**—**	**343**	**—**	**—**	**343**
Other comprehensive income for the year	**—**	**—**	**—**	**2,397**	**—**	**—**	**2,397**
Total comprehensive income (expense) for the year	**—**	**—**	**—**	**2,397**	**—**	**(3,571)**	**(1,174)**
At 31 December 2018	**106,350**	**69,637**	**331,664**	**39,828**	**12,496**	**(265,746)**	**294,229**

Notes:

(a) Other reserve represents the dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from ultimate holding company and immediate holding company (note 30) of the Company.

(b) As stipulated by regulations in the People's Republic of China (the "PRC"), the Company is required to appropriate 10% of its after-tax profit (after offsetting prior year losses) to a statutory surplus reserve fund until the balance of the fund reaches 50% of its registered capital and thereafter any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior year losses, or for conversion into registered capital on the condition that the statutory surplus reserve fund shall be maintained at a minimum of 25% of the registered capital after such utilisation.

(c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 December 2018 and 2017, no reserves were available for distribution as the Group incurred accumulated losses.

	Note	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES			
Loss before taxation		**(3,069)**	(1,246)
Adjustments for:			
Interest income		**(723)**	(731)
Government subsidies		**(53)**	(838)
Gain on disposal of financial asset at fair value through profit of loss		**—**	(466)
Gain on fair value changes of financial asset at fair value through profit or loss		**(774)**	—
Finance costs		**6,006**	3,776
Amortisation of prepaid lease payments		**188**	188
Depreciation of property, plant and equipment		**6,614**	6,984
Reversal of impairment loss of trade receivables		**(1,319)**	—
Impairment loss recognised in respect of inventories		**1,879**	1,534
Write-off of property, plant and equipment		**800**	—
Impairment loss reversed in respect of inventories		**—**	(102)
Gain on disposal of property, plant and equipment		**(307)**	—
Operating cash flows before movements in working capital		**9,242**	9,099
(Increase) decrease in inventories		**(3,282)**	9,551
Decrease in trade and other receivables		**3,549**	185
Decrease in financial asset at fair value through profit or loss		**—**	8,966
Decrease in trade and other payables		**(10,031)**	(3,405)
Decrease in contract liabilities		**(1,654)**	—
Decrease in amounts due to fellow subsidiaries		**(4,432)**	(195)
Cash (use in) generated from operating activities		**(6,608)**	24,201
Income taxes paid		**(639)**	(3,059)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(7,247)**	21,142
INVESTING ACTIVITIES			
Interest received		**723**	731
Repayment from (advance to) ultimate holding company		**71**	(71)
Purchases of available-for-sale investments		**—**	(74,978)
Refund of investment cost in financial asset at fair value through profit or loss		**49,274**	—
Deposits paid for acquisition of property, plant and equipment		**(19,370)**	—
Net cash outflow for acquisition of a subsidiary	34	**—**	(9,708)
Purchase of property, plant and equipment		**(411)**	(1,278)
Proceeds from disposal of property, plant and equipment		**307**	—
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**30,594**	(85,304)
FINANCING ACTIVITIES			
Repayment to immediate holding company		**(6,426)**	(3,776)
Government subsidy received		**53**	838
NET CASH USED IN FINANCING ACTIVITIES		**(6,373)**	(2,938)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**16,974**	(67,100)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**136,451**	203,551
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**153,425**	136,451

1. GENERAL

Zhejiang Yongan Rongtong Holdings Co., Ltd. (the "Company") is a joint stock limited company established in the People's Republic of China (the "PRC") and the H shares of the Company are listed on GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate parent is 貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Ltd.*) ("Guizhou Yongan"), an enterprise established in the PRC, and its ultimate parent and ultimate controlling party of the Company is 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*) ("Zhejiang Yongli"), which is established in the PRC.

The principal activities of the Company and its subsidiaiesy (hereinafter collectively referred to as the "Group") are (i) the manufacture and sale of woven fabrics; (ii) the provision of subcontracting services; (iii) assets management services and; (iv) investment advisory services. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

* *English name is for identification only.*

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for its first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

The impact of the adoption of HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of accumulated losses and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue*.

The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below. The change in revenue recognition does not have material impact on revenue recognised prior to 1 January 2018 and revenue recognised for the year ended 31 December 2018.

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Note	**Carrying amount previously reported at 31 December 2017** RMB'000	**Impact on adoption of HKFRS 15 — Reclassification** RMB'000	**Carrying amount as restated at 1 January 2018** RMB'000
Trade and other payables		41,152	(4,927)	36,225
Contract liabilities	(a)	—	4,927	4,927

Note:

(a) Advances received from customers

As at 1 January 2018, the "receipt in advance" of approximately RMB4,927,000 previously included in trade and other payables was reclassified to contract liabilities.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

HKFRS 9 Financial instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in accumulated losses and other component equity as at 1 January 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3 below.

(i) Classification and measurement of financial instruments

The directors of the Company reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of HKFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement.

Unlisted equity investment previously classified as available-for-sale investments carried at fair value:

The Group had elected to present in other comprehensive income for the fair value changes in respect of the Group's unlisted equity instrument amounting to approximately RMB178,000 as they are held for medium or long-term strategic purpose, and reclassified them to financial assets at fair value through other comprehensive income ("FVTOCI"). On initial application of HKFRS 9, the fair value gains and losses of these equity investments continue to be recognised in the asset revaluation reserve but they will not be reclassified to profit or loss when they are derecognised.

Investment in fund (e.g. investments not meeting the definition of equity from the issuer's perspective under HKAS 32) previously classified as available-for-sale financial assets carried at fair value:

This investment amounting to RMB73,629,000 does not meet the criteria to be classified either as at FVTOCI or at amortised cost under HKFRS 9 and were reclassified to financial assets at fair value through profit or loss ("FVTPL") upon its initial application. The Group measures it at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised in profit or loss. As such, asset revaluation reserve relating to these financial assets amounting to RMB566,000, net of the related deferred tax impact of approximately RMB188,000, was transferred to accumulated losses at 1 January 2018.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

(ii) Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

As at 1 January 2018, an additional allowance on the Group's trade receivables of approximately RMB1,958,000 has been recognised, thereby increasing the opening accumulated losses of approximately RMB1,468,000, net of the related deferred tax impact of approximately RMB490,000.

(iii) Summary of effects arising from initial application of HKFRS 9

The table below summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under HKAS 39 to the carrying amounts under HKFRS 9, including the impact on deferred tax liabilities, on 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amount at 31 December 2017 (HKAS 39)	Adoption of HKFRS 9- Reclassification	Adoption of HKFRS 9 – Remeasurement	Carrying amount as at 1 January 2018 (HKFRS 9)
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loan and receivables				
— Trade and other receivables	36,730	(36,730)	—	—
— Bank balances and cash	136,451	(136,451)	—	—
— Amount due from ultimate holding company	71	(71)	—	—
At amortised cost				
— Trade and other receivables	—	36,730	(1,958)	34,772
— Bank balances and cash	—	136,451	—	136,451
— Amount due from ultimate holding company	—	71	—	71
Available-for-sale ("AFS") investments				
— Unlisted equity investment	178	(178)	—	—
— Fund investment	73,629	(73,629)	—	—
Financial assets at FVTPL				
— Fund investment	—	73,629	—	73,629
Financial assets at FVTOCI				
— Unlisted equity investment	—	178	—	178
Deferred tax liabilities	11,085	—	(490)	10,595

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

(iii) *Summary of effects arising from initial application of HKFRS 9* (Continued)

All the financial liabilities have not been impacted by the application of HKFRS 9 and continue to be classified and measured on the same basis as (i.e. at amortised cost) they were under HKAS 39.

The table below summarises the impact of transition to HKFRS 9 on accumulated loss and other components of equity at 1 January 2018.

	Asset revaluation reserve RMB'000	**Accumulated losses** RMB'000
Balance at 31 December 2017 as originally stated	36,865	(260,141)
Transferred from asset revaluation reserve to accumulated losses as the financial assets now measured at FVTPL *(note 2(i))*	566	(566)
Recognition of additional expected credit losses, net of tax effect *(note 2(ii))*	—	(1,468)
Total change as a result of adoption of HKFRS 9 on 1 January 2018	566	(2,034)
Balance at 1 January 2018 as restated	37,431	(262,175)

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under HKAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of HKFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of HKFRS 9.

2. APPLICATION OF NEW AND AMENTMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and interpretation that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, that are measured at revalued amounts or at fair values, at the end of each reporting period.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Control is achieved when the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

(b) Business combinations

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combinations (Continued)

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

- Deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with HKAS 12 *Income Taxes*;

- Assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

- Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

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

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

(c) Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For the goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata on the basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

(d) Property, plant and equipment

Property, plant and equipment excluding buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

Revaluations are made annually at each end of reporting period. Any increase in carrying amount of an asset as a result of a revaluation is recognised in other comprehensive income and accumulated in equity under the heading of asset revaluation reserve while any decrease resulted is recognised in profit or loss. However, an increase is recognised in profit or loss when that it reverses a revaluation decrease of the same asset previously recognised in profit or loss while a decrease is recognised in other comprehensive income when it reduces the related amount accumulated in asset revaluation reserve.

The asset revaluation reserve in respect of an item of property, plant and equipment stated at revalued amount is transferred directly to accumulated losses when it is realised on retirement or disposal.

Depreciation is recognised so as to allocate the cost or fair values of items of property, plant and equipment less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

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

(e) Inventories

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

(f) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Under HKFRS 9 (applicable on or after 1 January 2018)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI, and FVTPL.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the “other income and gains” line item (note 8).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the assets revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to accumulated losses.

Financial assets at FVTPL

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

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the 'other income and gains' line item. Fair value is determined in the manner described in note 7.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from financial analysis as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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

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

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 24 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated 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, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

Financial liabilities and equity instruments

Classification as debt or equity

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Under HKAS 39 (applicable before 1 January 2018)

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKAS 39 (applicable before 1 January 2018) (Continued)

Financial assets (Continued)

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from ultimate holding company and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale investments are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables and held-to-maturity investment.

Equity securities held by the Group that are classified as available-for-sale investments and are not traded in an active market are measured at fair value at the end of the reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale investments are recognised in other comprehensive income and accumulated under the heading of asset revaluation reserve. When the investment is disposed or is determined to be impaired, the cumulative gain or loss previously accumulated in asset revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKAS 39 (applicable before 1 January 2018) (Continued)

Financial assets (Continued)

Impairment loss on financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

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

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Under HKAS 39 (applicable before 1 January 2018) (Continued)

Financial liabilities and equity instruments

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

The Group's financial liabilities are classified as other financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables and amount due to a fellow subsidiary and immediate holding company are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Equity instruments

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

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expires, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

(h) Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

(i) Revenue recognition

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15)

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) (Continued)

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

A performance obligation represents a good or service (or a bundle of goods or services) that is district or a series of distinct goods or services that are substantially same.

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract assets and contract liabilities

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) (Continued)

Contract assets and contract liabilities (Continued)

The Group recognised revenue from the following major sources:

- sales of woven fabric goods
- provision of subcontracting services
- assets management services
- investment advisory services

Sales of goods

Revenue from sale of woven fabric is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of the goods).

Subcontracting services

Revenue from subcontracting services is recognised over time. Under these arrangements, the Group processes the consignments in accordance with the customer's specification and under the contract the Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced.

Assets management services

Revenue from fund management services is recognised over time. The Group manages a portfolio of investments on behalf of the customers. Revenue from these contracts is therefore recognised over time during the investment period, based on output method.

Investment advisory services

Revenue from investment advisory services is recognised at the point when the investment appraisal report is delivered. Under these arrangements, the Group provides investment consulting services for clients who do not have industry knowledge in equity investment market and the Group does not have the right to be paid for work done to date if the customers cancel the contract before the order was fully completed.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Output method)

Revenue from subcontracting services is recognised over time.

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Output method) (Continued)

Revenue from assets management services is recognised over time.

The progress towards complete satisfaction of a performance obligation is measured based on input method. Input methods recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation (i.e. time elapsed) relative to the total expected inputs to the satisfaction of that performance obligation. The Group's efforts or inputs are expended evenly throughout the performance period, the Group recognise revenue on a straight-line basis.

Policy applicable to the year ended 31 December 2017

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

i) *Sales of goods*

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

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

ii) *Subcontracting fee income*

Income from subcontracting work is recognised when services are provided.

Interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Borrowing costs

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

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

(k) Taxation

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

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

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

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

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Foreign currencies

In preparing the financial statements each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

(m) Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as expenses when employees have rendered services entitling them to the contributions.

(n) Short term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

(o) Research and development expenditure

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

(p) Leasing

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

(q) Prepaid lease payment

Prepaid lease payment that is accounted for as an operating lease is presented in the consolidated statement of financial position and is amortised over the lease term of the land use right on a straight-line basis.

(r) Government grants

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Investment in subsidiaries

Investment in subsidiaries is stated on the statement of financial position of the Company at cost less accumulated impairment loss.

(t) Fair value measurement

When measuring fair value, except for the net realisable value of inventories and value in use of certain properties, plant and equipment for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying the accounting policies

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

Judgments in determining the timing of satisfaction of performance obligations

The recognition of each of the Group's revenue stream requires judgment by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgment, the directors of the Company considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers.

For the Group's subcontracting services, the directors of the Company has assessed that the Group's performance creates and enhances an asset that the customer controls as the Group performs. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over time and recognised the revenue over the service period.

Legal title of buildings

Despite the Group had paid the full purchase consideration for the buildings as detailed in note 17, formal titles of certain of the Group's rights to the use of the buildings were not obtained from the relevant government authorities. Based on the legal advice from the Group's lawyer, the directors of the Company determine to recognise these buildings on the ground that they expect no major difficulties in obtaining the legal titles in the future and the Group is in substance controlling these buildings. In the opinion of the directors of the Company, the absence of formal legal title to these buildings does not impair the value of the relevant assets of the Group.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Key sources of estimation uncertainty

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

Revaluation, depreciation and useful lives of property, plant and equipment

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives as set out in note 17, commencing from the date the items of property, plant and equipment are put into their intended use. The estimated useful lives and the dates the items of property, plant and equipment are put into use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will impact the depreciation charge in the year in which such estimate has been changed.

As described in note 17, buildings in the PRC were revalued as at 31 December 2018 and 2017 based on replacement cost method respectively determined by independent professional valuer respectively. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation for replacement cost method for buildings in the PRC, the independent professional valuer considers information from the aggregate amount of the new replacement cost of the buildings and deductions may be made to allow for the age, condition, economic or functional obsolescence and environmental factor existing at the end of the reporting period. As at 31 December 2018, the carrying amounts of buildings in the PRC are approximately RMB96,235,000 (2017: RMB99,321,000).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill is RMB1,230,000 (2017: RMB1,230,000), no impairment losses were recognised for both years. Details of the assumption used are disclosed in note 19.

Impairment loss recognised in respect of trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is outstanding as well as the Group's historical experience and is adjusted to reflect current and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge or reversal to the consolidated statement of profit or loss and other comprehensive income. During the year ended 31 December 2018, reversal of impairment loss of trade receivables is approximately RMB1,319,000 (2017: nil).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less any cost to complete and to sell the goods. The cost of inventories is written down to the net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the consolidated statement of profit or loss and other comprehensive income is the difference between the carrying value and net realisable value of inventories. In determining whether the cost of inventories can be recovered, significant judgment is required. In making this judgment, the Group evaluates, amongst other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market condition and past experience in sales of similar products. It could change significantly as a result of changes in customer preferences and competitor actions in response to changes in market condition. At 31 December 2018, the carrying amount of inventories is approximately RMB29,246,000 (2017: RMB27,843,000) (net of accumulated allowance for inventories of approximately RMB5,373,000 (2017: RMB3,510,000)).

Carrying amount of amount due to immediate holding company

As at 31 December 2018, the carrying amount of the interest-free amount due to immediate holding company was approximately RMB32,543,000 (2017: RMB32,963,000). According to the assignment of debt agreement signed between Zhejiang Yongli and Guizhou Yongan mentioned in note 30, the amount is unsecured and repayable of an amount which does not exceed 50% of the operating cash flow of the year on an annual basis until the full repayment of the debt.

The carrying amount of the amount due to immediate holding company may be adjusted to reflect the revised estimated cash flows and reviews its estimates of the timing and repayment to the immediate holding company based on current year cash flow, and consequently affect deemed capital contribution at initial recognition and the amount of imputed interest to be recognised in profit or loss, if any, over the expected life of the amounts due to immediate holding company.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes amount due to a fellow subsidiary and immediate holding company as disclosed in notes 27 and 30 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost/loans and receivables (including cash and cash equivalents)	**185,157**	173.252
Financial assets at FVTOCI		
— Equity instruments designated at FVTOCI	**635**	—
Financial assets at FVTPL		
— Fund investment	**25,129**	—
Available-for-sale investments	**—**	73,807
Financial liabilities		
Financial liabilities at amortised cost	**54,310**	72,039

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, financial assets at FVTOCI, available-for-sale investments, trade and other receivables, amount due from ultimate holding company, bank balances and cash, trade and other payables and amount due to a fellow subsidiary and immediate holding company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

Currency risk

The Group has no monetary liabilities denominated in foreign currency. The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2018	2017
	RMB'000	RMB'000
Trade receivables denominated in United States dollars ("US$")	**3,273**	3,918
Bank balance denominated in US$	**1,138**	7,273
	4,411	11,191

The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to the currency of United States.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in exchange rate of US$ against the functional currency of the Company, i.e. RMB. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates.

A positive number below indicates a decrease in post-tax loss where RMB weakens 5% (2017: 5%) against US$. For a 5% (2017: 5%) strengthening of RMB against US$, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	2018	2017
	RMB'000	RMB'000
Decrease in post-tax loss	**166**	420

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its variable-rate short-term deposits. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on the short-term deposits are short-term in nature and the amounts due to immediate holding company are interest-free, the exposure of the interest rate risk is minimal and no sensitivity analysis to interest rate risk is presented.

Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of our Group mainly arises from cash and cash equivalents, trade and other receivables and amount due from ultimate holding company. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Starting from 1 January 2018, for trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for customer with significant balances and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-traded related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit ratings agencies.

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades are disclosed in respective notes.

The carrying amount of the Group's financial assets at FVTPL as disclosed in note 20 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Group's concentration of credit risk by geographical locations is mainly in the PRC (2017: PRC), which accounted for 89% (2017: 87%) of the total trade receivables as at 31 December 2018.

The Group has concentration of credit risk as 18% (2017: 12%) and 57% (2017: 35%) of the trade receivables was due from the Company's largest trade debtor and the five largest trade debtors respectively within the manufacturing and sales of woven fabric.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of non-current loans from the immediate holding company.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	At 31 December 2018				
	On demand or within 1 year RMB'000	1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	21,767	—	—	21,767	21,767
Amount due to immediate holding company	—	25,117	204,358	229,475	32,543
	21,767	25,117	204,358	251,242	54,310

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	At 31 December 2017				
	On demand or within 1 year RMB'000	1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	34,331	—	—	34,331	34,331
Amount due to a fellow subsidiary	4,432	—	—	4,432	4,432
Amount due to immediate holding company	6,426	25,704	203,771	235,901	20,724
	45,189	25,704	203,771	274,664	59,487

7. FAIR VALUE

The directors of the Company consider that the carrying amounts of the current financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values due to their short-term maturities.

The directors of the Company consider that the carrying amount of amount due to immediate holding company was approximate to its fair values as the discounting effect was taken into consideration.

The carrying amounts of financial instruments that are measured at fair value at the end of the reporting period for recurring measurement, based on the degree to which the fair value is observable in accordance to the Group's according policy are as follows:

	2018 Level 2 RMB'000	2017 Level 2 RMB'000
Financial asset at FVTPL	**25,129**	—
Financial asset at FVTOCI	**635**	—
Available-for-sale investments	**—**	73,807

7. FAIR VALUE (Continued)

There were no transfers between levels of fair value hierarchy in the current and prior years. The valuation technique and input used in the fair value measurement are set out below:

Financial Instrument	Fair value hierarchy	Fair value as at 31/12/2018	Fair value as at 31/12/2017	Valuation technique and key input
Fund investment	Level 2	RMB25,129,000	RMB73,629,000	By reference to the fair value of the underlying assets held by the investment fund through the ownership.
Unlisted equity investment	Level 2	RMB635,000	RMB178,000	By reference to the fair value of the underlying assets held by the investment fund through the ownership.

8. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the amounts received and receivable for goods sold and services rendered by the Group to external customers, net of discounts and sales related taxes. An analysis of the Group's revenue and other income and gains for the year are as follows:

	2018 RMB'000	2017* RMB'000
Revenue from contracts with customers within the scope of HKFRS 15 for the year ended 31 December 2018		
Disaggregrated by major products or services lines		
Manufacture and sale of woven fabrics	**142,937**	154,032
Subcontracting fee income	**7,320**	5,375
Investment advisory services	**974**	—
Fund management services fee	**57**	35
	151,288	159,442

* The amounts for the year ended 31 December 2017 were recognised under HKAS 18.

8. REVENUE AND OTHER INCOME AND GAINS (Continued)

Disaggregation of revenue by timing of recognition

	2018 RMB'000
Timing of revenue recognition	
At a point in time	**143,911**
Over time	**7,377**
Total revenue from contract with customers	**151,288**

	2018 RMB'000	2017 RMB'000
Other income and gains		
Gain on disposal of property, plant and equipment	**307**	—
Government subsidies *(note)*	**53**	838
Refund of land use tax	**628**	—
Reversal of impairment loss of trade receivables	**1,319**	—
Interest income	**723**	731
Gain on disposal of financial assets at FVTPL	**—**	466
Gain from change on fair value of financial asset at FVTPL	**774**	—
Foreign exchange gains, net	**50**	126
Sales of scrap materials	**408**	—
Dividend from financial asset at FVTOCI	**87**	—
Compensation income	**280**	—
Others	**148**	202
	4,777	2,363

Note: Government subsidies of RMB53,000 (2017: RMB838,000) was awarded to the Group during the year ended 31 December 2018 for encouraging enterprise development (2017: for encouraging the usage of the higher productivity machinery). There is no unfulfilled condition or contingencies relating to these subsidies.

9. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods sold or services delivered or provided.

For the year ended 31 December 2017, the segment of asset management was a new business segment of the Group through acquisition of 100% of the registered share capital of貴州安恒永晟投資管理有限公司 Guizhou Anheng Yongcheng Investment Management Company, Ltd.* ("Guizhou Anheng"), a company established in the PRC.

* *English name is for identification only*

Specifically, the Group's reportable and operating segments are as follows:

Woven fabrics	—	Manufacture and sale of woven fabrics
Subcontracting services	—	Provision of subcontracting services
Asset management	—	Asset management and investment advisory services

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

	For the year ended 31 December							
	Woven fabrics		Subcontracting services		Asset management		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Segment revenue	**142,937**	154,032	**7,320**	5,375	**1,031**	35	**151,288**	159,442
Segment result	**11,129**	11,568	**1,508**	648	**(65)**	(1,303)	**12,572**	10,913
Unallocated corporate income							**3,050**	2,363
Unallocated corporate expenses							**(12,685)**	(10,746)
Finance costs							**(6,006)**	(3,776)
Loss before taxation							**(3,069)**	(1,246)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of certain other income, directors' remuneration, central administration costs and finance costs. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

9. SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	At 31 December							
	Woven fabrics		Subcontracting services		Asset management		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Segment assets	**178,918**	168,213	**7,664**	4,898	**26,994**	76,208	**213,576**	249,319
Unallocated corporate assets								
— Amount due from ultimate holding company							**—**	71
— Other receivables							**502**	670
— Tax recoverable							**187**	—
— Bank balances and cash							**153,425**	136,451
Total assets							**367,690**	386,511
Segment liabilities	**(19,809)**	(30,862)	**(1,014)**	(1,105)	**(172)**	—	**(20,995)**	(31,967)
Unallocated corporate liabilities								
— Other payables							**(8,472)**	(9,185)
— Amount due to a fellow subsidiary							**—**	(4,432)
— Deferred tax liabilities and tax payables							**(11,451)**	(11,093)
— Amount due to immediate holding company							**(32,543)**	(32,963)
Total liabilities							**(73,461)**	(89,640)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than amount due from ultimate holding company, other receivables, tax recoverable and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to operating segments other than other payables, amount due to a fellow subsidiary, deferred tax liabilities, tax payables and amount due to immediate holding company. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

9. SEGMENT INFORMATION (Continued)

(c) Other segment information

Amounts included in the measure of segment profit or segment assets:

	For the year ended 31 December							
	Woven fabrics		Subcontracting services		Unallocated		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
— Impairment loss recognised in respect of inventories	**1,879**	1,534	**—**	—	**—**	—	**1.879**	1,534
— Reversal of allowance for inventories	**(16)**	(102)	**—**	—	**—**	—	**(16)**	(102)
— Reversal of impairment loss recognised in respect of trade receivables	**(1,255)**	—	**(64)**	—	**—**	—	**(1,319)**	—
— Addition to non-current assets	**18,818**	1,235	**963**	43	**—**	—	**19,781**	1,278
— Amortisation of prepaid lease payments	**179**	182	**9**	6	**—**	—	**188**	188
— Depreciation of property, plant and equipment	**6,292**	6,749	**322**	235	**—**	—	**6,614**	6,984
— Write-off of property, plant and equipment	**761**	—	**39**	—	**—**	—	**800**	—
— Research and development costs	**1,004**	186	**51**	6	**—**	—	**1,055**	192

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or segment assets:

— Interest income	**—**	—	**—**	—	**(723)**	(731)	**(723)**	(731)
— Gain on disposal of financial assets at fair value through profit or loss	**—**	—	**—**	—	**—**	(466)	**—**	(466)
— Finance costs	**—**	—	**—**	—	**6,006**	3,776	**6,006**	3,776
— Income tax expense	**—**	—	**—**	—	**502**	963	**502**	963

9. SEGMENT INFORMATION (Continued)

(d) Geographical information

Information about the Group's revenue from external customers is presented based on the location of the operation. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets*	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC (country of domicile)	**131,039**	133,162	**125,355**	110,438
Europe	**10,732**	11,051	**—**	—
South America	**5,795**	10,031	**—**	—
Middle East	**49**	818	**—**	—
Other overseas	**3,673**	4,380	**—**	—
	151,288	159,442	**125,355**	110,438

* Non-current assets excluded those relating to financial instruments.

(e) Information about major customers

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

	2018	2017
	RMB'000	RMB'000
Customer A (derived from sale of woven fabrics)	**N/A[1]**	18,586

1 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

10. FINANCE COSTS

	2018	2017
	RMB'000	RMB'000
Imputed interest on interest-free loan due to immediate holding company *(note 30)*	**6,006**	3,776

11. INCOME TAX EXPENSES

	2018 **RMB'000**	2017 RMB'000
Current taxation		
— PRC Enterprise Income Tax	**444**	1,320
Deferred taxation *(note 29)*		
— Current year	**58**	(357)
	502	963

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group is 25% for both years.

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

	2018 **RMB'000**	2017 RMB'000
Loss before taxation	**(3,069)**	(1,246)
Tax at the domestic rate at 25% (2017: 25%)	**(767)**	(312)
Tax effect of non-taxable income	**(92)**	(54)
Tax effect of non-deductible expenses	**1,361**	1,329
Income tax expense	**502**	963

Details of the deferred taxation are set out in note 29.

12. LOSS FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Staff cost (including supervisors', directors' and chief executive's emoluments):		
Salaries, wages and other benefits in kind	**30,400**	25,893
Retirement benefit scheme contributions	**865**	662
Total staff costs	**31,265**	26,555
Allowance for inventories (included in cost of inventories recognised as an expense)	**1,879**	1,534
Amortisation of prepaid lease payments	**188**	188
Auditor's remuneration	**683**	688
Cost of inventories recognised as an expense	**132,164**	142,587
Depreciation of property, plant and equipment	**6,614**	6,984
Research and development costs recognised as an expense *(note)*	**1,055**	192
Write-off of property, plant and equipment	**800**	—
Reversal of allowance for inventories (included in cost of inventories recognised as an expense)	**(16)**	(102)

Note: Research and development costs includes staff costs of RMB1,031,000 (2017: RMB140,000) which have been included in the staff costs as disclosed above.

13. LOSS PER SHARE

Basic and diluted loss per share for the year is calculated on the loss for the year of approximately RMB3,571,000 (2017: RMB2,209,000) and the weighted average of 1,063,500,000 (2017: 1,063,500,000) ordinary shares in issue during the year ended 31 December 2018.

There is no difference between basic and diluted loss per share as there were no potentially dilutive shares outstanding during the year ended 31 December 2018 and 2017.

14. SUPERVISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the three (2017: five) supervisors, seven (2017: nine) directors and chief executives for the year ended 31 December 2018 were as follows:

For the year ended 31 December 2018

	Executive Directors				Independent Non-Executive Directors			Supervisors			
	Mr. Jiang Ning (Chairman) RMB'000	Ms. He Lianfeng (Chief Executive Officer) RMB'000	Mr. Hu Hua Jun RMB'000	Mr. He Weifeng (Vice Chairmen) RMB'000	Mr. Song Ke RMB'000	Mr. Wang Zhong RMB'000	Mr. Wang Hui RMB'000	Ms. Wang Ai Yu (note a) RMB'000	Mr. Chen Wei RMB'000	Mr. Pan Xing Biao RMB'000	Total RMB'000
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company undertaking											
Fees	600	72	60	400	100	100	100	36	—	12	1,480
Other emoluments											
— Salaries	—	140	76	—	—	—	—	—	74	—	290
— Discretionary bonus	—	428	—	—	—	—	—	—	220	—	648
Salaries and other benefits subtotal	—	568	76	—	—	—	—	—	294	—	938
Contributions to retirement benefits schemes	—	10	5	—	—	—	—	—	5	—	20
	600	650	141	400	100	100	100	36	299	12	2,438

14. SUPERVISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

For the year ended 31 December 2017

	Executive Directors					Non-executive Directors		Independent non-executive directors						Supervisors					
	Mr. Wang Xinyi (Chairman) (note b) RMB'000	Mr. Jiang Ning (Chairman) (note c) RMB'000	Ms. He Lianfeng (Chief Executive Officer) RMB'000	Mr. Hu Hua Jun RMB'000	Mr. He Weifeng (Vice Chairman) (note c) RMB'000	Mr. Chen Dong Chun (note d) RMB'000	Mr. Tang Guo Ping (note h) RMB'000	Mr. Xu Wei Dong (note f) RMB'000	Ms. Zhang Li (note f) RMB'000	Mr. Wang Weisong (note f) RMB'000	Mr, Song Ke (note e) RMB'000	Mr. Wang Zhong (note e) RMB'000	Mr. Wang Hui (note e) RMB'000	Ms. Wang Ai Yu (note a) RMB'000	Mr. Hu Jin Huan (note g) RMB'000	Ms. Tong Jian Juan (note g) RMB'000	Mr. Chen Wei RMB'000	Mr. Pan Xing Biao RMB'000	Total RMB'000
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company undertaking																			
Fees	—	600	72	60	400	60	60	60	60	60	—	—	—	36	12	—	—	12	1,492
Other emoluments																			
— Salaries	—	—	122	68	—	—	—	—	—	—	—	—	—	—	—	—	—	—	190
— Discretionary bonus	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	56	66	—	122
Salaries and other benefits subtotal	—	—	122	68	—	—	—	—	—	—	—	—	—	—	—	56	66	—	312
Contributions to retirement benefits schemes	—	—	10	4	—	—	—	—	—	—	—	—	—	—	—	4	4	—	22
	—	600	204	132	400	60	60	60	60	60	—	—	—	36	12	60	70	12	1,826

Note a: The annual fee of Ms. Wang Ai Yu for the years ended 31 December 2018 and 2017 was RMB36,000 which was paid by Zhejiang Yongli according to the terms of services contracts.

Note b: Mr. Wang Xinyi resigned as executive director and the chairman on 28 February 2017.

Note c: Mr. Jiang Ning was appointed as executive director and the chairman on 28 February 2017 and Mr. He Weifeng was appointed as executive director and the deputy chairman on 28 February 2017.

Note d: Mr. Chen Dong Chun resigned as non-executive director on 19 September 2017.

Note e: Mr. Song Ke, Mr. Wang Zhong and Mr. Wang Hui were appointed as independent non-executive director on 12 December 2017.

Note f: Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong resigned as independent non-executive director on 12 December 2017.

Note g: Mr. Hu Jin Huan and Ms. Tong Jian Juan resigned as Supervisor on 12 December 2017.

Note h: Mr. Tang Guo Ping resigned as non-executive director on 12 December 2017.

14. SUPERVISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

The discretionary bonus is determined by the remuneration committee having regard to the individual's performance and the Group's performance and profitability and the prevailing market conditions.

No emoluments paid or payable in respect of director's other services in connection with the management of the affairs of the Group for the years ended 31 December 2018 and 2017.

No supervisor, director and chief executive waived or agreed to waive any emoluments for the years ended 31 December 2018 and 2017.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2017: three) of them were directors of the Company whose emoluments are included in note 14 above. The emoluments of the remaining two individuals for the year ended 31 December 2017 are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and other benefits in kind	**162**	161
Retirement benefits schemes contributions	**21**	21
	183	182

Their emoluments were within the following bands:

	No. of individuals	
	2018	2017
Nil to HK$1,000,000 (equivalent to Nil to RMB843,000) (2017: equivalent to Nil to RMB834,000)	**1**	2

No emoluments were paid or payable by the Group to the five highest paid individuals and directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2018 and 2017.

16. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings (at revalued amounts) RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
COST/VALUATION					
At 1 January 2017	101,034	335	152,764	2,184	256,317
Additions	—	—	369	909	1,278
Adjustment on revaluation, net	(1,713)	—	—	—	(1,713)
At 31 December 2017	99,321	335	153,133	3,093	255,882
Additions	—	—	54	357	411
Disposal	—	—	(17,815)	—	(17,815)
Write-off	—	—	—	(1,127)	(1,127)
Adjustment on revaluation, net	(3,086)	—	—	—	(3,086)
At 31 December 2018	96,235	335	135,372	2,323	234,265
ACCUMULATED DEPRECIATION					
At 1 January 2017	—	214	149,989	1,727	151,930
Provided for the year	5,972	66	781	165	6,984
Eliminated on revaluation	(5,972)	—	—	—	(5,972)
At 31 December 2017	—	280	150,770	1,892	152,942
Provided for the year	5,824	55	616	119	6,614
Eliminated on disposals	—	—	(17,815)	—	(17,815)
Eliminated on write-off	—	—	—	(327)	(327)
Eliminated on revaluation	(5,824)	—	—	—	(5,824)
At 31 December 2018	—	335	133,571	1,684	135,590
CARRYING VALUES					
At 31 December 2018	96,235	—	1,801	639	98,675
At 31 December 2017	99,321	55	2,363	1,201	102,940

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives less their residual values as follows:

Buildings	Over the shorter of the term of the lease or 20 years
Motor vehicles	5 years
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years

The leasehold buildings of the Group were revalued on 31 December 2018 and 2017 by Avista Valuation Advisory Limited ("Avista"), an independent qualified professional valuer not connected with the Group. Avista has appropriate qualifications and has recent experiences in the valuation of similar properties in the relevant locations. The valuations have been arrived at using replacement cost approach.

The buildings are held in the PRC under medium-term lease.

If the leasehold buildings had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation of approximately RMB44,851,000 (2017: RMB50,004,000).

Fair value measurement of the Group's buildings

The fair value of the buildings was determined using the replacement cost approach. Fair value which determined by using replacement cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. There has been no change to the valuation technique for both years.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's buildings and information about the fair value hierarchy as at 31 December 2018 and 2017 are as follows:

Property, plant and Equipment	Fair value	Fair value Hierarchy	Valuation technique	Significant unobservable inputs	Relationship of key inputs and significant unobservable inputs to fair value
Buildings in the PRC	31 December 2018: RMB96,235,000 31 December 2017: RMB99,321,000	Level 3	Replacement cost	Rate of obsolescence to adjust the replacement cost, which ranged from 5% to 82% (2017: 5% to 85%) based on the utilisation, specialty in nature and age of the buildings	The higher the rate of obsolescence, the lower the fair value

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

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The reconciliation of Level 3 fair value measurements of leasehold buildings on recurring basis is as follow:

	2018 RMB'000	2017 RMB'000
At 1 January	**99,321**	101,034
Increase in fair value recognised in other comprehensive income	**2,738**	4,259
Depreciation expense	**(5,824)**	(5,972)
At 31 December	**96,235**	99,321

During the year ended 31 December 2018, the increase in fair value recognised in other comprehensive income of approximately RMB2,738,000 (2017: RMB4,259,000) is included in asset revaluation reserve and is attributable to the change in unrealised gains or losses relating to leasehold buildings measured at fair value held at the end of the reporting period.

As at 31 December 2018, the Group has not obtained the building ownership certificate for buildings with carrying values of approximately RMB17,532,000 (2017: RMB17,986,000) from the relevant PRC government authorities. Based on the legal advice from the Group's lawyer, the absence of formal title to these properties does not impair their values of the Group as the Group has paid the full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

18. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
Non-current assets	**6,080**	6,268
Current assets	**188**	188
	6,268	6,456

The Group's prepaid lease payments on land use rights are held under medium lease-term in the PRC.

19. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2017	—
Arising on acquisition of a subsidiary *(note 34)*	1,230
At 31 December 2017 and 2018	1,230

19. GOODWILL (Continued)

Impairment testing on goodwill with indefinite useful lives

For the purposes of impairment testing, the carrying amount of the goodwill in its entirety has been allocated to a cash generating unit, represented by a newly acquired subsidiary, Guizhou Anheng, which is engaged in asset management business.

During the year ended 31 December 2018, the management of the Group determined that there is no impairment of its cash-generating unit containing goodwill.

The Group conducted an impairment review on the goodwill attributable to Guizhou Anheng at the end of the reporting period by reference to the estimated cash flow projection, which is determined based on a value-in-use calculation. The key assumptions include the discount rate and growth rates. The Group estimates discount rates using weighted average cost of capital that reflect current market assessments of the time value of money and the risk specific to the management of asset management investments. A range of annual growth rate of 3% (2017: 3%) per annum and terminal growth rate of 3% (2017: 3%) per annum have been applied. The pre-tax rate used to discount the forecast cash flows was 29.3% (2017: 25.9%).

Management believed that any reasonably possible change in any of these assumptions would not cause the goodwill to exceed its recoverable amount.

20. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS

	2018 **RMB'000**	2017 RMB'000
Financial asset at FVTOCI comprise:		
Unlisted equity investment in the PRC (note a)	**635**	—
Financial asset at FVTPL comprise:		
Unlisted fund investment in the PRC (note b)	**25,129**	—
Available-for-sale investments comprises:		
Unlisted equity security in the PRC, at fair value (note a)	**—**	178
Unlisted fund investment in the PRC, at fair value (note b)	**—**	73,629
	—	73,807

20. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes:

(a) Unlisted equity investment represented the Group's investment in a company established in the PRC which engaged in investment holding.

(b) During the year ended 31 December 2017, the Group injected RMB74,500,000 in an unlisted fund in the PRC (the "Fund") by way of a subscription for a limited partnership. During the year ended 31 December 2018, paid-up capital of the Fund of RMB49,274,000 has been returned to the Group in order to enhance efficiency in the utilisation of the capital. Details of which were set out in the Company's announcement dated 14 September 2018.

21. INVENTORIES

	2018	2017
	RMB'000	RMB'000
Raw materials	**1,959**	3,282
Work in progress	**15,295**	5,249
Finished goods	**11,992**	19,312
	29,246	27,843

During the year ended 31 December 2018, provision for slow-moving inventories of approximately RMB1,879,000 (2017: RMB1,534,000) has been recognised and included in the cost of sales. An allowance for slow-moving inventories of approximately RMB16,000 (2017: RMB102,000) provided in prior years was reversed in the current year since the relevant inventories were sold in the ordinary course of business during the year ended 31 December 2018.

22. TRADE AND OTHER RECEIVABLES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade receivables	**31,869**	36,060	56,401
Less: Allowance for impairment of trade receivables	**(639)**	(1,958)	(20,341)
	31,230	34,102	36,060
Other receivables			
Prepayments to suppliers	**704**	227	227
Other prepayments	**1,089**	756	756
Other receivables	**502**	670	670
	2,295	1,653	1,653
Total trade and other receivables	**33,525**	35,755	37,713

The Group allows an average credit period of 60 days to 180 days (2017: 60 days to 180 days) to its trade customers. The Group does not hold any collateral or other credit enhancements over its trade and other receivables.

(a) An aged analysis of trade receivable, net of allowance for impairment of trade receivables and presented based on invoice dates which approximates the respective revenue recognition dates, at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
0 – 60 days	**30,125**	29,685
61 – 90 days	**218**	2,346
91 – 120 days	**573**	1,155
121 – 365 days	**205**	2,427
Over 365 days	**109**	447
	31,230	36,060

As at 31 December 2017, included in the Group's trade receivable balance were debtors with aggregate carrying amount of RMB3,488,000 which were past due as at the end of the reporting period for which the Group had not provided for impairment loss because there has not been a significant change in credit quality and they were still considered as recoverable. The average age of these receivables was 83 days.

22. TRADE AND OTHER RECEIVABLES (Continued)

(b) At 31 December 2017, the analysis of trade receivables based on the due dates that were past due but not impaired are as follows:

	Total	Neither past due nor impaired	Past due but not impaired Less than 60 days	61-90 days	91-365 days	Over 365 days
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017	36,060	32,572	638	—	2,403	447

Since 1 January 2018, the Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As the group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on the ageing of customers collectively that are not individually significant as follows:

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Current (not past due)	1.1	31,261	344
Less than 60 days past due	20.50	161	33
61-90 days past due	58.54	82	48
91-365 days past due	58.82	102	60
Over 365 days past due	58.56	263	154
		31,869	639

Generally, trade receivables were written-off if past due for more than 24 months and the Group had no realistic prospect of recovery, which may still be subject to enforcement activity.

As at 31 December 2018, the gross amount of trade receivable arising from contract with customers amounted to approximately RMB31,869,000 (1 January 2018: RMB36,060,000).

22. TRADE AND OTHER RECEIVABLES (Continued)

(c) The movements in allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**20,341**	20,341
Effect on adoption of HKFRS 9 on 1 January 2018	**1,958**	—
Amounts written off as uncollectible	**(20,341)**	—
Reversal of impairment loss	**(1,319)**	—
At the end of the year	**639**	20,341

As at 31 December 2017, included in the allowance for impairment of trade receivables were individually impaired trade receivables with an aggregate balance of approximately RMB20,341,000 which were due to long outstanding.

Included in the trade receivables are the following amounts denominated in a currency other than the functional currency of the group entity:

	2018 RMB'000	2017 RMB'000
US$	**3,273**	3,918

23. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount was unsecured, interest-free and repayable on demand.

24. BANK BALANCES AND CASH

For the years ended 31 December 2018 and 2017, bank balances represented short-term deposits with a maturity of three months or less. The interest rate ranged from 0.3% to 1.3% per annum (2017: 0.35% to 1.35% per annum).

Included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective group entity:

	2018 RMB'000	2017 RMB'000
US$	**1,138**	7,273

25. TRADE AND OTHER PAYABLES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade payables *(notes i & ii)*	**13,295**	26,283	26,283
Receipt in advance	**—**	—	4,927
Other taxes payable	**4,427**	1,581	1,581
Accrued expenses and other payables	**8,472**	8,361	8,361
	26,194	36,225	41,152

Notes:

(i) The Group normally receives credit periods from suppliers ranging from 30 days to 90 days (2017: 30 days to 90 days). The Group has in place financial risk management policies to ensure that all payables are settled within the credit timeframe.

(ii) An aged analysis of the trade payables at the end of the reporting period based on invoice date is as follows:

	2018 RMB'000	2017 RMB'000
0 – 60 days	**4,336**	15,401
61 – 90 days	**1,358**	2,759
91 – 365 days	**1,672**	2,586
Over 365 days	**5,929**	5,537
	13,295	26,283

26. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018 RMB'000
Subcontracting service contracts	**3,273**	4,927

Contract liabilities include advances received to render subcontracting services.

The Group receives range from 10% to 20% of the contract values as deposits from customers when they sign the contracts for subcontracting services.

The significant change in contract liabilities in 2018 was mainly due to the difference in service period to perform subcontracting services between 31 December 2018 and 31 December 2017.

Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities as at 1 January 2018 is approximately RMB4,927,000. There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

27. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due to a fellow subsidiary is unsecured, non-interest bearing and repayable on demand.

	2018 RMB'000	2017 RMB'000
浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*) ("Zhejiang Yongli Thermal Electricity")	**—**	4,432

During the years ended 31 December 2018 and 2017, Zhejiang Yongli Thermal Electricity was a subsidiary of Zhejiang Yongli, the ultimate holding company of the Company.

* *English name is for identification only*

28. RETIREMENT BENEFITS PLANS

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement benefit schemes for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement benefit scheme is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement benefit scheme, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2018, the total amount contributed by the Group to this scheme and charged to the consolidated statement of profit or loss and other comprehensive income was approximately RMB865,000 (2017: RMB662,000).

29. DEFERRED TAX LIABILITIES

Major deferred tax (liabilities) assets recognised and movement therein during the current and prior reporting periods are set out as follows:

	Revaluation of properties RMB'000	Impairment loss recognised in respect of trade receivables RMB'000	Allowance of inventories RMB'000	Fair value change of available-for-sale investment/ financial assets at FVTOCI RMB'000	Fair value change of available-for-sale investment/ financial assets at FVTPL RMB'000	Total RMB'000
At 1 January 2017	(15,857)	5,087	101	—	—	(10,669)
Credited to profit or loss	—	—	357	—	—	357
Charged to other comprehensive income	(1,065)	—	—	104	188	(773)
At 31 December 2017 (as originally stated)	(16,922)	5,087	458	104	188	(11,085)
Effect of change in accounting policy *(note 2)*	—	490	—	—	—	490
At 1 January 2018 (as restated)	**(16,922)**	**5,577**	**458**	**104**	**188**	**(10,595)**
Charged to profit or loss	**—**	**(330)**	**466**	**—**	**(194)**	**(58)**
Charged to other comprehensive income	**(684)**	**—**	**—**	**(114)**	**—**	**(798)**
At 31 December 2018	**(17,606)**	**5,247**	**924**	**(10)**	**(6)**	**(11,451)**

At the end of the reporting period, the Group did not have unused tax losses available for offset against future profits. Hence, no deferred tax asset has been recognised in respect of it.

30. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
Current liability	—	6,426
Non-current liability	**32,543**	26,537

On 23 December 2016, Zhejiang Yongli entered into an agreement of assignment of debt with Guizhou Yongan ("Assignment of Debt Agreement"), pursuant to which, the debt of approximately RMB239,677,000 owed by the Company to Zhejiang Yongli was assigned to Guizhou Yongan and Guizhou Yongan committed to continue the obligations and commitments under the original debt agreement that was entered into between the Company and Zhejiang Yongli on 13 September 2011.

Referring to the principal advances of approximately RMB239,677,000 in relation to the Assignment of Debt Agreement entered into on 23 December 2016, it had been initially reduced to its present value of approximately RMB20,724,000 based on the management's estimates of future cash payments with a corresponding adjustment of approximately RMB218,953,000, which was deemed contribution from the immediate holding company during the year ended 31 December 2016. The effective interest rate adopted for measurement at fair value at initial recognition of the advances from immediate holding company for the year was determined with reference to the prevailing market rates of interest for similar instruments with similar credit ratings and with reference to the timing and repayment based on the cash flow of the Company in the year ended 31 December 2016.

Imputed interest on these advances had been computed at an original effective interest rate of 18.22% (2017: 18.22%). The amount is unsecured, interest-free and repayable of an amount which does not exceed 50% of the Company's operating cash flow for current year on an annual basis until the full repayment of the debt.

During the year, the Group partially repaid the principal of RMB6,426,000. The principal amount outstanding as at 31 December 2018 was RMB229,475,000 (2017: RMB235,901,000).

As at 31 December 2017, the directors of the Company expected to repay RMB6,426,000 (2018: Nil) of the carrying amount of the amount due to immediate holding company in the next twelve months based on the cash flow forecasts and the estimation on operating cash flows.

30. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY (Continued)

The movements during the current reporting period are set out as follows:

	RMB'000
At 1 January 2017	20,724
Adjustment of deemed capital contribution arising from changes in cash flow estimates on amounts due to immediate holding company	12,239
Imputed interest charged during the year	3,776
Repayment during the year	(3,776)
At 31 December 2017	32,963
Imputed interest charged during the year	6,006
Repayment during the year	(6,426)
At 31 December 2018	32,543

31. SHARE CAPITAL

Details of the share capital of the Company of RMB0.10 each are as follows:

	Number of shares '000	RMB'000
Domestic shares at 1 January 2017, 31 December 2017 and 31 December 2018	588,000	58,800
H shares at 1 January 2017, 31 December 2017 and 31 December 2018	475,500	47,550
Total share capital of RMB0.10 each at 1 January 2017, 31 December 2017 and 31 December 2018	1,063,500	106,350

The domestic shares and H shares carry the same rights to dividends, receive notice of attender vote at any general meeting of the Company or to participate in any distribution on winding up.

32. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these financial statements, the Group had the following related party transactions during the years ended 31 December 2018 and 2017.

(a) During the year ended 31 December 2017, the Group had paid approximately RMB7,248,000 to Zhejiang Yongli Thermal Electricity, a fellow subsidiary of the Group, for electricity and steam provided to the Group for the usage in the production.

The aforesaid transactions were conducted in accordance with the term of contract dated 11 May 2015 and were in the ordinary course of business of the Group.

(b) During the year ended 31 December 2018, the Group had paid approximately RMB18,274,000 (2017: Nil) to Zhejiang Yongli for electricity charges paid by Zhejiang Yongli on behalf of the Group.

The aforesaid payments were made on behalf of the Group based on the actual costs incurred and were in the ordinary course of business of the Group.

(c) During the year ended 31 December 2018, the Group had paid approximately RMB50,000 (2017: RMB36,000) to Zhejiang Shaoxing Yongli Printing & Dyeing, a fellow subsidiary of the Group, for providing dyeing services to the Group for the usage in the production.

(d) Compensation of key management personnel

The directors of the Company and the supervisors and chief executive of the Group are regarded as key management of the Group. Compensation paid or payable to them is disclosed in note 14.

The remuneration of directors and members of key management are determined by the remuneration committee having regard to the performance of individuals and market trends.

The aforesaid transactions of item (c) to (d) were in the ordinary course of business of the Group.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	Financing cash flows	Non-cash change finance cost incurred	31 December 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to immediate holding company (note 30)	32,963	(6,426)	6,006	32,543

34. ACQUISITION OF A SUBSIDIARY

On 11 April 2017, the Group acquired 100% of the registered share capital of Guizhou Anheng, a company incorporated in the PRC, for a consideration of RMB10,000,000 by cash. This acquisition was made from Grizhou Yongan, immediate holding parent of the Company, and constituted as a connected transaction under the relevant Rules Governing the Listing of Securities on the GEM of the Stock Exchange. This acquisition had been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB1,230,000. Guizhou Anheng was engaged in the asset management.

Acquisition-related costs amounting to RMB170,000 had been excluded from the consideration transferred and have been recognised as an expense for the year ended 31 December 2017, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Financial assets at fair value through profit or loss	8,500
Cash and bank balances	292
Other payables	(22)
	8,770

The directors of the Company believed that the carrying amount of the assets and liabilities reeognised at the date of acquisition approximate to their respective fair values due to their short-term maturities.

34. ACQUISITION OF A SUBSIDIARY (Continued)

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	10,000
Less: net assets acquired	(8,770)
Goodwill arising on acquisition	1,230

Goodwill arose in the acquisition of Guizhou Anheng because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, future market development and the assembled workforce of Guizhou Anheng. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition was expected to be non-deductible for tax purposes.

Net cash outflow on acquisition of Guizhou Anheng:

	RMB'000
Cash consideration paid	10,000
Less: cash and cash equivalent balances acquired	(292)
	9,708

Included in the loss for the year is RMB391,000 attributable to the additional business generated by Guizhou Anheng. Revenue of management services fee income generated by Guizhou Anheng was approximately of RMB35,000 for the year ended 31 December 2017.

Had the acquisition been completed on 1 January 2017, total loss for the year would have been RMB2,645,000. The pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor was it intended to be a projection of future results.

35. COMMITMENTS

	2018 **RMB'000**	2017 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**34,670**	—

36. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**98,675**	102,940
Prepaid lease payments		**6,080**	6,268
Investments in subsidiaries	(a)	**9,108**	10,000
Financial assets at FVTPL		**25,129**	—
Deposits for acquisition of property, plant and equipment		**19,370**	—
Available-for-sale investments		**—**	73,629
		158,362	192,837
Current assets			
Inventories		**29,246**	27,843
Trade and other receivables		**33,523**	37,382
Prepaid lease payments		**188**	188
Amount due from ultimate holding company		**—**	71
Tax recoverable		**187**	—
Bank balances and cash		**144,600**	128,777
		207,744	194,261
Current liabilities			
Trade and other payables		**25,912**	40,938
Contract liabilities		**3,273**	—
Tax payables		**—**	1
Amounts due to fellow subsidiaries		**—**	4,432
Amount due to immediate holding company		**—**	6,426
		29,185	51,797
Net current assets		**178,559**	142,464
Total assets less current liabilities		**336,921**	335,301
Non-current liabilities			
Deferred tax liabilities		**11,441**	11,189
Amount due to immediate holding company		**32,543**	26,537
		43,984	37,726
Net assets		**292,937**	297,575
Capital and reserves			
Share capital	31	**106,350**	106,350
Share premium and reserves	(b)	**186,587**	191,225
		292,937	297,575

36. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(Continued)

Note:

(a) Particulars of all subsidiaries of the Company

Name of subsidiary	Place of incorporation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest held by the Company Directly		Indirectly		Principal activities
			2018	2017	**2018**	2017	
Guizhou Anheng	PRC	RMB10,000,000	**100%**	100%	**–**	–	Asset management and consulting services
深圳永安慧聚水務科技有限公司 (Shenzhen Yongan Huiju Water Technology Co., Ltd.*)	PRC	RMB1,000,000	**100%**	–	**–**	–	Research and Development of water resources & related equipments
深圳安恒永晟投資合夥企業(有限合夥)** ((Shenzhen Anheng Yongzhen Investment Partnership (Limited Partnership)*)	PRC	RMB100,000	**–**	–	**90%**	–	Provision of consulting services
浙江永譽紡織有限責任公司** (Zhejaing Yongyu Textile Co., Ltd.*)	PRC	RMB20,000,000	**100%**	–	**–**	–	Trading of woven fabrics
深圳安永礪劍影視投資合夥企業(有限合夥)** ((Shenzhen Eryong Shuijian Film and Television Investment Partnership (Limited Partnership)*)	PRC	RMB100,000	**–**	–	**90%**	–	Film production and related investments

None of the subsidiaries have non-controlling interests that are material to the Group.

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

** *These subsidiaries have not yet commence of business as at 31 December 2018.*

* *English name is for identification only*

36. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(Continued)

Note: (Continued)

(b) The movement of share premium and reserves is shown as follows:

	Share Premium RMB'000	Other reserve RMB'000	Asset revaluation reserve RMB'000	Statutory surplus Reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	69,637	343,903	34,550	12,496	(257,932)	202,654
Loss for the year	—	—	—	—	(1,818)	(1,818)
Fair value loss in available-for-sale investment, net of tax	—	—	(566)	—	—	(566)
Gain on revaluation of properties, net of tax	—	—	3,194	—	—	3,194
Other comprehensive income for the year	—	—	2,628	—	—	2,628
Total comprehensive income (expense) for the year	—	—	2,628	—	(1,818)	810
Deemed contribution from the immediate holding company of the Company *(note 30)*	—	(12,239)	—	—	—	(12,239)
At 31 December 2017 *(as originally stated)*	69,637	331,664	37,178	12,496	(259,750)	191,225
Effect of change in accounting policies *(note 2)*	—	—	566	—	(2,034)	(1,468)
At 1 January 2018 *(as restated)*	69,637	331,664	37,744	12,496	(261,784)	189,757
Loss for the year	—	—	—	—	(5,224)	(5,224)
Gain on revaluation of properties, net of tax	—	—	2,054	—	—	2,054
Other comprehensive income for the year	—	—	2,054	—	—	2,054
Total comprehensive income (expense) for the year	—	—	2,054	—	(5,224)	(3,170)
At 31 December 2018	69,637	331,664	39,798	12,496	(267,008)	186,587

37. EVENT AFTER THE REPORTING PERIOD

On 9 November 2018, a wholly-owned subsidiary of the Company (the "Purchaser"), has entered into the memorandums of understanding with 青海海清新能源科技有限公司(Qinghai Haiqing New Energy Technology Co., Ltd.*) ("Qinghai Haiqing") and 貴陽永安互聯網金融投資服務有限公司 (Guiyang Yongan Internet Financial Investments Services Limited*) (the "Vendors"), who are connected persons of the Company, pursuant to which the Purchaser intended to purchase and the Vendors intended to sell in aggregate 50.0% of the entire issued share capital of 北京太比雅科技股份有限公司 (Beijing Tepia Technology Co., Ltd.*) (the "Target Company"). Subsequent to the end of the reporting period, the Purchaser intends to purchase 41.67% interest in the entire issued share capital of the Target Company from Qinghai Haiqing only. Details of which are set out in the announcements of the Company on 9 November 2018 and 14 March 2019.

RESULTS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**151,288**	159,442	165,785	191,968	188,562
LOSS BEFORE TAXATION	**(3,069)**	(1,246)	(5,491)	(11,900)	(6,342)
TAXATION	**(502)**	(963)	(1,722)	(5,279)	(972)
LOSS FOR THE YEAR	**(3,571)**	(2,209)	(7,213)	(17,179)	(7,314)

ASSETS AND LIABILITIES

	At 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**367,690**	386,511	391,306	383,621	352,428
TOTAL LIABILITIES	**(73,461)**	(89,640)	(82,302)	(288,506)	(248,820)
SURPLUS SHAREHOLDERS' FUNDS	**294,229**	296,871	309,004	95,115	103,608

Note: The summary of the results and the assets and liabilities of the Group for the years ended 31 December 2014, 2015, 2016, 2017 and 2018 are extracted from the audited consolidated financial statements.