陝西西北新技術實業股份有限公司
SHAANXI NORTHWEST NEW TECHNOLOGY INDUSTRY COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8258)

2018 ANNUAL REPORT

* For identification purposes only

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors (the "Directors") of Shaanxi Northwest New Technology Industry Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this report misleading.

CONTENT

CORPORATE INFORMATION

DIRECTORS OF THE COMPANY

Executive Directors

Mr. Wang Cong *(Chairman)*
Mr. Wang Feng
Mr. Zhou Jian
Ms. Tian Lingling

Non-executive Director

Ms. Shi Dandan

Independent non-executive Directors

Mr. Li Gangjian
Mr. Zhao Boxiang
Prof. Zhao Xiaoning

SUPERVISORS

Mr. Zeng Yinglin
Ms. Xing Manli

INDEPENDENT SUPERVISOR

Mr. Zhang Xiaoping

AUDIT COMMITTEE

Mr. Li Gangjian
Mr. Zhao Boxiang
Ms. Zhao Xiaoning

COMPLIANCE OFFICER

Mr. Wang Feng

AUTHORIZED REPRESENTATIVES

Mr. Wang Cong
Mr. Wang Feng

AUDITOR

Elite Partners CPA Limited

LEGAL ADVISORS

As to PRC law

Jiayuan Law Firm, Beijing

As to Hong Kong law

Loeb & Loeb LLP

REGISTERED OFFICE

No.6, Gao Xin Yi Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi
The PRC

Principal Place of Business in China

No. 6, Gao Xin Yi Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi
The PRC

Principal Place of Business in Hong Kong

Room 390, 3th floor
Peninsula Centre
67 Mody Road
Tsim Sha Tsui East, Kowloon,
Hong Kong

STOCK CODE

8258

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Jinhua Road Branch)
No. 117, Jinhua North Road
Xi'an, Shaanxi, the PRC

China Everbright Bank (Taibai Road Branch)
No. 1 Kechuang Road, Yanta District
Xi'an, Shaanxi, the PRC

Bank of Xi'an (Gaoxin Branch)
No. 27 Keji Road
Xi'an, Shaanxi, the PRC

CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the board (the "Board") of directors of Shaanxi Northwest New Technology Industry Company Limited (the "Company"), I hereby present the annual report of the Company for the year ended 31 December 2018.

OPERATING PERFORMANCE

For the year ended 31 December 2018, the Company recorded a revenue of approximately RMB37,660,000, representing an increase of 5% from the previous year and an after-tax profit of RMB11,331,000 (2017: approximately RMB6,874,000). The Board does not recommend paying any dividend for the year ended 31 December 2018.

BUSINESS STRATEGY

In 2018, the revenue from principal businesses of the Company recorded a slight increase as compared with the previous year. The Company's operational team increased its efforts in cost control, especially for raw material procurement, enhanced its management of and control over production, sales and administrative expenses, and broadened the source of revenue from other businesses. As a result, the net profit from the Company' overall operations has maintained at a good level.

PROSPECT

The Company will quicken its pace to cultivate new profit growth projects. It will focus on the Company's business transformation and build a stable business foundation with good development prospects, so as to generate new business growth points and substantial improvement of profits, and achieve better return for all shareholders.

On behalf of the Board, I would like to take this opportunity to express my most sincere gratitude to the directors and all parties who have given their support to the Company!

Professor Wang Cong
Chairman

Xi'an, the PRC
29 March 2019

FINANCIAL REVIEW

The Company's revenue was approximately RMB37,660,000 for the financial year ended 31 December 2018, representing an increase of 5% over the previous year.

The Company's profit after taxation was approximately RMB11,331,000 for the financial year ended 31 December 2018, compared to RMB6,874,000 last year. The gross profit margin of 2018 was 31% (2017: 31%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the equity attributable to Shareholders of the Company was approximately RMB153,365,000 (2017: RMB132,023,000); cash and bank balance were RMB40,741,000 (2017: RMB43,622,000); and current assets amounted to RMB141,400,000 (2017: RMB106,128,000). Current liabilities amounted to approximately RMB20,557,000 (2017: RMB19,312,000). The Company's liquidity ratio, defined as total current assets over total current liabilities, changed from 5.50 as at 31 December 2017 to 6.87 as at 31 December 2018.

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITION

On 29 March 2018, the Company completed the placement of 136,000,000 domestic shares to Xi'an Heyue Property Management Limited at a subscription price of RMB0.205 per share and an aggregate consideration of RMB27.88 million under the general mandate granted at the annual general meeting. For details, please refer to the announcement published by the Company on the website of the Stock Exchange.

PLEDGE OF ASSETS

As at 31 December 2018, the Company had no pledge of assets.

GEARING RATIO

Gearing ratio, defined as total borrowings over net assets was 0% (same period of 2017: 0%).

CAPITAL COMMITMENT, FOREIGN EXCHANGE EXPOSURE AND CONTINGENT LIABILITIES

For the aforementioned year, the Company's financial status has not been affected by the fluctuation of interest rate and any hedging.

BUSINESS REVIEW

The Company achieved the following results for the financial year ended 31 December 2018:

Products and production

The Company's principal products were FA-90 unleaded gasoline additive ("FA-90") and 2-ETHYLHEXYL THIOGLYCOLATE (thiol products). The Company realised a sales income of RMB37,660,000 for the year, representing an increase of 5% over the previous year.

Sales and marketing

The Company's sales mainly relied on its existing sales and distribution network and expanded its sales channel appropriately. In particular, it enhanced the after-sales services and maintained cooperation with some of its traditional clients.

EMPLOYEES INFORMATION AND REMUNERATION POLICY

For the year ended 31 December 2018, staff remuneration of the Company amounted to approximately RMB2,556,000 (2017: RMB2,168,000). The Company employed a total of 74 staff members (2017: 74). Remuneration was determined with reference to the position and duties of the staff and individual performance, qualification and experience. Discretionary bonus may be rewarded to the employees with reference to their performance to recognize their contribution. Other benefits included housing allowances and the unemployment, medical and pension schemes stipulated by the social security system of the PRC government.

PROSPECT

The Directors believe that as the Company puts more efforts into the development of new projects with growth potential in the future, new breakthroughs will be made, in particular in the clean energy sector, and the Company will realize major transformation in its core business, which will have a positive role in the Company's future results of operation and sustainable development. The Company will continue to expand its business into new areas and strive for new business growth and significant increase in its profitability in order to create higher returns for all its shareholders.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Cong (王聰), aged 61, is the chairman of the Company, responsible for the Company's overall strategic planning and the formulation of corporate policies. He graduated from the Department of Textile Engineering of Northwest Textile Technical Institute (西北紡織工學院紡織工程系) with a bachelor's degree in 1982. He has obtained a master's degree from the EMBA programme of China Europe International Business School. From July 1982 to December 1990, Mr. Wang served as secretary to the delegation committee (團委書記) of Northwest Textile Technical Institute (西北紡織工學院). Mr. Wang was appointed to be a professor and supervisor of postgraduate students of Xi'an Petroleum University in 2000. From February 1991 to the present, Mr. Wang has served as the deputy general manager, general manager, president and chairman of the Company or its predecessor.

Wang Feng (王峰), aged 59, is an executive Director, vice president and secretary to the Board. He is responsible for the daily operations of the Board of the Company and the overall operations of the marketing and sales of the Company's products. From 1981 to December 1993, Mr. Wang Feng was the deputy general manager of Ankang District Department Store (安康地區百貨公司). He completed a Chinese language and literature course in Shaanxi Province Radio & TV University (陝西省廣播電視大學) in 1993. He joined the Company in 1994. He served as the general manager of Jing He Branch and a marketing branch of the Company and was mainly responsible for the overall operation of product production, promotion and sales. He took the position of vice president and secretary to the Board of the Company in November 2010 to manage the administrative and secretarial matters of the Company. Mr. Wang Feng is the younger brother of the Company's chairman, Mr. Wang Cong.

Tian Lingling (田玲玲), aged 58, is an executive Director and vice president of the Company. She is responsible for the human resource and external affairs of the Company. She graduated from Shaanxi Business College majoring in the Chinese Language in 1985 and completed her MBA Studies at Xi'an Jiaotong University between 2005 and 2006. She was the deputy general manager and artistic director of Xi'an Shuguang Decoration Group Company Limited (西安曙光裝飾集團有限公司). She has been the deputy general manager of Xi'an Northwest Industry (Group) Company Limited since 2005. She joined the Company in 2005. She served as a manager of the human resources department of the Company. Ms. Tian Lingling is the spouse of Mr. Wang Cong, chairman of the Company.

Zhou Jian (周健), aged 48, graduated from the School of Economics and Management of Nanchang University (南昌大學經管學院) in 2005 with a master's degree. Mr. Zhou obtained a Finance EMBA degree from the PBC School of Finance, Tsinghua University (清華大學五道口) in 2015. He was a department manager at Fuzhou Branch of China Construction Bank from July 1991 to September 2002, a financial manager at Yangzhou AsiaStar Bus Co., Ltd. (揚州亞星客車股份有限公司) from September 2002 to July 2005, the financial controller, assistant to the president and vice president of Zhengbang Group Co., Ltd. (正邦集團有限公司) from July 2005 to January 2010, and the chairman of Jiangxi Zhengbang Technology Co., Ltd. (江西正邦科技股份有限公司) from January 2010 to April 2015. Mr. Zhou has been the chairman of Jiangxi Dagang Automobile Group Co., Ltd. (江西大剛汽車集團有限公司) and Dagang Group since April 2015.

Non-executive Director

Shi Dandan (史丹丹), aged 39, graduated from the Department of Finance of Tsinghua University in 2003 with a master's degree. She was a manager of the major client department, Citi Bank from 2003 to 2005, and the CEO of Beijing Shi Dai Bao Hua Management Consultancy Co., Ltd. (北京時代寶華管理顧問有限責任公司) from 2005 to 2007. Ms. Shi has been the executive president of Yingmai Culture and Media Co., Ltd. (英邁文化傳媒有限公司) since 2007.

Independent non-executive Directors

Li Gangjian (李剛劍), aged 55, is an independent non-executive Director. Mr. Li graduated from Renmin University of China (中國人民大學) in June 1991 with a doctorate degree in economics. From April 1996 to June 1997, he worked at Beijing Bite Industry Joint Stock Company Limited (北京比特實業股份有限公司) as a director and the deputy general manager. Mr. Li has been the general manager of Beijing Huizheng Financial Consultancy Company Limited (北京匯正財經顧問有限公司) since July 1998. He was appointed as an independent non-executive Director in January 2000.

Zhao Boxiang (趙伯祥), aged 74, graduated and obtained an undergraduate degree from the Department of Politics and Education of Shaanxi Normal University (陝西師範大學) in July 1969. He is a senior economist and a member of the ninth and tenth sessions of Shaanxi Provincial Political Consultative Committee. He spent his time at Lanzhou Airforce Farm after graduation in 1969 and started working for Shaanxi's authorities at provincial level in the spring of 1971 until his retirement in the spring of 2005. During this period, he worked for Shaanxi Light-Textile Industry Bureau, Shaanxi Light Industry Department, Shaanxi Second Light Industry Department, Shaanxi Province Party Rectification Office, Shaanxi Commission for Economic System Restructuring and SASAC of Shaanxi Province and served as an executive, associate director, director, deputy officer, officer, secretary to the party and inspector, respectively. Currently, he is also the president of Shaanxi System Reform Research Association, honorary president of Shaanxi Economic Development Promotion Association, president of Shaanxi Independent Directors Association, Shaanxi Credit Promotion Association and Public Relations Association in Shaanxi Province and a visiting professor of Northwest University (西北大學) and chief planner of the Institute of Planning and Research of Economic Development in Central and Western China.

Zhao Xiaoning (趙小寧), aged 64, has a bachelor's degree. He holds the professional titles of professor. During the period from December 1972 to April 1984, Mrs. Zhao worked in a microwave equipment factory in Xi'an, the PRC, and was responsible for, among others, the high frequency mechanical studies and development, the Structural technique studies and handling various factory administration matters. Between 1981 and 1985, she studied and graduated from The Open University of China (中央廣播電視大學) with a bachelor's degree in mechanical studies. Since August 1985, Prof. Zhao has worked in Shaanxi Radio & TV University (陝西廣播電視大學) as the deputy officer, officer, deputy director and director and has became a professor at Shaanxi Radio & TV University and has been responsible for teaching management, corporate culture development and corporate development strategies studies. Prof. Zhao has in-depth knowledge in personnel management, corporate development strategies studies and corporate culture development.

SUPERVISORS

Zeng Yinglin (曾應林), aged 66, is an executive Director and vice president of the Company and the general manager of Wei Nan Branch of the Company in charge of business department. Mr. Zeng graduated from Northwest Textile Technical Institute (西北紡織工學院) majoring in textile studies in 1982. Before he joined the predecessor of the Company, Northwest Industry Corporation in June 1994, Mr. Zeng had worked in Sanmenxia Huixing Textile Factory (三門峽會興棉紡織廠) as the factory office director and vice factory director from July 1982 to October 1991 and Henan No. 2 Printing and Dyeing Factory (河南第二印染廠) as its vice factory director and factory director from October 1991 to June 1994.

Xing Manli (邢曼麗), aged 45, joined the predecessor of the Company in 1998, and served as an office clerk and treasurer of the financial department of the Company and accountant of the financial department of Xi'an Northwest Industry (Group) Company Limited. (staff representative)

INDEPENDENT SUPERVISOR

Zhang Xiaoping (張小平), aged 46, worked at the office of president of the Company from May 2004 to December 2012. From March 1990 to November 1996, Mr. Zhang served at the Fire Prevention Squad, Armed Police of Haixizhou, Qinghai Province (青海省海西洲武警消防支隊). From January 1997 to June 1997, he worked at Jinhua Mountain Mine of Tongchuan Minerals Bureau (銅川礦務局金華山礦). From September 1997 to August 2003, he worked at Xi'an High and New Xinda Commercial Products Company Limited (西安市高新新建商品有限公司).

COMPANY SECRETARY

The company secretary of the Company is Mr. Leung Man Kit.

MAJOR SENIOR MANAGEMENT

Bi Hongxia (畢紅霞), aged 42, is currently the vice president of the Company, responsible for management of the company's new project. She was graduated from Chang'an University of Applied Electronics in 1999. From 2003 to 2009, she served as the vice president of China GrenTech Corporation Limited, mainly responsible for management of research and development, production and sales. Ms. Bi has obtained intermediate and advanced level qualifications in human resource management and quality control. She has obtained intermediate qualification of professional manager in 2010 with extensive experience in project management and industrial operation. She joined the Company in 2011.

Yan Xi (嚴希), aged 51, is a chief engineer of the Company. He graduated from the Shanghai Fudan University with a bachelor's degree in applied chemistry. He worked for the Technology Department of Xian Paints Factory Sifen Factory (西安油漆總廠四分廠) from July 1990 to 1992. He served as an manager of the research and development department of Shenzhen Xiandaoxi Material Ltd Co., (深圳市先導新材料有限公司) from 1992 to 1997 and was responsible for the development of electronic consumables materials and nanometer materials. He invented a super small BaTiO3 soft materials successfully and the product was utilized by Fuji (富士公司) and TDK of Japan. From 1997 to 2000, he worked at Shenzhen Zhongzhen Industry Limited (深圳中圳實業有限公司) as a chief engineer responsible for the development and the management of production technology of rare-earth electromagnetic materials. From 2000 to June 2002, he worked at the Nantonghongding International Chemistry Company (南通虹鼎國際化工公司) as a chief engineer.

Xu Yan (徐艷), aged 43, head of the president office of the Company. She graduated from Jiangxi University of Finance and Economics majoring in accountancy in 2002, with the qualification of intermediate level economist. She has been worked in Shangrao District Branch in Jiangxi Province of the China Construction Bank from 1996 to 2002, Suntek Technology Co. Ltd. from 2002 to 2005, and Aisino Co. Ltd. from 2005 to 2008. She joined the Company in September 2011 as the head of the president office.

Wu Chuandong (吳傳東), aged 55, is the manager of the Company's audit department. Mr. Wu graduated from Northwest University of the PRC (西北大學) majoring in accountancy in 1996. He is a qualified accountant and a registered tax agent of the PRC. From July 1987 to April 2001, Mr. Wu served consecutively as accountant or auditor in a factory and two accounting firms in the PRC. Before he joined the Company in November 2002, he was the manager of the finance department of Fengxing International Company Limited (蜂星國際有限公司) from May 2001 to October 2002.

Xie Chaohong (謝朝紅), aged 51, is the manager of the Company's project financing department. Ms. Xie graduated from Shaanxi International Business Training College (陝西對外商務培訓學院) majoring in international trade in 1995. From February 1987 to July 1993, she worked in Factory No. 2 of Xi' an Public Transportation Company (西安公交公司電車二廠). From August 1993 to July 1995, she studied at Shaanxi International Business Training College (陝西對外商務培訓學院). From August 1995 to December 1999, Ms. Xie was the manager of the personnel department of Shenzhen Henggang Songbai Enterprise (深圳橫崗松柏企業). She joined the Company in September 2000.

Feng Jun (馮君), aged 46, is the manager of the human resources department and administration department of the Company. Ms. Feng graduated from Shaanxi Commerce College (陝西商業專科學院) majoring in international tourism and business in July 1994. From July 1995 to October 1999, she served consecutively as the office secretary in Xi'an Jinguishou Pharmacy Group Company (西安市金龜壽藥業集團公司), the head of the dealing department of Shaanxi Hualong Futures Dealers Limited Liability Company (陝西華隆期貨經紀有限責任公司) and the manager of the dealing department of Weinan New Century Information Consultancy Limited Liability Company (渭南新世紀信息諮詢有限責任公司). She joined the Company in November 1999.

DIRECTORS' REPORT

The Directors of the Company present their report and the audited financial statements of the Company for the year ended 31 December 2018.

PRINCIPAL BUSINESS

The Company is principally engaged in the research and development, production and sales of innovative environmental protection energy materials and products, fuels of oil additives, petroleum processing aids and oil field chemicals.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2018 are set out on page 32 of the annual report. The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018.

PROPERTY, PLANT AND EQUIPMENT

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

TRADE RECEIVABLES

The total trade receivables net of allowance as at 31 December 2018 amounted to RMB28.58 million (2017: RMB39.69 million).

SHARE CAPITAL

The details of the movements in the share capital of the Company during the year are set out in Note 21 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company as at the date of the report were:

Executive Directors:

Mr. Wang Cong *(Chairman)*
Mr. Wang Feng
Mr. Zhou Jian
Ms. Tian Lingling

Non-executive Director:

Ms. Shi Dandan

Independent non-executive Directors:

Mr. Li Gangjian
Mr. Zhao Boxiang
Prof. Zhao Xiaoning

Supervisors:

Mr. Zeng Yinglin
Ms. Xing Manli

Independent Supervisor:

Mr. Zhang Xiaoping

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

DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS' INTERESTS

As at 31 December 2018, the interests or short positions of the Directors, the supervisors ("Supervisors") and chief executives of the Company in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Interests in domestic shares of the Company (long positions)

Name	Capacity	Number of the domestic shares	Approximate shareholding percentage in the entire issued domestic shares	Approximate shareholding percentage in total issued share capital of the Company
Wang Cong (Note 1)	Interest of controlled corporation	609,500,000	74.69%	53.14%
Zheng Rongfang	Beneficial owner	2,000,000	0.245%	0.173%
Wang Feng	Beneficial owner	2,000,000	0.245%	0.173%
Zeng Yinglin	Beneficial owner	2,000,000	0.245%	0.173%
Yan Buqiang	Beneficial owner	2,000,000	0.245%	0.173%
Wang Zheng	Beneficial owner	2,000,000	0.245%	0.173%
Guo Qiubao	Beneficial owner	2,000,000	0.245%	0.173%

Note (1):

The 609,500,000 domestic shares were held by Xi'an Northwest Industry (Group) Company Limited ("Northwest Group"), which is beneficially owned as to 98% by Wang Cong. Wang Cong is deemed to be interested in these 609,500,000 domestic shares.

SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS

As at 31 December 2018, the persons (other than a director, supervisor or chief executive of the Company) who have an interest or short position in any share or underlying share of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Interests in domestic shares of the Company (long positions)

Name	Capacity	Number of the domestic shares	Approximate shareholding percentage in the entire issued domestic shares	Approximate shareholding percentage in total issued share capital of the Company
Northwest Group Xi'an Heyue Property Management Limited (西安和悅物業管理有限公司) (Note 2)	Beneficial owner Beneficial owner	609,500,000 136,000,000	74.69% 16.67%	53.14% 11.86%
Shaanxi Jing Dian Investment Company Limited (陝西精典投資有限公司)	Beneficial owner	58,500,000	7.17%	5.10%
Ding Xianguang (Note 3)	Interest of controlled corporation	58,500,000	7.17%	5.10%
Zhang Jianming (Note 3)	Interest of controlled corporation	58,500,000	7.17%	5.10%

Note (2):

100% beneficially owned by Beijing Dagang Information Technology Company Limited* (北京大剛信息科技有限公司).

Note (3):

Each of Ding Xianguang and Zhang Jianming was beneficially interested in 40% of the equity interest in Shaanxi Jing Dian Investment Company Limited (陝西精典投資有限公司), and is deemed to be interested in 58,500,000 domestic shares respectively under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests in H shares of the Company (long positions)

Name	Capacity	Number of H shares	Approximate shareholding percentage in the total issued H shares	Approximate shareholding percentage in the entire issued share capital of the Company
Wang Zhen	Beneficial owner	55,000,000	16.61%	4.79%

SHARE OPTION SCHEME

The Company currently has not adopted any share option scheme.

INVESTMENT PROJECT PLAN

Please refer to the paragraph headed "MANAGEMENT DISCUSSION AND ANALYSIS – SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITION."

DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

During the year ended 31 December 2018, none of the Directors or Supervisors had a material interest directly or indirectly, on any other contract of significance to the business of the Company to which the Company was a party.

ARRANGEMENTS TO PURCHASE SHARES

At no time during the year was the Company a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of Shares in the Company or any other body corporate, and neither the Directors nor Supervisors, nor chief executives of the Company, 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.

CONNECTED TRANSACTION

During the year, the Company has not undertaken and/or approved any non-exempt connected transactions with any connected persons (as defined under the GEM Listing Rules).

COMPETING INTERESTS

During the year ended 31 December 2018, none of the Directors and Supervisors and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the largest and the second largest suppliers of the Company accounted for approximately 39.98% and 9.19% of the Company's purchases, respectively.

Aggregate sales attributable to the Company's five largest customers accounted for approximately 71.83% of the total revenue. The largest customer accounted for approximately 18.99% of the total revenue of the Company.

None of the Directors, the Supervisors, their associates or any shareholders which, to the knowledge of the Directors, own more than 5% of the Company' issued share capital had any interest in the five largest suppliers or customers during the year ended 31 December 2018.

ANALYSIS OF THE OPERATION OF THE COMPANY

The operation of the Company, analyzed by its products, is as follows:

FOR THE YEAR ENDED 31 DECEMBER 2018

	Thiol products	FA-90
	RMB'000	RMB'000
Revenue	14,279	23,381
Cost of sales	(8,785)	(17,036)
Gross profit	5,494	6,345

FOR THE YEAR ENDED 31 DECEMBER 2017

	Thiol products	FA-90
	RMB'000	RMB'000
Revenue	12,432	23,322
Cost of sales	(7,636)	(16,930)
Gross profit	4,531	4,996

LITIGATION

As of 31 December 2018, the Company had no pending material litigation.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company had not purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

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.

SUFFICIENCY OF PUBLIC FLOAT

Throughout the year ended 31 December 2018 and as at the date of this annual report, at least 32.74% of the Company's issued share capital was held by the public.

AUDITORS

A resolution has been submitted to the annual general meeting of the Company to re-appoint Elite Partners CPA Limited as auditors of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is always committed to maintaining high standards of corporate governance. Save as disclosed in this section, in the opinion of the Board, during the year ended 31 December 2018, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 15 of the GEM Listing.

THE BOARD OF DIRECTORS

Composition and function

The Company's Board of Directors comprised eight directors, including Mr. Wang Cong (Chairman), Mr. Wang Feng, Mr. Zhou Jian and Ms. Tian Lingling as executive directors, Ms. Shi Dandan as non-executive director, and Mr. Li Gangjian, Mr. Zhao Boxiang and Prof. Zhao Xiaoning as independent non-executive directors. Biographies of the Directors are set out in the paragraph headed"DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT" of this annual report. The Board is responsible for overseeing the preparation of accounts of each financial period, which shall give a true and fair view of the state of affairs of the Company and of the results and cash flows for that period. It is also responsible for formulating the Company's long-term strategy and supervising the management to ensure thorough implementation of the Company's policies and effective performance of their duties. Also, the Board is responsible for performing the corporate governance duties set out in the Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of the Directors, and reviewing the Company's compliance with the code provision in the Code and disclosures in this report. During the financial year ended 31 December 2018, the Board has performed the corporate governance duties set out in the Code.

Delegation by the Board

The management, consisting of executive Directors along with other senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time and conducting the day-to-day operations of the Group. Executive Directors and senior executives meet regularly to review the performance of the businesses of the Company, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

Amongst the board members, Mr. Wang Feng is a younger brother of Mr. Wang Cong, and Ms. Tian Lingling is the wife of Mr. Wang Cong. Other Board members have no financial, business, family or other material/relevant relationships with each other.

All non-executive Directors are engaged by a service contract for a fixed term for not more than three years. All Directors appointed to fill a casual vacancy are subject to re-election by shareholders at the first annual general meeting following their appointment and all Directors are subject to re-appointment or re-election at least once every three years. Composition of the Board, by category of Directors, including names of the Chairman, executive Directors, independent non-executive Directors and non-executive Directors, has been disclosed in all corporate communications.

The Separate Roles of Chairman and Chief Executive Officer

Under the provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation from the post of chief executive and removal of directorship from the Company of Mr. Wang Zheng in June 2006, Mr. Wang Cong held the offices of Chairman and president of the Company since then. The Board has been in the process of identifying a suitable candidate to fill the role of president.

The Board is responsible for considering and recommending suitable nominees to act as Director, and proposal will be made to approve such nominees by ordinary resolutions of general meetings. When there is a need to change members of the Board or to increase or decrease the number of the Directors, the Chairman of the Board shall recommend nominees to the Board after taking into consideration of the requirements of corporate governance and human resources and seeking advice from relevant professionals and opinions of other Directors. The Board shall then propose such nominee for approval in general meeting.

The day-to-day management of the Company's business was handled by the executive Directors of the Company collectively.
The Board believes that the present arrangement is adequate to ensure an effective management and control of the Company's present business operations. The Board continually reviews the effectiveness of the Company's corporate governance structure to assess whether any changes, including the appointment of a chief executive officer, are necessary.

Board meetings and attendance

The Board meets at least quarterly and additional Board meetings are held as and when required. Between scheduled meetings, the Directors are provided with information on the activities and development in the businesses of the Company in a timely manner to keep them abreast of the Company's latest developments. During the financial year ended 31 December 2018, the Board held seven meetings.

Details of Directors' attendance records in 2018 are as follows:

	Number of board meeting attended/Total	Number of general meeting attended/Total
Executive Directors		
Mr. Wang Cong	7/7	1/1
Mr. Wang Feng	7/7	1/1
Mr. Feng Tuo	1/7	
Mr. Zhou Jian	5/7	1/1
Ms. Tian Lingling	7/7	1/1
Non-executive Directors		
Ms. Shi Dandan	5/7	1/1
Mr. Wang Zhe	1/7	
Independent Non-Executive Directors		
Mr. Li Gangjian	7/7	1/1
Mr. Zhao Boxiang	7/7	1/1
Prof. Zhao Xiaoning	7/7	1/1

Note: Mr. Zhou Jian and Ms. Shi Dandan were appointed on 4 April 2018; Mr. Feng Tuo and Mr. Wang Zhe resigned on 4 April 2018.

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company provides regular training to Directors to update the Directors on the requirements under the GEM Listing Rules and the amendments to the GEM Listing Rules in the hope that all the Directors would comply with the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding securities transactions by Directors on terms which are the same as the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiries of all the Directors and the Company was not aware of any noncompliance with the required standard of dealings and the code of conduct regarding securities transactions by the Directors.

INDEPENDENCE

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

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, majority of which being independent non-executive Directors. Ms. Zhao Xiaoning has been appointed as a member as well as the chairlady of the committee, and other members include Mr. Zhao Boxiang and Ms. Shi Dandan.

The Remuneration Committee is responsible, among others, 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 policy on such remuneration. The Remuneration Committee has the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management. Remuneration includes benefits in kind, pension rights and compensation payments, basic salary and performance bonus, of the executive Directors and senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. The committee ensures that no Director is involved in deciding his own remuneration.

The specific terms of reference of the Remuneration Committee is posted on the Company's website. The Remuneration Committee held one meeting in 2018. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Non-executive Director	
Ms. Shi Dandan	1/1
Independent Non-executive Directors	
Mr. Zhao Boxiang	1/1
Ms. Zhao Xiaoning *(Chairlady)*	1/1

During the financial year ended 2018, the Remuneration Committee has, amongst other things, reviewed the remuneration of executive Directors, assessed performance of executive Directors and approved the terms of executive Directors' service contracts.

NOMINATION COMMITTEE

The Nomination Committee consists of three members. Mr. Zhao Boxiang, Mr. Wang Feng and Mr. Zhou Jian were appointed as members of the Nomination Committee and Mr. Zhao Boxiang is the chairman.

The Nomination Committee is responsible for formulating nomination policy, reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board on selection and appointment of Board members. The specific terms of reference of the Nomination Committee is posted on the Company's website.

The Nomination Committee held one meeting in 2018 and all members attended the meeting. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Executive Directors	
Mr. Wang Feng	1/1
Mr. Zhou Jian	1/1
Independent Non-executive Director	
Mr. Zhao Boxiang *(Chairman)*	1/1

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with Rules 5.28 of the GEM Listing Rules on 6 July 2002. The Audit Committee consists of three members, all of which are independent non-executive directors. Mr. Li Gangjian is the chairman while Mr. Zhao Boxiang and Ms. Zhao Xiaoning are the members.

The Audit Committee is responsible for reviewing the accounting policies and practices adopted by the Group, reviewing and discussing financial reporting, internal control and audit matters, performing other functions delegated by the Board, and reporting to the Board after holding meetings on the foregoing matters regarding its work, the meeting results and suggestions, as well as the operation risk faced by the Group. The audited financial results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

The terms of reference of the Audit Committee is published on the Company's website. The Audit Committee held four meetings in 2018 discussing the Company's annual results for 2018, quarterly results for 2018, considering and discussing the acquisition and placement matters, and reviewing internal control matters. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Independent Non-Executive Directors	
Mr. Li Gangjian *(Chairman)*	4/4
Mr. Zhao Boxiang	4/4
Ms. Zhao Xiaoning	4/4

During the financial year ended 2018, the Audit Committee has, amongst other things, reviewed the quarterly, interim and annual results of the Company and reviewed internal control matters of the Company

The Company has complied with Rules 5.28 of the GEM Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

AUDITOR

The Company has appointed Elite Partners CPA Limited as the Company's auditor since 2011. Since then, Elite Partners CPA Limited has been serving as the Company's auditor. Elite Partners CPA Limited continued to be the auditor of the Company by the approval of the general meeting of the Company held on 28 December 2018.

INTERNAL CONTROL

The Board has overall responsibility for the Company's systems of internal control and for reviewing its effectiveness. The Board will conduct regular review on internal control systems of the Company. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the Audit Committee and the Board also performed quarter review on the Company's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of the Company.

For the implementation of the Corporate Governance Code of the Stock Exchange, the Company has put more efforts in reviewing its internal control system, especially in inspection and improvement of its information disclosure procedures has but under the GEM Listing Rules regarding transactions. Internal review procedures and trainings for relevant responsible persons and executors are both enhanced, with a view to better implement all provisions in the Corporate Governance Code and the GEM Listing Rules.

COMPANY SECRETARY

The Company appointed Mr. Leung Man Kit as the company secretary on 27 November 2014.

SHAREHOLDERS' RIGHTS

Extraordinary general meeting may be convened by the Board on written requisition of shareholders holding 10% (including 10%) or more of the Company's issued and outstanding shares carrying voting rights pursuant to Article 58 of the articles of association of the Company. According to Article 60 of the articles of association of the Company, when the Company convenes an annual general meeting, shareholders holding 5% (including 5%) or more of the total voting shares of the Company, are entitled to propose new motions in writing to the Company and the Company shall place such motions on the agenda for such meeting if they are matters falling with the scope of duties of the general meeting. Shareholders may propose new motions at the general meeting of the Company by sending the same to the Company's registered office and principal place of business in the People's Republic of China and the principal place of business of the Company in Hong Kong.

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. Members of the Board meet and communicate with shareholders at the annual general meeting of the Company. The Chairman proposes separate resolutions for each issue and put each proposed resolution to the vote by way of a poll. Voting results will be posted on the Company's website on the day of the annual general meeting.

Our Company websites which contain corporate information, interim and annual reports, announcements and circulars issued by the Company enables the Company's shareholders to have timely and updated information of the Company.

REPORT OF SUPERVISORY COMMITTEE

To the Shareholders,

In 2018, the Supervisory Committee of the Company (the "Supervisory Committee") duly performed its duties conferred by relevant laws and regulations and actively engaged in activities that were in line with their considerable accountability to all shareholders in accordance with the Company Law, Articles of Association and the Working Plan of the Supervisory Committee 2018. It monitored effectively the financial position as well as the performance of the Board of Directors (the "Board"), the member of the Board and other senior management of the Company. During the reporting period, the Supervisory Committee of the Company held seven meetings in total, and the members of the Supervisory Committee attended every board meeting and general meeting.

I. THE MEETINGS HELD BY THE SUPERVISORY COMMITTEE OF THE COMPANY

1. The sixth meeting of the fourth Supervisory Committee was held on 27 February 2018, which considered and approved the memorandum on the agreement in relation to placement of 136,000,000 domestic shares to Xi'an Heyue Property Management Limited.

2. The seventh meeting of the fourth Supervisory Committee was held on 29 March 2018, which considered and approved the audited annual results report of the Company for the year ended 31 December 2017 and reviewed 2017 annual report.

3. The eighth meeting of the fourth Supervisory Committee was held on 14 May 2018, which considered and approved the unaudited first quarterly results report of the Company for the three months ended 31 March 2018.

4. The ninth meeting of the fourth Supervisory Committee was held on 14 August 2018, which considered and approved the unaudited interim results report of the Company for the six months ended 30 June 2018.

5. The tenth meeting of the fourth Supervisory Committee was held on 14 November 2018, which considered and approved the unaudited third quarterly results report of the Company for the nine months ended 30 September 2018.

6. The eleventh meeting of the fourth Supervisory Committee was held on 28 December 2018, which considered and approved the agreement in relation to acquisition of the 30% equity interest in Shaanxi Ruijian E-commence Co., Ltd.

7. The twelfth meeting of the fourth Supervisory Committee was held on 30 December 2018, which considered and approved the supplementary agreement in relation to acquisition of equity interest in Shaanxi Ruijian E-commence Co., Ltd.

II. EXAMINATION OF THE COMPLIANCE OF THE COMPANY'S OPERATIONS WITH LEGAL REQUIREMENTS

In 2018, the Supervisory Committee devoted more efforts to supervise the management. The Supervisory Committee considered:

1. In 2018, the Board of the Company practically executed the resolutions entirely in compliance with the requirements resolved in the general meetings. Every decision-making procedure was carried out entirely in compliance with the Company Law, Securities Law, Articles of Association, relevant laws and regulations of Hong Kong and other relevant requirements of the PRC.

2. During the reporting period, neither the Directors nor the president nor other senior management were found in breach of the PRC laws regulations, articles of association and acting detrimental to the interests of the Company in their course of performing the duties of the Company.

3. The financial position of the Company in 2018 was basically normal. There was no breach of financial requirements found. The financial account was clear; the accounting file was complete; and the financial administration had complied with the requirements of financial system.

For and on behalf of the Supervisory Committee
Zeng Yinglin
Chairman of the Supervisory Committee

Xi'an, the PRC
29 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This report is the first environmental, social and governance report issued by the Group and serves to disclose the Group's actions and performance on sustainable development issues in a transparent and open manner, which improves the stakeholders' confidence in and understanding of the Group.

REPORTING YEAR

All information in this report reflects the Group's performance in respect of environmental management and social responsibility from 1 January 2018 to 31 December 2018. In accordance with the requirements of the Listing Rules, the Group will issue an environmental, social and governance report together with the annual report each year on a regular basis for inspection by the public and further enhance the transparency of information disclosure.

SCOPE OF THE REPORT

The report focuses on the Group's production and operation activities relating to its two major products, namely FA-90 unleaded gasoline additives and thiol products, at its principal place of business, being branches of the Company located at Weinan Economic Development Zone, Shaanxi Province, the PRC with a site area of approximately 42,667 sq.m.. As the preparation of such report is a new matter, the Group is still studying and understanding the disclosure standards and the relevant requirements. Certain areas, such as the administrative management at the head office of the Company that have minimal environmental impacts, are not covered in this report. After the Group has collected more information and refined its environmental, social and governance work, the Group will expand the scope of disclosure to all operations of the Group. This report does not include the disclosure of key environmental performance indicators. When the time is ripe, the Group will make assessment and further refine and standardize the report in the future.

REPORTING STANDARDS

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "Guide") issued by the Stock Exchange. The report provides a concise overview of the Group's environmental, social and governance performance. Information in the report is derived from official documents and statistics of the Group, as well as the information consolidated from monitoring, management and operation aspects in accordance with the relevant systems of the Group.

During the Reporting Period, the Company has complied with the "comply or explain" provision set out in the Environmental, Social and Governance Reporting Guide.

For details of the financial performance and corporate governance matters of the Group, please refer to other sections of the annual report of the Company, of which this environmental, social and governance report forms a part.

KEY MEASURES AND POLICIES OF THE GROUP

The Group is principally engaged in the research and development, production and sale of environmentally-friendly chemical products. Our products are used by customers to produce environmentally-friendly plastic additives and heat stabilizers, which are used to improve vehicle combustion efficiency, reduce harmful gas emissions, substitute or reduce the use of lead containing additives, so as to achieve the ultimate goals of improving environment and reducing waste emissions, and fall under environmentally-friendly products. As such, the Group directly contributes to environment improvement by providing products and services.

The Group is committed to creating positive value for shareholders and customers. We work with employees, customers and major partners to undertake corporate social responsibility. The Group believes that in order to establish better relationship with the community, employees, customers and other partners, we must take their interests and concerns into account.

Based on the analysis of operating activities of the Group and in view of the characteristics in its business, we have adopted the following key measures which have substantial impacts on environmental protection and are described in details in this report:

1. Procurement of raw materials

The supply department of the Company is required to ensure that the following criteria are met in procuring raw materials:

1) The production environment of material suppliers shall meet environment standards. Currently over 97% raw materials of the Company are supplied by enterprises which have met environment standards.

2) The packaging of raw materials shall be in recyclable or reusable forms to the extent possible. In particular, 70% packaging is in reusable form, and 55% packaging is in recyclable form. The Group will further strive to gradually achieve the goal for the packaging materials in reusable and recyclable forms accounting for 80% or above of total packaging materials in the foreseeable future.

2. Production process

The plants are required to meet the following requirements:

1) The production process is reviewed to ensure that no harmful substances are generated in the whole process;

2) All equipment and process pipelines are regularly maintained to avoid the run, flow, drip and leakage;

3) Heat energy supplied locally from those standardised heating pipelines has already been used to meet production needs. With fully satisfied with relevant requirements, production process and related equipment as well as pipelines have met production needs and totally eradicated the air pollution problem caused by the original coal-fired boilers;

4) Solid waste produced in the process of production undergoes centralized harmless treatment and is delivered on a regular basis to the collection station designated by the government. Approximately 600 kilograms of such waste is generated each year;

5) Regular circuit maintenance is conducted to reduce line loss and reduce power consumption;

6) A reasonable plan for material storage and transportation at the plant area is prepared to reduce the duplication of routes as much as possible and shorten the distance to reduce traffic volume at the plant area;

7) Open space at the plant area is made green with plants to reduce bare ground.

3. Continued improvement in production process

The additives required for the production process are upgraded to reduce consumption, especially to reduce the waste generated in the process. As tested, the waste did not increase upon the adoption of new process.

4. Product sales process

All packaging is in reusable forms, and technical support is provided to customers to encourage them to use large packaging (such as transportation in tanker trucks and receipt by customers with storage tanks) as far as possible. Currently the products with large packaging or reusable packaging remain over 80% of the products sold. These measures have helped reduce the usage and consumption of packaging materials and contributed to environment improvement.

5. Material transportation and fuel consumption

The major raw materials procured by the Company and the products sold by it are transported by third-party vehicles. The Company does not have its own transportation vehicles, which has lowered transportation cost, fuel consumption and the impacts on environment.

6. Water resource consumption

As the water involved in the cooling link in the production process can be reused in the same production process, the Group's production process does not involve a lot of water. Save as aforesaid, all water resources are used by employees at the staff quarter and head office of the Group for daily use.

Currently the water is supplied by the government for domestic use, and the Group had not experienced any difficulty in obtaining water during the period. Compared to the domestic water consumed at the staff quarter, the water consumption at the head office of the Group is insignificant. The Group has adopted internal guidelines to educate employees to save water, and conducted regular inspection and maintenance of water supply facilities to reduce water wastage. In order to further ensure quality water is provided to employees, the Group has adopted clear guidelines for cleaning and filtration of water supply and storage facilities.

7. Power consumption

The Group's power consumption is mainly in the product production process. Plant, office and domestic power consumption are all supplied by municipal power supply system. In their daily production and operation, branches of the Company pay attention to the daily repair and maintenance of electricity supply system and various electrical facilities in order to minimize the idle and ineffective operation of facilities and equipment, reduce reactive loss at each link, and maintain power consumption at a reasonable level.

As for office and domestic power consumption, we advocate saving power within the Group. For example, lights shall not be turned on as far as possible during day time; work overtime shall be reduced; idle power consumption of office equipment shall be reduced; lights at public places including office and washrooms shall be turned off when not in use. On the premise of ensuring a comfortable working environment for employees, the air-conditioning temperature will be properly turned up in summer and the heating temperature will be lowered in winter. We aim at fostering a good habit of saving electricity in all staff.

POLICIES OF THE GROUP ON CORPORATE SOCIAL RESPONSIBILITY PRACTICES

The Group believes that its employees are essential to its success and is committed to ensuring the health, safety, and overall benefits of employees at work. In addition, the Group holds a variety of career-related lectures, seminars and training courses for the sustainable development of employees. The Group has also adopted certain social responsibility practices to support the community and maintain its business reputation.

EMPLOYMENT AND LABOUR PRACTICES

Health and safety

The Group is committed to providing a safe working environment for its employees. The following sets out certain routine practices adopted by the Group in accordance with the laws and regulations applicable to workplace safety with the aim of reducing workplace accidents:

- medical examinations are provided to its employees in the PRC in due course before the commencement of employment;
- production process continues to be streamlined and the use of known toxic substances in the production process of the Group is reduced/avoided to the extent practicable;
- the firefighting equipment at the plants, staff quarter and head office of the Group is inspected by professional institutes on a regular basis;
- personal protective devices and other safety devices are provided in the workplace;
- guidance and specific technical training are provided to employees who may be exposed to potentially toxic substances;
- smoking is prohibited in the workplace, plants and staff quarter;
- safety training is provided to employees, and emergency drills for fire or other disasters are conducted from time to time;
- water supply filtration facilities are cleaned on a regular basis; garbage is cleaned up every day;

During the period, the Group has no work injury record at the plant and offices.

Occupational training and development

Having considered that employees are essential to the business development of the Group, in addition to the aforesaid safety related trainings, the Group also provides regular internal and external training courses to its employees to enhance their work quality and personal development. These trainings covered the following topics:

- Product knowledge enhancement – training courses are provided on a regular basis to enable employees to become familiar with the products of the Group
- Latest market information – employees are informed of the technical development and market conditions of the petrochemical industry
- General training – training in the general systems of the Group and specific systems of various departments
- Management system training
- Occupational safety and health training
- Management and communication skills training

During the period, the Group has provided/arranged a total of no less than 500 hours of career-related trainings on the aforesaid topics for its employees.

The Group has also introduced a mentorship system. Experienced employees guide new employees and provide them with on-the-job training and guides to enable their smooth integration into the operation process of the Group.

EMPLOYMENT AND LABOUR STANDARDS

The Company is committed to becoming a responsible employer, and the Group is committed to adopting good employment practices in the workplace and respecting ethics and human rights.

The Group recruits employees in the open market. Its employment policy is based on personal expertise, the relevance of the related work requirements and fairness. The Group prohibits discrimination against potential candidates in the recruitment process for reason of race, colour, religion, gender and gender identity/sexual orientation, age, marriage and parental status and/or pregnancy or physical condition.

(a) Recruitment process practices

The Group has not employed any person under 18 years of age. During the recruitment process, applicants are required to submit proof of identity to ensure compliance with the above Group's policy. During the period, all employees of the Group were 18 years of age or older.

(b) Remuneration and promotion practices

The Group offers competitive salaries to attract talents. The remuneration of employees is determined with reference to various factors, such as educational background, experience, job responsibilities, professional skills, technical competence and salary levels for similar jobs in the industry. During the period, the Group adopted an open communication policy and conducted annual appraisal of the performance of employees with them, in which each employee had an equal opportunity to be promoted. Employees of the Group have clear career paths and have the opportunities to pursue further responsibilities and promotion.

(c) Working hours and general welfare practices

The rest time of employees of the Group is fully secured, and employees are entitled to paid holidays in accordance with the law or other provisions of their respective employment contracts. The Group has in place a computerized attendance system to continuously monitor the working hours of employees. The Group is committed to ensuring that there is no forced labour in the business operation of the Group. The Group has also adopted a non-violence policy on sexual harassment in the workplace to protect its employees from sexual harassment.

In addition, the Group makes mandatory social insurance contributions (including pension, medical care, retirement, work-related injury and unemployment insurance) for its employees in accordance with the relevant laws and regulations in the PRC.

To enhance the overall morale of employees, the Group also holds corporate events such as New Year's party, birthday party, spring tour and holiday travel so that employees can gather in their spare time to strengthen cohesion and team building.

The Group believes that, to the best of the Directors' knowledge and belief, during the period the Group had in general complied with the provisions of the Labour Law in relation to working hours, overtime, holidays, minimum wages and compensation and dismissal. In addition, it has not received any complaint or notice from any government authority in respect of the violation of these employee practices.

ANTI-CORRUPTION PRACTICES

Integrity is one of the core values of the Group relating to business operation, and the Group believes an effective anticorruption mechanism is essential for the sustainable and organic development of the Group. The Group has adopted clear employee guidelines, which strictly prohibit bribery, extortion, fraud, money laundering and other acts, such as gambling, providing loans to or borrowing loans from persons with business relationships with the Group, misappropriation of assets of the Group, improper charitable donation or sponsorship, illegal business invitation or preferential treatments, providing or accepting "rebates" or inappropriate gifts, entertainment or other improper benefits. Its employees are also required to declare their interests in any business partner, supplier or consultant of the Group which may constitute conflict of interests with the Group. The relevant guidelines have been clearly set out in the staff handbook.

Employees are also required to strictly comply with applicable laws in relation to the aforesaid activities (including the staff handbook). The standard employee contract of the Group also contains a provision that non-compliance with law constitutes a reason to terminate employment. The Group also expects its suppliers and business partners to comply with local anticorruption laws.

During the period, the Group has not received any complaint or notice from any government authority in respect of noncompliance by the Group or any of its employee with the aforesaid anti-corruption laws.

COMMUNITY INVOLVEMENT

The Group believes that community support is critical to the success of the Group. The Group organizes and encourages employees to participate in volunteer activities to help the disadvantaged groups within the community. In the Spring Festival holiday, the Company organized part of employees to participate in the traditional educational red tourism. Party branch at the Group organized party members and youth applying for admission to the party to attend the activities held by the Party Committee of the High-tech Development Zone, and the labour union organized staff to participate in various professional competitions and sports and recreational activities in the development zone, such that the spare life of employees could be enriched and the connection between the Company and the community in which it is located could also be strengthened for contribution to the community work.

INDEPENDENT AUDITOR'S REPORT

To the members of Shaanxi Northwest New Technology Industry Company Limited
(A joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the financial statements of Shaanxi Northwest New Technology Industry Company Limited ("the Company") set out on pages 32 to 79, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its 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 Financial Statements" section of our report. We are independent of the Company in accordance with the HKICPA's "Code of Ethics for Professional Accountants" ("the Code") together with the ethical requirements that are relevant to our audit of the financial statements in jurisdiction, 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of trade receivables

Key Audit Matter	How the matter was addressed in our audit
Impairment assessment of trade receivables Please refer to note 18 to the financial statements	
As at 31 December 2018, the Group has trade receivables amounting to RMB28,575,000, net of allowance amounting to RMB23,097,000. Management judgement is required in assessing and determining the recoverability of trade receivables and adequacy of allowance made using the expected credit losses ("ECL") model under HKFRS 9 "Financial Instruments". We had identified impairment assessment of trade receivables as a key audit matter because the assessment of the recoverability of trade receivables and recognition of loss allowance are inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.	Our major audit procedures relating to the impairment assessment of loan receivables included the following: • We tested the design and implementation of the relevant key controls over the assessment and monitoring of credit risks, and determination of allowance for expected credit losses. • We discussed with management and evaluated the ECL model used in determining the allowance for expected credit losses. We challenged and evaluated management's assessment on both the quantitative and qualitative information considered by them that is reasonable and supportable, including historical experience and forward-looking information such as credit ratings, trade receivables ageing analysis, collections subsequent to the end of the reporting period, local economic conditions, past collection history and trend analysis and knowledge of the businesses. • We tested subsequent settlement of trade receivables balances on a sample basis. • We assessed whether the time value of money was considered in the expected credit loss impairment model and checked the mathematical accuracy of the calculations. • We assessed the adequacy of the Group's disclosures in relation to trade receivables included in the financial statements.

OTHER INFORMATION

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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. 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 financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

– Identify and assess the risks of material misstatement of the 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 Company's internal control.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the 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 Siu Edmund with practising certificate number P05333.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2019
10/F., 8 Observatory Road,
Tsimshatsui, Hong Kong

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	6	**37,660**	35,754
Cost of sales		**(25,821)**	(24,566)
Gross profit		**11,839**	11,188
Other revenue and other gains and losses, net	7	**7,360**	2,804
Distribution and selling expenses		**(1,809)**	(2,035)
Administrative expenses		**(4,674)**	(4,186)
Profit before taxation	8	**12,716**	7,771
Income tax expenses	11	**(1,385)**	(897)
Profit for the year		**11,331**	6,874
Other comprehensive income			
Items that may not be reclassified to profit or loss			
Fair value changes of financial assets at fair value through other comprehensive income		**2,847**	–
Total comprehensive income for the year		**14,178**	6,874
Earnings per share			
– Basic and diluted	13	**RMB0.010**	RMB0.007

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	14	**10,538**	11,070
Available-for-sale financial assets	15	**–**	27,939
Financial assets at fair value through other comprehensive income	15	**15,996**	–
Land lease premium	16	**5,988**	6,198
		32,522	45,207
Current assets			
Land lease premium	16	**210**	210
Inventories	17	**489**	399
Trade receivables	18	**28,575**	39,694
Prepayments, deposits and other receivables	18	**71,385**	22,203
Cash and bank balances		**40,741**	43,622
		141,400	106,128
Current liabilities			
Trade payables	19	**410**	410
Other payables and accruals		**11,630**	10,578
Amount due to the ultimate holding company	20	**3,096**	3,110
Tax payables		**5,421**	5,214
		20,557	19,312
Net current assets		**120,843**	86,816
Net assets		**153,365**	132,023
Capital and reserves			
Share capital	21	**114,700**	101,100
Reserves		**38,665**	30,923
Total equity		**153,365**	132,023

The financial statement on pages 32 to 79 were approved and authorized for issue by the Board of Directors on 29 March 2019 and signed on its behalf by

Wang Cong
Director

Li Gangjian
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Statutory reserve RMB'000	Statutory welfare fund RMB'000	FVTOCI reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	101,100	43,719	(13,679)	13,848	5,493	–	(39,011)	111,470
Profit and total comprehensive income for the year	–	–	–	–	–	–	6,874	6,874
Appropriations	–	–	13,679	–	–	–	–	13,679
Transfers	–	–	–	687	–	–	(687)	–
At 31 December 2017	101,100	43,719	–	14,535	5,493	–	(32,824)	132,023
Effect on initial application of HKFRS 9	–	–	–	–	–	(14,790)	(4,426)	(19,216)
Adjusted balance at 1 January 2018	101,100	43,719	–	14,535	5,493	(14,790)	(37,250)	112,807
Profit for the year	–	–	–	–	–	–	11,331	11,331
Other comprehensive income								
Fair value change of FVTOCI	–	–	–	–	–	2,847	–	2,847
Total comprehensive income for the year	–	–	–	–	–	2,847	11,331	14,178
Placing of shares	13,600	12,780	–	–	–	–	–	26,380
Transfers to statutory reserve (Note 22)	–	–	–	1,133	–	–	(1,133)	–
At 31 December 2018	114,700	56,499	–	15,668	5,493	(11,943)	(27,052)	153,365

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before taxation	**12,716**	7,771
Adjustments for:		
Reversal of impairment loss on trade and other receivables, prepayment and deposit	**(9,796)**	(2,760)
Impairment loss on trade and other receivables, prepayment and deposit	**6,514**	356
Reversal of impairment on inventories	**–**	(349)
Amortization of land lease premium	**210**	210
Depreciation of property, plant and equipment	**532**	558
Interest income	**(3,999)**	(51)
Operating profit before working capital changes	**6,177**	5,735
(Increase)/Decrease in inventories	**(90)**	1,069
Decrease/(Increase) in trade receivables	**14,885**	(698)
Decrease/(Increase) in other receivables, prepayments and deposits	**1,922**	(6,514)
Increase in accruals and other payables	**1,052**	1,133
Cash generated from operating activities	**23,946**	725
Income tax paid	**(1,178)**	(675)
Net cash generated from operating activity	**22,768**	50
Investing activities		
Increase in loan receivables	**(55,300)**	–
Loan interest received	**3,206**	–
Bank interest received	**79**	51
Net cash (used in)/generated from investing activities	**(52,015)**	51
Financing activities		
Proceeds from placing of shares	**26,380**	–
Decrease in amount due to the ultimate holding company	**(14)**	(337)
Net cash generated from/(used in) financing activities	**26,366**	(337)
Net decrease in cash and cash equivalents	**(2,881)**	(236)
Cash and cash equivalents at 1 January 2018	**43,622**	43,858
Cash and cash equivalents at 31 December 2018		
Cash and bank balance	**40,741**	43,622

1. GENERAL INFORMATION

Shaanxi Northwest New Technology Industry Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 9 April 1999 as a limited liability company. On 18 January 2000, pursuant to the approval from the relevant PRC authorities, the Company converted into a joint stock limited company and renamed as 陝西西北新技術實業有限公司 Shaanxi Northwest New Technology Industry Company Limited in preparing for the listing of the Company's H Shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The H shares of the Company were listed on the GEM on 3 July 2003.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is principally engaged in the research and development, production and sale of innovative environmental protection energy material and products, fuel oil additives, chemical products and rare earth materials.

The directors consider the ultimate holding company of the Company is Xi'an Northwest Industry (Company) Limited, which was established in the PRC. This entity does not produce financial statements available for public use.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

2.1 Application of new and revised HKFRSs

In the current year, the Company has applied the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

- HKFRS 9 *Financial Instruments* (including the amendments to HKFRS 9 *Prepayment Features with Negative Compensation* which is mandatorily effective for annual periods beginning on or after 1 January 2019);
- HKFRS 15 *Revenue from Contracts with Customers* and amendments to HKFRS 15; and
- HK(IFRIC) 22 *Foreign Currency Transactions and Advance Consideration.*
- Other than the amendments to HKFRS 9 as described above, the Group has not early applied any new standard or interpretation that is not yet mandatorily effective for the current year.

A) Application of HKFRS 9

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

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

2.1 Application of new and revised HKFRSs (Continued)

A) Application of HKFRS 9 (Continued)

(I) Classification and measurement of financial assets

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

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

These classification categories are different from those set out in HKAS 39 which included held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Details about the Group's accounting policies for its financial assets and financial liabilities are disclosed in Notes 18 to 20 to the consolidated financial statements. The Group did not designate or de-designate any financial asset at FVTPL at 1 January 2018.

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

	Old classification under HKAS 39	New classification under HKFRS 9	Carrying amount under HKAS 39	Reclassification	Remeasurement	Note	Carrying amount under HKFRS 9
Available-for-sale financial assets	Available for sale financial assets (at cost less impairment)	FVTOCI	27,939	–	(14,790)	Notes 1&2	13,149
Accounts and other receivables	Loans and receivables	Amortised cost	61,897	–	(4,426)	Note 3	57,471

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

2.1 Application of new and revised HKFRSs (Continued)

A) Application of HKFRS 9 (Continued)

(I) Classification and measurement of financial assets (Continued)

Notes:

1. Under HKFRS 9, investments in equity securities are required to be measured at fair value subsequently at the end of each reporting period. Accordingly, for investments in equity securities that were previously measured at cost less impairment based on the cost exemption under HKAS 39 have to be measured at fair value under HKFRS 9. Based on the specific transitional provisions set out in HKFRS 9, such investments have to be measured at fair value at the date of initial application (i.e. 1 January 2018), with any difference between the fair value and carrying amount under HKAS 39 being recognised in the opening retained earnings as of 1 January 2018.

2. The Group had designated certain investments in equity securities (that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies) as at FVTOCI as at the date of initial application of HKFRS 9 (i.e. 1 January 2018) based on the specific transitional provisions set out in HKFRS 9.

3. The amount represented additional impairment loss based on the new expected loss model under HKFRS 9. Please also see details disclosed in (A)(II) below.

(II) Impairment

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

- financial assets that are subsequently measured at amortised cost (including cash and cash equivalents, trade receivables and loans receivables);
- contract assets as defined in HKFRS 15; and
- investments in debt securities that are subsequently measured at FVTOCI;
- others (e.g. lease receivables, financial guarantee contracts issued and loan commitments issued that are not measured at FVTPL (please specify).

Please see Note 3 for the Group's accounting policies relating to impairment.

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

2.1 Application of new and revised HKFRSs (Continued)

A) Application of HKFRS 9 (Continued)

(II) Impairment (Continued)

The following table is a reconciliation that shows how the closing loss allowance as at 31 December 2017 determined in accordance with HKAS 39 can be reconciled to the opening loss allowance as at 1 January 2018 determined in accordance with HKFRS 9.

	RMB'000
Loss allowance recognised as at 31 December 2017 under HKAS 39	26,863
Additional loss allowance as a result of the application of the "expected loss model" under HKFRS 9	
– Trade receivables	2,838
– Other receivables	1,588
Loss allowance recognised as at 1 January 2018 under HKFRS 9	31,289

(III) Classification and measurement of financial liabilities

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

The application of HKFRS 9 in respect of financial liabilities' classification and measurement requirements has had no impact on the consolidated financial statements.

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

2.1 Application of new and revised HKFRSs (Continued)

A) Application of HKFRS 9 (Continued)

(IV) Hedge accounting

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

(V) Effect on the Group's retained earnings and other reserves as of 1 January 2018

The following table shows the impact of the application of HKFRS 9 on the Group's retained earnings and other equity components as of 1 January 2018:

	Increase in the Group's accumulated losses
	RMB'000
Recognition of additional expected credit losses relating to:	
Trade receivables	2,838
Other receivables	1,588
	4,426

	Decrease in the Group's FVTOCI reserve
	RMB'000
Recognition of the cumulative fair value change for available-for-sale financial assets that are classified as FVTOCI under HKFRS 9	14,790

B) Application of HKFRS 15

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

Considering the nature of the Group's principal activities, the adoption of HKFRS 15 does not impact the Group's revenue recognition. Accordingly, HKFRS 15 had no impact on amounts and/or disclosures reported in the consolidated financial statements.

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

2.1 Application of new and revised HKFRSs (Continued)

B) Application of HKFRS 15 (Continued)

Application of HK (IFRIC 22)

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

2.2 New and revised HKFRSs that are not mandatorily effective for the current year

HKFRS 16	Leases[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2015-2017 Cycle
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019

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

HKFRS 16 Leases

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

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

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

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

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

2.2 New and revised HKFRSs that are not mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

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

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

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

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

Amendments to HKAS 28

The amendments require an entity to apply HKFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, from part of the entity's net investment in an associate or joint venture. An entity applies HKFRS 9 to such long-term interests before it applies paragraph 38 and paragraphs 40-43 HKFRS 28.

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

HK(IFRIC) Interpretation 23 Uncertainty over Income Tax Treatments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basic of preparation

Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance ("CO"). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

Basis of preparation

The financial statements for the year ended 31 December 2018 comprise the Company. The financial statements have been prepared on the historical cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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

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

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services or for administrative purpose, are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 3.7).

When a lease includes both land and building elements, the Company assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Company.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land lease premium" in the statement of financial position and is amortised over the lease term on a straight-line basis.

Buildings are depreciated over the shorter of the term of the lease of land on which the buildings are erected, or 50 years.

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds on disposal and the carrying amount of the item.

Depreciation is provided to write off the cost or revalued amounts less their residual values over their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Land and buildings	over the lease terms
Leasehold improvements	8 years
Plant and equipments	5–7 years
Furniture, fixtures and equipments	5 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting period. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Any revaluation surplus remaining in equity is transferred to retained earnings on the disposal of land and buildings.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease. Payments for obtaining rights for using land use rights are accounted as land lease premium and charge to profit or loss on a straight-line basis over the lease terms. Rights for using land use rights which are to be charged to profit or loss in the next twelve months or less are classified as current assets.

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Company, or taken over from the previous lessee.

3.4 Financial instruments

Financial assets and financial liabilities are recognised when the Company 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.1 Financial assets

Classification of financial assets

Accounting policy prior to 1 January 2018

All financial assets are initially measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets held for trading and those designated at fair value through profit or loss) (FVTPL) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of held for trading and FVTPL investments are recognised in profit or loss immediately.

Financial assets that are classified as "loans and receivables" or "held-to-maturity investments" are subsequently measured at amortised cost using an effective interest rate, less impairment.

Available-for-sale (AFS) equity investments are subsequently measured at fair value with changes in fair value being recognised in other comprehensive income accumulated under "AFS investment revaluation reserve". Amounts previously recognised in "AFS investment revaluation reserve" are reclassified to profit or loss upon impairment or disposal.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are subsequently measured at cost less impairment.

Dividends from AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-debt investments are subsequently measured at fair value with changes in fair value being recognised in other comprehensive income accumulated under "AFS investment revaluation reserve" except for (a) interest income measured using the effective interest method and (b) foreign exchange gains or losses determined based on the amortised cost of debt investments are recognised in profit or loss.

Held-for-trading investments and FVTPL assets are subsequently measured at fair value, with changes in fair value being recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.1 Financial assets (Continued)

Classification of financial assets (Continued)

Accounting policy from 1 January 2018

Investments in equity securities (other than investments in subsidiaries, associates and joint ventures)

An investment in equity securities is measured fair value on initial recognition. An investment in equity securities is subsequently measured at FVTPL unless the investment is designated as at fair value through other comprehensive income (FVTOCI) on initial recognition of the investment. Under HKFRS 9, an investment in equity securities can be designated as at FVTOCI on an instrument-by-instrument basis provided that the investment is neither held-for-trading nor contingent consideration recognised by the Group in a business combination to which HKFRS 3 applies.

For investments in equity securities designated as at FVTOCI (as described above), fair value changes are recognised in other comprehensive income and accumulated in the "FVTOCI (equity investment) reserve". Such fair value changes will not be reclassified to profit or loss when the investments are derecognised. However, they will be transferred to the Group's retained earnings when the investments are derecognised.

For investments in equity securities that are held-for-trading or not designated as at FVTOCI (as described above), they are subsequently measured at fair value through profit or loss (FVTPL) such that changes in fair value are recognised in profit or loss.

An investment is equity securities is derecognised when the Group sells the investment.

Investments in debt securities

An investment in debt securities is classified as follows depending on the instruments' contractual cash flow characteristics and the Group's business model for managing the investment:

- Amortised cost when (a) the contractual terms of the asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding and (b) the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows.

- FVTOCI when (a) the contractual terms of the asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding and (b) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset.

- FVTPL when either (a) the contractual terms of the asset give rise on specified dates to cash flows that are not solely payment of principal and interest on the principal amount outstanding or (b) the financial asset is held within a business whose objective is neither (i) collecting contractual cash flows nor (ii) collecting contractual cash flows and selling the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.1 Financial assets (Continued)

Classification of financial assets (Continued)

Accounting policy from 1 January 2018 (Continued)

Investments in debt securities (Continued)

For investments in debt securities subsequently measured at FVTOCI, fair value changes are recognised in other comprehensive income and accumulated in the "FVTOCI (debt investment) reserve" except for impairment loss (see below) and foreign exchange gains or losses. Interest income is calculated using the effective interest method and is recognised in profit or loss. When an investment in debt securities is derecognised, the fair value changes previously recognised in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

An investment is debt securities is derecognised when the Group sells the investment or when the contractual rights to the cash flows from the asset expire.

Transaction costs

Transaction costs directly attributable for the acquisition of financial assets (other than those classified or designated as at FVTPL) are included in the initial measurement of the financial assets. For financial assets subsequently measured at amortised cost, such transaction costs are included in the calculation of amortised cost using the effective interest method (i.e. in effect amortised through profit or loss over the lives of the financial assets). For investments in equity securities at FVTOCI, such transaction costs are recognised in other comprehensive income as part of change in fair value at the next remeasurement. For investments in debt securities classified as FVTOCI, such transaction costs are amortised to profit or loss using the effective interest method (i.e. in effect amortised through profit or loss over the lives of the financial assets).

Impairment on financial assets

Accounting policy prior to 1 January 2018

Prior to 1 January 2018, the Group had adopted "incurred loss model" in assessing and measuring impairment losses on financial assets. Under the "incurred loss model", an impairment loss was recognised when there was objective indicators of impairment which included:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technology, market, economic or legal environment that have an adverse effect on the debtor.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.1 Financial assets (Continued)

Impairment on financial assets (Continued)

Accounting policy from 1 January 2018

The Group has applied the expected credit loss model under HKFRS 9 to the following types of financial assets:

- financial assets that are subsequently measured at amortised cost (including cash and cash equivalents and accounts receivables);
- contract assets as defined in HKFRS 15; and
- investments in debt securities that are subsequently measured at FVTOCI;

Expected credit loss (ECL) of a financial asset is measured based on an unbiased and probability-weighted amount. It also reflects the time value of money and reasonable and supportable information that is available to the Group without undue cost or effect at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL is measured on either of the following bases:

- 12-month expected credit loss when, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition; and
- Lifetime expected credit loss when (a) at the reporting date, the credit risk on a financial asset has increased significantly since initial recognition; or (b) at the reporting date, the financial asset has become credit-impaired.

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers quantitative and qualitative reasonable and supportable information that is available to the Group without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.1 Financial assets (Continued)

Impairment on financial assets (Continued)

Accounting policy from 1 January 2018 (Continued)

Specifically, the following information has been taken into account in assessing whether the credit risk on a financial asset has significantly increased since initial recognition:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception.
- Significant changes in terms of existing financial assets if the asset was newly originated or issued at the reporting date.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life.
- An actual or expected significant change in the financial instrument's external credit rating.
- An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally.
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations (e.g. actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates).
- Actual or expected significant change in the operating results of the borrower.
- Significant change in the quality of guarantee provided.
- Contractual cash flows are more than 30s past due.

In making the abovementioned assessment, the Group considers that a default occurs when (a) it is unlikely that the borrower will be able to settle his/her debts in full and (b) the financial asset is more than 90 days past due.

ECL is remeasured at the end of each reporting period to reflect changes in financial asset's credit risk since initial recognition. Changes in ECL are recognised in profit or loss with the corresponding adjustment to the carrying amount of the asset through a loss allowance account, except for investments in debt securities that are subsequently measured at FVTOCI for which the corresponding adjustment is recognised in other comprehensive income and accumulated in "FVTOCI (debt investment) reserve".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.1 Financial assets (Continued)

Impairment on financial assets (Continued)

Accounting policy from 1 January 2018 (Continued)

For accounts receivables and contract assets without significant financing component, ECL is always measured at an amount equal to lifetime expected credit losses.

At the end of each of the reporting period, the Group assesses whether its financial assets have become credit impaired.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the debtor is unable to settle the debts in full or part of the debt.

3.4.2 Financial liabilities and equity instruments

Financial liabilities and equity instrument

Accounting policy prior to 1 January 2018

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

Effective interest method

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.2 Financial liabilities and equity instruments (Continued)

Financial liabilities and equity instrument (Continued)

Equity instruments

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

Derecognition

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

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

Accounting policy from 1 January 2018

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.2 Financial liabilities and equity instruments (Continued)

Accounting policy from 1 January 2018 (Continued)

Financial liabilities at fair value through profit or loss (Continued)

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

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

Effective interest method

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

Equity instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.2 Financial liabilities and equity instruments (Continued)

Accounting policy from 1 January 2018 (Continued)

Derecognition

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

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

3.5 Accounts and other receivables

Accounting policy prior to 1 January 2018

A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect the amounts due.

Accounting policy from 1 January 2018

Accounts receivables are recognised when the Group has an unconditional right to receive consideration. The Group has an unconditional right to receive consideration when only the passage of time is required before payment of the consideration is due.

For the Group's accounts receivables, ECL is always measured at an amount equal to lifetime expected credit losses. In particular, ECL is estimated using a provision of matrix based on the Group's historical credit loss experience, adjusted for (a) information that is specific to particular debtors and (b) forward-looking information based on the current and forecast general economic conditions available to the Group without undue cost or effort at the reporting date. ECL is recognised in profit or loss with the corresponding adjustment to the carrying amount of the accounts receivables through a loss allowance account.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the debtor is unable to settle the debts in full or part of the debts (e.g future for a debt to make contractual payments of more than 90 days).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average cost formula, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

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

3.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of presentation in the statement of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

3.8 Impairment

At the end of reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company 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 cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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 the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Foreign currencies

The primary functional currency of entities within the Company is RMB. The Company adopted RMB as its presentation currency in the preparation of the annual financial statements, which is the currency of the primary economic environment in which most of the Company's entities operate.

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

3.10 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

- Interest income is recognised on a time-proportion basis using the effective interest method.

3.11 Income taxes

Income tax comprises current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company'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 financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Income taxes (Continued)

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

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 realised, based on tax rates (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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current tax for the year is 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 is also recognised in other comprehensive income or directly in equity respectively.

3.12 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

3.12.1 Defined contribution plan

Pursuant to the relevant regulations of the government of the PRC, Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the Company are required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Company. The only obligation of the Company with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to profit or loss as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

3.12.2 Short term employee benefits

(i) Provisions for bonus due are recognised when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(ii) Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.14 Related parties

For the purposes of these financial statements, related parties include a person and an entity as defined below:

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

(a) has control or joint control over the Company;

(b) has significant influence over the Company; or

(c) is a member of the key management personnel of the Company or a parent of the Company.

(ii) An entity is related to the Company (reporting entity) if any of the following conditions applies:

(a) the entity and the Company are members of the same Company (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) either entity is an associate or joint venture of the other entity (or of a member of a Company of which the other entity is a member);

(c) both entities are joint ventures of the same third entity;

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(f) the entity is controlled or jointly controlled by a person identified in (i);

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

(h) The entity, or any member of a Company of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Useful life of property, plant and equipment

The Company estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Company also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

4.2 Estimated impairment of assets

The Company tests annually whether the assets has suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

4.3 Impairment on trade and other receivables

The Group's trade and other receivables are assessed for impairment based on the expected loss model required by HKFRS 9. The assessment made by management has taken into account relevant historical information adjusted for forward looking information available to management at the date of assessment (to the extent that such information is reasonable and supportable without undue cost or effort). Additional impairment losses have been recognised as at 1 January 2018 on the Group's trade and other receivables to reflect the adoption of the expected loss model (see Note 18). Impairment losses are also recognised for the current year (please see Notes 18). Management has exercised judgment in estimating the amount of expected credit loss. If the actual outcome is different from management's estimate, an additional impairment loss or reversal of impairment loss may arise.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.4 Fair value estimate of certain assets

Some of the Group's assets (e.g. financial assets and financial liabilities) are measured at fair value at the end of the reporting period. In determining the fair value of these assets and liabilities at the end of reporting period, various inputs that reflect current market conditions, including both observable and unobservable data, are used. When there are material changes to those inputs, there will be a material change in the fair value of these assets. Please see Notes 15 for details.

4.5 Income taxes

The Company is subject to income taxes in the PRC. Significant judgment is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which the tax outcome is realisable.

4.6 Critical judgements in applying accounting policies

As at 31 December 2018, the Group has financial assets at fair value through the comprehensive income of approximately RMB15,996,000 are not classified as an associate nor accounted for using equity method, even though the Company owns more than 20% ownership interest in this investment. In the opinion of the directors, the Company has no significant influence over these investment since the Company and each of the investee entered into a relevant agreement to conclude the followings:

– the Company did not have any representative on the board of directors or equivalent governing body of those investments;

– the Company did not participate in policy-making processes, including participation in decisions about dividends or other distributions;

– the Company did not interchange any managerial personnel with those investments; and As the Company did not act to fulfill any one of the issues stated above, it does not consider as having significant influence on the investments. Hence, those investments are not considered as the associate of the Company.

5. SEGMENT INFORMATION

Information reported to the Board of Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered by the Company's operating divisions.

The Company's operating and reportable segments under HKFRS 8 are therefore as follows:

- Sales of unleaded gasoline additives: this segment produces and sells innovation environmental protection energy material and products and fuel oil additives.

- Sales of mercaptoacetic acid isooctyl: this segment produces and sells thiol products.

5.1 Segment revenue and results

	Segment revenue		Segment results	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unleaded gasoline additives	**23,381**	23,322	**12,820**	8,659
Mercaptoacetic acid isooctyl	**14,279**	12,432	**5,414**	5,072
Total	**37,660**	35,754	**18,234**	13,731
Other revenue			**4,077**	51
Depreciation and amortisation			**(161)**	(161)
Other corporate expenses			**(9,434)**	(5,850)
Profit before taxation			**12,716**	7,771

Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales in the both years.

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment result represents the financial performance by each segment without allocation of corporate income and expenses, central administrative costs, directors' salaries, loss on disposal of property, plant and equipment. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

5. SEGMENT INFORMATION (Continued)

5.2 Segment assets and liabilities

	Segment assets		Segment liabilities	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unleaded gasoline additives	**31,711**	33,915	**246**	246
Mercaptoacetic acid isooctyl	**6,395**	13,887	**164**	164
Subtotal	**38,106**	47,802	**410**	410
Unallocated	**135,816**	103,533	**20,147**	18,902
Total	**173,922**	151,335	**20,557**	19,312

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

- all assets are allocated to reportable segments other than assets classified as other receivables and cash and bank balance. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to reportable segments other than current tax liabilities and due to the ultimate holding company. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

5.3 Other segment information

	Depreciation and amortisation	
	2018	2017
	RMB'000	RMB'000
Unleaded gasoline additives	**360**	396
Mercaptoacetic acid isooctyl	**221**	211
Unallocated	**161**	161
	742	768

5. SEGMENT INFORMATION (Continued)

5.4 Geographical information

All the Company's income and profit are derived from operation carried in the PRC. In addition, all the Company's non-current assets are located in the PRC. Accordingly, no analysis of the Company's segmental information by geographical segments is presented.

5.5 Information about major customers

The following is an analysis of revenue from Top 5 customers of the total revenue:

	2018	2017
	RMB'000	RMB'000
Customer A[1]	**7,152**	6,812
Customer B[1]	**7,127**	5,620
Customer C[2]	**4,423**	4,412
Customer D[2]	**4,133**	4,302
Customer E[2]	**4,215**	4,097

1 Revenue from sales of mercaptoacetic acid isooctyl.
2 Revenue from sales of unleaded gasoline additives.

6. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns, trade discounts and net of value added tax during the year. An analysis of revenue is as follows:

	2018	2017
	RMB'000	RMB'000
Unleaded gasoline additives	**23,381**	23,322
Mercaptoacetic acid isooctyl	**14,279**	12,432
	37,660	35,754

7. OTHER REVENUE AND OTHER GAINS OR LOSSES, NET

	2018 RMB'000	2017 RMB'000
Bank interest income	**79**	51
Impairment loss on trade and other receivables, prepayments and deposits	**–**	(356)
Reversal of impairment loss on trade and other receivables, prepayments and deposit	**9,796**	2,760
Reversal of impairment on inventories, net	**–**	349
Allowance for doubtful debts	**(6,514)**	–
Loan interest income	**3,999**	–
	7,360	2,804

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2018 RMB'000	2017 RMB'000
Amortisation of land lease premium	**210**	210
Auditor's remuneration		
– audit services	**600**	600
Staff costs (including directors' and supervisors' remuneration) (Note 9)		
– Wages and salaries	**2,556**	2,168
– Defined contribution scheme	**89**	76
	2,645	2,244
Cost of inventories sold	**25,821**	24,566
Depreciation of property, plant and equipment	**532**	558

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

		Year ended 31 December 2018			
	Notes	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of directors					
Executive directors					
Wang Cong		–	120	8	128
Wang Feng		–	60	8	68
Tian Lingling		–	60	8	68
Feng Tuo	1	–	13	–	13
Zhou Jian	2	–	37	–	37
		–	290	24	314
Non-executive director					
Wang Zhe	3	13	–	–	13
Shi Dandan	4	37	–	–	37
		50	–	–	50
Independent non-executive directors					
Li Gangjian		50	–	–	50
Zhao Boxiang		50	–	–	50
Zhao Xiaoning		50	–	–	50
		150	–	–	150
Total directors' emoluments for 2018		200	290	24	514
Name of supervisors					
Zeng Yinglin		–	60	8	68
Zhang Xiao Ping		24	–	–	24
Xing Manli		–	36	5	41
Total supervisors' emoluments for 2018		24	96	13	133
Total		224	386	37	647

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

		Year ended 31 December 2017			
	Notes	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of directors					
Executive directors					
Wang Cong		–	120	8	128
Wang Feng		–	60	8	68
Tian Lingling		–	60	8	68
Feng Tuo	1	–	50	–	50
		–	290	24	314
Non-executive director					
Wang Zhe	3	50	–	–	50
Independent non-executive directors					
Li Gangjian		50	–	–	50
Zhao Boxiang		50	–	–	50
Zhao Xiaoning		50	–	–	50
		150	–	–	150
Total directors' emoluments for 2017		200	290	24	514
Name of supervisors					
Zeng Yinglin		–	60	8	68
Zhang Xiao Ping		24	–	–	24
Xing Manli		–	32	5	37
Total supervisors' emoluments for 2017		24	92	13	129
Total		224	382	37	643

1 Feng Tuo was resigned as executive director on 4 April 2018.
2 Zhou Jian was appointed as executive director on 4 April 2018.
3 Wang Zhe was resigned as non-executive director on 4 April 2018.
4 Shi Dandan was appointed as non-executive director on 4 April 2018.

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

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals are all directors and supervisors, details of whose emoluments are included in Note 9 to the financial statements.

11. INCOME TAX EXPENSE

Income tax recognised in profit or loss

	2018 RMB'000	2017 RMB'000
Current tax:		
PRC corporate income tax provision for the year	**1,385**	897

(a) An uniform corporate income tax ("CIT") of 25% became generally applicable to all domestic and foreign investment enterprises established in the PRC, subject to certain exemptions with effect from 1 January 2008.

According to the relevant laws and regulations in the PRC, the Company and its branch being registered as a New and High Technology Enterprise since 2008, is entitled to a preferential CIT rate of 15%.

(b) No provision for Hong Kong profits tax has been made as the Company's income neither arises in, nor is derived from, Hong Kong.

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	**12,716**	7,771
Tax at the statutory tax rates	**1,907**	1,166
Income not subject to tax	**(1,582)**	(480)
Expenses not deductible for tax	**1,060**	211
Income tax expense for the year	**1,385**	897

12. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of both years.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of approximately RMB11,331,000 (2017: approximately RMB6,874,000) and the weighted average number of 1,114,583,562 (2017: 1,011,000,000) shares in issue during the year.

Diluted earnings per share is equal to basic earnings per share as there were no dilutive potential ordinary shares outstanding for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and equipment RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
At cost:					
At 1 January 2017, 31 December 2017 , 1 January 2018 and 31 December 2018	19,364	3,883	30,053	1,945	55,245
Accumulated depreciation and impairment:					
At 1 January 2017	8,410	3,883	29,564	1,760	43,617
Charge for the year	434	–	124	–	558
At 31 December 2017 and 1 January 2018	8,844	3,883	29,688	1,760	44,175
Charge for the year	434	–	98	–	532
At 31 December 2018	9,278	3,883	29,786	1,760	44,707
Net carrying value:					
At 31 December 2018	10,086	–	267	185	10,538
At 31 December 2017	10,520	–	365	185	11,070

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS/FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The effect of initially applying HKFRS 9 in the Group's financial instruments is described in note 3.

	2018	2017
	RMB'000	RMB'000
Available-for-sale financial assets	**–**	27,939
Financial assets at fair value through other comprehensive income ("financial assets at FVOCI")	**15,996**	–

At 1 January 2018, the Group designated the investments as financial assets at FVOCI because these equity securities represent investments that the Group intends to hold for the long term for strategic purposes. In 2017 these investments were classified as available-for-sale financial assets.

16. LAND LEASE PREMIUM

	2018	2017
	RMB'000	RMB'000
Carrying value		
At 1 January	**6,408**	6,618
Amortisation	**(210)**	(210)
At 31 December	**6,198**	6,408
Non-current portion	**(5,988)**	(6,198)
Current portion classified as current assets	**210**	210

The land lease premium represents land situated in the PRC under medium term. The cost of the interest in leasehold land held for own use was approximately of RMB10,240,000 (2017: approximately of RMB10,240,000).

The amortisation charge for the year is included in "administrative expenses" in the statement of profit or loss and other comprehensive income.

17. INVENTORIES

	2018	2017
	RMB'000	RMB'000
Raw materials	**408**	358
Finished goods	**81**	41
	489	399

18. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

		2018 RMB'000	2017 RMB'000
(1)	Trade receivables (note c)	**51,672**	66,557
	Less: Allowance for ECL	**(23,097)**	(26,863)
		28,575	39,694
(2)	Loan receivables and loan interest receivables (note b)	**56,092**	–
	Other receivables	**1,611**	22,203
	Less: Allowance for ECL	**(6,318)**	–
		51,385	22,203
	Trade deposit paid	**20,000**	–
		71,385	22,203

a) All of the trade and other receivables are expected to be recovered within one year.

b) The interest rate of loan receivables per annual are 15%, and the loan period are ranged from 3 months to 6 months. As at 31 December 2018, none of the loan receivables had been past due.

c) An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
0–90 days	**13,467**	12,404
91–180 days	**7,808**	5,469
181–365 days	**8,195**	10,568
Over 365 days	**22,202**	38,116
	51,672	66,557
Less: Allowance for ECL	**(23,097)**	(26,863)
	28,575	39,694

Trading terms with customers are largely on credit, except for new customers, where trade deposits or payments in advance are normally required. Invoices are normally payable within 90 days. Longer credit period will also be granted to exceptional customer. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest bearing.

18. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

d) As at 31 December 2018, there were approximately RMB17,309,000 outstanding balances included in trade receivables which were past due but not impaired (the "Receivables"). During the year, the Company entered into repayment agreements with debtors of the Receivables for the settlement of the outstanding balances. Pursuant to the repayment agreements and schedules, the Receivables would be payable on monthly basis and the latest maturity within 1 year.

e) Credit is offered to customers following an assessment of their financial abilities and payment track record. Credit limits are set out for all customers and these can be exceeded only with the approval of senior officers of the Company. Business with customers considered to have a credit risk is conducted on a cash basis. Management monitors overdue trade receivables and follows up collections.

f) The movement in allowance for ECL is as follows:

	2018	2017
	RMB'000	RMB'000
At 1 January	**26,863**	29,267
Impairment losses on trade receivables	**2,273**	356
Reversal of impairment losses on trade receivables	**(8,240)**	(2,760)
At 31 December	**20,896**	26,863

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Written back of impairment loss on trade receivables represents the recovery of debts due from these trade receivables previously considered to be impaired. An allowance for the non-recoverable amounts that had been made in previous years was written back accordingly.

18. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

g) In addition, some of the unimpaired trade receivables are past due as at the end of the reporting period. Aging analysis of trade receivables past due but not impaired is as follows:

	2018 RMB'000	2017 RMB'000
Neither past due nor impaired	**12,504**	28,441
Less than 6 months past due	**7,250**	11,253
More than 6 months but less than 1 year past due	**8,821**	–
Total trade receivables, net	**28,575**	39,694

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. The Company's management considers that trade receivables that are past due but not impaired as at the end of the reporting period are of good credit quality. The Company does not hold any collateral over these balances.

h) Movement of allowance for ECL of loan receivables

	2018 RMB'000	2017 RMB'000
At 1 January	**–**	–
Impairment loss on loan receivables	**6,318**	–
At 31 December	**6,318**	–

19. TRADE PAYABLES

An aging analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Over 365 days	**410**	410
	410	410

20. AMOUNT DUE TO THE ULTIMATE HOLDING COMPANY

The amount due to the ultimate holding company is unsecured, non-interest bearing and is repayable on demand.

21. SHARE CAPITAL

	Number of shares	Amount
	shares'000	RMB'000
Registered, issued and fully paid:		
Domestic shares		
At 1 January 2017, 31 December 2017 and 1 January 2018	680,000	68,000
Issue of shares	136,000	13,600
At 31 December 2018	816,000	81,600
H shares		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	331,000	33,100
	1,147,000	114,700

Note:

On 22 December 2017, the Company issued 136,000,000 domestic shares at a price of RMB0.15 (equivalent to approximately HK$0.177) per share. On 29 March 2018, the issuance of domestic shares had been completed.

22. RESERVES

Details of movement in the Company's reserves have been set out in the statement of changes in equity on page 34.

Share premium

The share premium represents the difference between the nominal amount of share capital and amounts received on issue of shares. The application of the share premium account of the Company is governed by the PRC Company Law.

Treasury shares

Treasury shares represented shares of the Company issued but held by the Company's share register in escrow. Those shares will be delivered upon the completion of relevant condition.

Statutory surplus reserve

As stipulated by the relevant laws and regulations in the PRC, the Company is required to set aside 10% of its profit after taxation of its statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the Company's registered capital). As a joint stock limited company, statutory surplus reserve can be used to (i) make up prior years losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of the Company's registered capital.

Statutory welfare fund

According to the relevant PRC laws and regulations, the Company is required to set aside 5% to 10% of its profit after taxation of its statutory financial statements for the statutory welfare fund. Such fund can be used for enterprise development and the staff welfare only and are not available for profit distribution.

Distributable reserves

Profit distribution 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 accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong.

23. SHARE OPTION SCHEME

As at 31 December 2018 and 2017, the Company did not have any share option scheme. The Company's previous share option scheme was approved by a resolution of the Shareholders of the Company dated 6 June 2003 and had been expired on 6 June 2013.

24. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances with related parties detailed elsewhere in these financial statements, the Company had the following material transactions with related parties during the year:

(a) At the end of respective reporting period, the Company had the following balances with related parties:

	2018	2017
	RMB'000	RMB'000
Amount due to the ultimate holding company	**3,096**	3,110

(b) Compensation of key management personnel of the Company:

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors is disclosed in Note 9 to the financial statement.

25. RISK MANAGEMENT OBJECTIVES AND POLICES

The Company does not employ a conservative strategy regarding its risk management. As the Company's exposure to market risks is kept at a minimum level, the Company has not used any derivatives or other instruments for hedging purposes.

The Company's principal financial instruments mainly comprise of cash and cash equivalents, trade and other receivables, prepayments and deposits, amount due to the ultimate holding company, trade payables and other payables and accruals. The most significant financial risks to which the Company is exposed and the financial risk management policies and practices used to manage these risks are described below.

Interest rate risk

The Company does not have material exposure to interest rate risk, as the Company has no financial assets and liabilities of material amounts with floating interest rates. A reasonably possible change in interest rate in the next twelve months is assessed, which could have immaterial change in the Company's profit after tax and accumulated loss. Changes in interest rates have no impact on the Company's other components of equity. The Company adopts centralised treasury policies in cash and financial management and focuses on reducing the Company's overall interest expense.

Foreign currency risk

Most of the Company's monetary assets and liabilities are denominated in Renminbi and the Company conducted its business transactions principally in Renminbi. Therefore, the Company does not exposed to foreign currency risk. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure if necessary.

25. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

Credit risk

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

The Company's credit risk is primarily attributable to trade receivables and loan receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 365 days of the billing date. Normally, the Company does not obtain collateral from customers.

At the end of reporting period, the Company has a concentration of credit risk as 16% and 87% (2017: 19% and 74%) of trade receivables was due from the largest customer and the largest 5 customers.

The credit risk on liquid funds is limited because the counter parties are banks which are reputable financial institutions with sound credit ratings.

Further quantitative data in respect of the Company's exposure to credit risk arising from trade receivables are disclosed in Note 18 to the financial statements.

The Group applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Trade receivables		
	Expected loss (Note 1 below)	**Gross carrying amount**	**Loss allowance**
	%	RMB'000	RMB'000
Current (not past due)	7.15	13,469	963
Less than 3 month past due	7.15	7,808	558
3 month to 6 months past due	7.15	8,195	586
6 months to 12 months past due	7.15	1,304	94
More than I year past due	100	20,896	20,896
		51,672	23,097

25. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

Credit risk (Continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade receivables of RMB26,863,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	31/12/2017
	RMB'000
Neither past due nor impaired	12,404
3 months to 6 months past due	5,469
6 months to 12 months past due	10,568
More than I year past due	11,252
	39,693

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

As at 31 December 2018, non of the loan receivables had become past due. Loss allowance for expected credit loss has been made on an individual basis under 12-month ECL assessment.

Loan receivables represent outstanding principals and interest receivables of the Group. All of the loan receivables in order to minimise credit risk by reviewing the borrower's financial positions.

The credit quality of other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the other receivables excluding prepayments is assessed to be close to zero and no provision was made as of 31 December 2018.

Liquidity risk

The Company's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Company will raise additional funding from the realisation of its assets if required.

25. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

Liquidity risk (Continued)

At 31 December 2018 and 2017, the remaining contractual maturity of the Company's financial liabilities which are based on undiscounted cash flows and earliest date of the Company can be required to pay, are within one year or on demand (2016: within one year or on demand):

The carrying amounts of the Company's financial assets and liabilities recognised at the end of reporting period may also be categorised as follows. See Note 3.4 for explanations on how the category of financial instruments affects their subsequent measurement.

Financial assets

	2018 RMB'000	2017 RMB'000
Available-for-sale financial assets	**–**	27,939
Financial asset at fair value through other comprehensive income	**15,996**	–
Loan and receivables (including cash and cash equivalents)		
– Trade receivables	**28,575**	39,694
– Loan and loan interest receivables	**49,774**	–
– Other receivables	**21,611**	22,203
– Cash and cash equivalents	**40,741**	43,622
	156,697	133,458

Financial liabilities

	2018 RMB'000	2017 RMB'000
Trade payables	**410**	410
Other payables and accruals	**11,630**	10,578
Amount due to the ultimate holding company	**3,096**	3,110
	15,136	14,098

Fair values

The fair values of the Company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

No financial instruments that are measured subsequent to initial recognition at fair value group into Levels 1 to 3 in accordance with disclosure requirement under HKFRS 7 for both years.

26. CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders of the Company. The primary objectives of the Company's capital management are:

(a) To safeguard the Company's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(b) To support the Company's stability and growth; and

(c) To provide capital for the purpose of strengthening the Company's risk management capability. The Company actively and regularly reviews and manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

The financial leverage of the Company as at 31 December 2018, as compared to 31 December 2017 has been disclosed in the management discussion and analysis.

27. EVENTS AFTER REPORTING PERIOD

On 27 December 2018, the Company entered into an agreement with independent third parties (the Vendors) for acquiring 30% equity interests in Shaanxi Ruijian E-commerce Company Limited at the Consideration of RMB20,000,000 by issuing of a total of 163,000,000 Domestic Shares to the Vendors at the price of RMB0.122 per Domestic Share. On 30 December 2018, the Company announced a supplemental agreement that the Company reduced the acquisition precentage of equity interests in Shaanxi Ruijian E-commerce Company Limited from 30% to 29%.The acquisition had been completed on 1 February 2019. For the details of the acquisition, please refers to the announcements issued on 27 December 2018, 30 December 2018 and 1 February 2019.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**37,660**	35,754	31,972	40,861	58,675
Profit before taxation	**12,716**	7,771	2,415	5,507	6,275
Taxation	**(1,385)**	(897)	(751)	(1,200)	(1,559)
Net profit for the year	**11,331**	6,874	1,664	4,307	4,716

ASSETS AND LIABILITIES

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**173,922**	151,335	129,764	127,827	108,943
Total liabilities	**(20,557)**	(19,312)	(18,294)	(18,021)	(17,704)
Total equity	**153,365**	132,023	111,470	109,806	91,239