Zhejiang Chang'an Renheng Technology Co., Ltd. *
浙江長安仁恒科技股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code: 8139

Annual Report 2019

* For identification purpose only

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This report, for which the directors (the "Directors") of Zhejiang Chang'an Renheng Technology Co., Ltd. (the "Company", together with its subsidiaries, the "Group") 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, and there are no other matters the omission of which would make any statement herein or this report misleading.*

* *For identification purpose only*

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhang Youlian *(Chairman)*
Mr. Sun Wensheng (retired on 19 October 2019)
Mr. Fan Fang
Mr. She Wenjie (appointed on 19 October 2019)

Non-executive Director

Ms. Zhang Jinhua

Independent Non-executive Directors

Mr. Shao Chen (retired on 19 October 2019)
Dr. Huang Zemin (retired on 19 October 2019)
Mr. Chau Kam Wing, Donald (resigned on 11 May 2019)
Mr. Zhang Lei (appointed on 11 May 2019)
Mr. Li Jiangning (appointed on 19 October 2019)
Mr. Tang Jingyan (appointed on 19 October 2019)

AUDIT COMMITTEE MEMBERS

Mr. Chau Kam Wing, Donald *(Chairman)*
(resigned on 11 May 2019)
Mr. Shao Chen (retired on 19 October 2019)
Dr. Huang Zemin (retired on 19 October 2019)
Mr. Zhang Lei *(Chairman)* (appointed on 11 May 2019)
Mr. Li Jiangning (appointed on 19 October 2019)
Mr. Tang Jingyan (appointed on 19 October 2019)

NOMINATION COMMITTEE MEMBERS

Mr. Shao Chen *(Chairman)* (retired on 19 October 2019)
Mr. Fan Fang
Mr. Chau Kam Wing, Donald (resigned on 11 May 2019)
Mr. Tang Jingyan *(Chairman)*
(appointed on 19 October 2019)
Mr. Zhang Li (appointed on 11 May 2019)

REMUNERATION COMMITTEE MEMBERS

Mr. Chau Kam Wing, Donald *(Chairman)*
(resigned on 11 May 2019)
Dr. Huang Zemin (retired on 19 October 2019)
Mr. Fan Fang
Mr. Zhang Li *(Chairman)* (appointed on 11 May 2019)
Mr. Tang Jingyan (appointed on 19 October 2019)

SUPERVISORY COMMITTEE

Mr. Xu Qinsi *(Chairman)*
Mr. Zhang Donglian
Mr. Liang Guoping (retired on 11 May 2019)
Mr. Li Lijiao (appointed on 22 March 2019)

JOINT COMPANY SECRETARY

Mr. Chan Hon Wan (re-designated on 2 December 2019)
Ms. Li Nan (appointed on 2 December 2019)

COMPLIANCE OFFICER

Mr. Fan Fang

AUTHORISED REPRESENTATIVES

Mr. Chan Hon Wan
Mr. Zhang Youlian

Corporate Information

LEGAL ADVISER

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REGISTERED ADDRESS

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Changxing County
Zhejiang Province
PRC

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HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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North Point
Hong Kong

PRINCIPAL BANKERS

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Zhicheng Town, Changxing County
Zhejiang Province, PRC

Industrial and Commercial Bank of China
Huzhou Changxing Sub-branch
No. 218, Middle Jinling Road
Zhicheng Town, Changxing County
Zhejiang Province, PRC

China Merchants Bank
Hangzhou Chengxi Sub-branch
No. 170, Wenyixi Road
Hangzhou City
Zhejiang Province, PRC

COMPANY'S WEBSITE

www.renheng.com

STOCK CODE

8139

Financial Highlights

	For the year ended 31 December		
	2019 *RMB'000*	2018 *RMB'000*	Changes Increase/(Decrease)
Financial Highlights			
Revenue	**100,293**	89,231	12.4%
Cost of sales	**(58,786)**	(51,609)	13.9%
Gross profit	**41,507**	37,622	10.3%
(Loss)/profit before income tax	**(1,069)**	1,081	N/A
(Loss)/profit attributable to the equity holders of the Company	**(901)**	939	N/A
Basic (losses)/earnings per share (RMB)	**(0.02)**	0.03	N/A
Proposed final dividends per share (HK$)	**NIL**	NIL	N/A

	As at 31 December		Changes
	2019	2018	Increase/(Decrease)
Current ratio (1)	**1.10**	1.27	(13.4)%
Quick ratio (2)	**0.71**	0.86	(17.4)%
Asset-liability ratio (3)	**37.3%**	35.3%	2.0% pts

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Asset-liability ratio is calculated as total borrowings divided by total assets and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of Directors, I hereby present the annual report of Zhejiang Chang'an Renheng Technology Company, Limited (the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2019 (the "Year Under Review") to shareholders (the 'Shareholders") and potential investors.

In 2019, under the leadership of the Board and the guiding ideology of "Product transformation and Technology Upgrade", we achieved a well-founded layout of the Company's business through deepening our corporate reform, accelerating the pace of the Company's promotion of new product, actively adjusting product mix to meet the market demands. During the Year Under Review, the production and operation of the Company well maintained a comprehensive and stable operation.

RESULTS OF OPERATION

The Group recorded an aggregate revenue of approximately RMB100,293,000 for the year ended 31 December 2019, representing an increase of approximately RMB11,062,000 or 12.4% as compared to the previous year. Loss for the year attributable to the equity holders of the Company was approximately RMB901,000, while there was a profit of approximately RMB939,000 for the year ended 31 December 2018. The overall gross profit margin was down to 41.4% and losses per share was approximately RMB0.02, as compared to the earnings per share of approximately RMB0.03 for the previous year. The Board believes that the existing financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

BROADEN SALES MARKETS

In 2019, the Group stepped up the promotion of new products. Bentonite products for paints and coatings have been recognized by customers in the market and sales have been rising steadily. The bentonite products for waste water treatments has taken a shape with positive response from customers. The Group participated in coating exhibitions held in Shanghai and Ningbo to promote the Group's bentonite products to local and overseas customers proactively. The Group has established an international business department which, while consolidating the development of the Southeast Asian market, has also begun to gain recognition from customers in the Middle East market.

DEVELOPING NEW PRODUCTS

In 2019, in accordance with our business development plan, the Group explored the application of bentonite in new fields and undertook the development of two new products at provincial level, including waterborne coating stabilizer and paint mist wastewater treatment agent. Both of these new products have been applied to some of the customers and the effect has been positive, which provides new sources of profit for the Company. At the same time, in 2019, the Group applied for two invention patents.

FUTURE OUTLOOK AND DEVELOPMENT STRATEGY

The Group will continue to implement the development direction of the Board and strengthen the promotion of the fine paper chemical market. At the same time, we will increase the marketing efforts in the paints and coatings as well as the water treatment markets, in order to strive for an increase in new sources of revenue for the Group, and further enhance the production management system to ensure a good market sales base. At the same time, through independent innovation and industry-institute-research cooperation, new products and new technical knowhow will be developed to enhance the Group's competitiveness.

ACKNOWLEDGEMENT

On behalf of the Board of Company, I would like to take this opportunity to express my heartfelt gratitude to all the partners who have cared for and supported the development of the Company for the long term, and the colleagues and family members who have performed their job diligently. The year 2020 is an important year celebrating the 20th anniversary of Chang'an Renheng. Throughout twenty years of adversities and hardships, twenty years of encouragement and endeavor, people in Chang'an Renheng have been pursuing for innovation and change, and will take every step ahead full of passion and ambition in 2020.

Mr. Zhang Youlian
Chairman of the Board

Zhejiang, the PRC, 29 April 2020

Management Discussion and Analysis

INDUSTRY REVIEW

Bentonite is a clay mineral with the highest application value among non-metallic minerals. As a kind of natural mineral, bentonite is widely used in industries such as petroleum, metallurgy, casting, machinery, ceramics, construction, light industry, papermaking, textile, food and others. Due to its unique mineral structure, chemical characteristics of crystals and excellent physical and chemical properties. It plays an important role as a binder, adsorbent, filler, thixotropic agent, flocculant, detergent, stabilizer and thickener. At present, the domestic and international application research of bentonite is developing towards a higher level with more functions and being environmental friendly.

The main products of the Group are mainly used in two areas: 1/papermaking, and 2/paints and coatings. Among other things, the functional and environmental friendly concept of bentonite in the application of thickening and water-retaining materials and rheological additives for paints and coatings is in line with the development trend of the coating industry nowadays.

Coatings are indispensable supporting materials used in various areas of the national economy, which have been widely used in the decorative protection of various buildings, various industrial products, such as aircraft, rockets, satellites, automobiles, ships, machinery, electronics, light industrial and home appliances and others; and the corrosion protection of various steel facilities, such as terminals, offshore oil drilling platforms, petrochemical equipment, transmission pipelines, transmission towers, bridges and others. With the development of the national economy and the improvement of people's living standards, the scope of application of coatings has been expanding, and the consumption level of coatings has become one of the important indicators of the level of economic development of a country. As the world 's largest producer and consumer of coatings, China has plenty of room for market development in coatings.

The report of the 18th National Congress of the Communist Party of China proposed to strive to build a "Beautiful China", of which the concept has become a signpost for exploring a new path to environmental protection in China. As a traditional "three high industry", the coatings industry is facing a lot of environmental concerns. For the coatings industry, the concept of "Beautiful China" will definitely drive the market demand of green coatings. Water-based coatings use water to replace chemical solvents as the dispersion medium. It can greatly reduce the emission of solvents and significantly reduce environmental pollution, pursuing the development of green coatings.

After decades of rapid development of the papermaking industry in China, China has become the world's largest paper manufacturing country. Since the implementation of the "13th Five-Year Plan", the State has introduced a "supply-side structural reform" and a rigid environmental protection policy "protecting the clean water and blue sky", and the market started to recover. The papermaking industry has begun to enter into a deep adjustment period.

The State has proposed a development strategy of "innovation, coordination, going green, openness and sharing". Under the influence of national industrial policies and the trend of environmental protection, it is expected that the papermaking industry in China will remain focus on integration, reform and development in the next few years.

BUSINESS REVIEW

In 2019, the Group stepped up the promotion of paints and coatings bentonite as well as bentonite for water treatment, and its products gradually gained recognition from domestic customers. The Group also enhanced the recognition of its brand, Renheng by participating in the Shanghai International Coatings Exhibition Platform to showcase the Group's products to both domestic and overseas customers.

The Group's organic bentonite products gained recognition from both domestic and overseas customers, and their share to the revenue increased gradually. The Group continued to focus on the development of overseas markets. We have consolidated our southeast Asia market and developed the Middle East market successfully.

The Group attached great importance to the research and development of new products and technology. During the Year Under Review, the research and development expenses of the Group was RMB7.4 million. The Group also undertook the development of two new products at provincial level in 2019 and filed two patents of invention.

Management Discussion and Analysis

FINANCIAL REVIEW

1. Revenue

The following table sets out revenue by product categories and the corresponding percentage of total revenue for the Year Under Review:

	For the year ended 31 December			
	2019		2018	
Product	*RMB'000*	%	*RMB'000*	%
Papermaking chemicals	**55,148**	**55.0**	54,904	61.5
Organic bentonite	**35,837**	**35.7**	25,757	28.9
Inorganic gel	**4,889**	**4.9**	3,633	4.1
Quality calcium-bentonite	**2,256**	**2.2**	2,751	3.1
Bentonite for metallurgy pellet	**655**	**0.7**	985	1.1
Other chemicals *(i)*	**1,508**	**1.5**	1,201	1.3
Total	**100,293**	**100.0**	89,231	100.0

(i) Other chemicals mainly comprise flocculating agent which are principally applied in the coating preparation industry.

Revenue from sales of papermaking chemicals increased by approximately RMB244,000 or 0.4% from approximately RMB54,904,000 for the year ended 31 December 2018 to approximately RMB55,148,000 for the year ended 31 December 2019. As the average unit selling price remained stable for the comparative periods, the increase in revenue was mainly due to the increase in sales volume, which increased by approximately 0.7% from approximately 11,700 tonnes for the year ended 31 December 2018 to approximately 11,782 tonnes for the year ended 31 December 2019.

Revenue from sales of organic bentonite increased by approximately RMB10,080,000 or 39.1% from approximately RMB25,757,000 for the year ended 31 December 2018 to approximately RMB35,837,000 for the year ended 31 December 2019. The increase was mainly due to the fact that the Group sold more products with lower gross profit margin to the customer in order to increase the sales volume.

Revenue from sales of inorganic gel increased by approximately RMB1,256,000 or 34.6% from approximately RMB3,633,000 for the year ended 31 December 2018 to approximately RMB4,889,000 for the year ended 31 December 2019. The increase was mainly due to the increase in sales volume.

Revenue of quality calcium-bentonite for the year ended 31 December 2019 decreased by approximately RMB495,000 or 18.0% to approximately RMB2,256,000 as compared to approximately RMB2,751,000 for the year ended 31 December 2018. While the average unit selling price remained steady for these two periods, the decrease in revenue was mainly due to the decrease in sales volume.

Revenue of bentonite for metallurgy pellet decreased by approximately RMB330,000 or 33.5% from approximately RMB985,000 for the year ended 31 December 2018 to approximately RMB655,000 for the year ended 31 December 2019.

Revenue of other chemicals for the year ended 31 December 2019 increased by approximately RMB307,000 or 25.6% to approximately RMB1,508,000 as compared to approximately RMB1,201,000 for the year ended 31 December 2018. Other chemicals mainly comprise flocculating agent which are principally applied in the coating preparation industry.

Management Discussion and Analysis

2. Cost of sales

The cost of sales mainly comprised cost of raw materials, direct labour costs and manufacturing overhead costs such as depreciation and utility charges. The following table sets out the breakdown of the cost of sales of the Group for the Year Under Review:

	For the year ended 31 December			
	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Cost of raw materials and consumable	**45,332**	**77.1**	39,378	76.3
Direct labour costs	**4,314**	**7.4**	4,025	7.8
Manufacturing overhead cost	**7,844**	**13.3**	6,916	13.4
Others	**1,296**	**2.2**	1,290	2.5
Total	**58,786**	**100.0**	51,609	100.0

The cost of sales increased by approximately RMB7,177,000 or 13.9% from approximately RMB51,609,000 for the year ended 31 December 2018 to approximately RMB58,786,000 for the year ended 31 December 2019.

Cost of raw materials accounted for approximately 77.1% and 76.3% of cost of sales for the year ended 31 December 2019 and 2018, respectively. The cost of raw materials increased by approximately RMB5,954,000 or 15.1% from approximately RMB39,378,000 for the year ended 31 December 2018 to approximately RMB45,332,000 for the year ended 31 December 2019 was mainly due to the increase of quantity consumed of CPAM. CPAM was the major raw material for a kind of product in papermaking chemicals with a relatively high unit price. As sales volume of this kind of product increased for the year ended 31 December 2019, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 7.4% and 7.8% of cost of sales for the year ended 31 December 2019 and 2018, respectively. Direct labour costs increased by approximately RMB289,000 or 7.2% from approximately RMB4,025,000 to RMB4,314,000 during the comparative years.

Manufacturing overhead costs accounted for approximately 13.3% and 13.4% of cost of sales for the year ended 31 December 2019 and 2018, respectively. Manufacturing overhead costs increased by approximately RMB928,000 or 13.4% from approximately RMB6,916,000 for the year ended 31 December 2018 to approximately RMB7,844,000 for the year ended 31 December 2019.

3. Gross profit and gross profit margin

Gross profit margin decreased from 42.2% in 2018 to 41.4% in 2019. The decrease in gross profit margin was mainly attributable to the drop in gross profit margin of organic bentonite and quality calcium-bentonite by selling more products with lower gross profit margin to the customers in order to increase the sales volume.

Management Discussion and Analysis

4. Distribution costs

The distribution costs for the year ended 31 December 2019 and 2018 amounted to approximately RMB16,363,000 and RMB14,865,000, respectively. The distribution costs increased by approximately RMB1,498,000 or 10.1% mainly because of the increase in transportation expenses during the Year Under Review.

5. Administrative expenses

The administrative expenses decreased by approximately RMB267,000 or 1.8% from approximately RMB14,588,000 for the year ended 31 December 2018 to approximately RMB14,321,000 for the year ended 31 December 2019.

6. Net impairment loss on financial assets

The net impairment loss on financial assets decreased by approximately RMB2,289,000 or 95.0% from approximately RMB2,419,000 for the year ended 31 December 2018 to approximately RMB130,000 for the year ended 31 December 2019.

7. Research and development expenses

The research and development expenses increased by approximately RMB1,638,000 or 28.3% from approximately RMB5,789,000 for the year ended 31 December 2018 to approximately RMB7,427,000 for the year ended 31 December 2019. The increase was mainly due to the increase in scale of the research and development project for the environmental protection field with Jilin Design and Research Institute for petrochemical engineering.

8. Other gains – net

Other gains for the year ended 31 December 2019 and 2018 amounted to approximately RMB2,051,000 and RMB6,967,000, respectively. The decrease in other gains was mainly due to the decrease in government grants from approximately RMB7,566,000 for the year ended 31 December 2018 to approximately RMB2,123,000 for the year ended 31 December 2019.

9. Finance income and expenses

The net finance expenses increased by approximately RMB538,000 or 9.2% from approximately RMB5,847,000 for the year ended 31 December 2018 to approximately RMB6,385,000 for the year ended 31 December 2019. The increase was mainly due to the increase of interest expenses on borrowings as a result of the increase in average bank borrowings. The borrowings were financed for working capital and capital investments in the production facilities.

10. Income tax credit/(expense)

The income tax credit for the year ended 31 December 2019 was approximately RMB167,000, when compared to an income tax expense of approximately RMB142,000 for the year ended 31 December 2018. The income tax credit was mainly due to the loss before income tax, the details are set out in Note 11 to the consolidated financial statements.

The effective tax rates were (15.7)% and 13.1% for the years ended 31 December 2019 and 2018, respectively.

11. (Loss)/profit for the year attributable to the equity holders of the Company

The loss for the year attributable to the equity holders of the Company was approximately RMB901,000 for the year ended 31 December 2019, while there was a profit of approximately RMB939,000 for the year ended 31 December 2018.

Management Discussion and Analysis

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Inventories

The inventories comprise raw materials, finished goods and low-value consumables. The following table sets out the inventories as at balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Raw materials	**35,522**	23,945
Finished goods	**7,264**	10,227
Low-value consumables	**108**	130
Total	**42,894**	34,302

Raw materials mainly comprised bentonite and CPAM. Finished goods are bentonite fine chemicals mainly applied in the papermaking industries. The Group customizes the formulas for bentonite fine chemicals based on customers' requirements and makes enhancement in response to customers' production conditions.

Provision for impairment of inventories

The Group has established policies to evaluate the amount of provision required for impairment of inventories. The Group inspects and reviews the aging and conditions of inventories on a regular basis. If the Group considers that the inventories have become obsolete or damaged, provision for impairment of inventories will be provided against these inventories to reflect the net realisable value of these inventories.

The amount of the provision for impairment of inventories was approximately RMB599,000 at 31 December 2019 (at 31 December 2018: RMB602,450).

Inventory turnover

The following table sets out the average inventory turnover days for the year indicated:

	Year ended 31 December	
	2019	2018
Average inventory turnover days *(note)*	**240**	238

Note:

Average inventory turnover days are equal to the average inventory divided by cost of sales and multiplied by 365 days. Average inventory equals inventory at the beginning of the financial year plus inventory at the end of the financial year and divided by 2.

The average inventory turnover days increased from 238 days for the year ended 31 December 2018 to 240 days for the year ended 31 December 2019. The increase in average inventory turnover days in 2019 was primarily due to the increase in inventories.

Management Discussion and Analysis

2. Trade and other receivables

The following table sets out an analysis of the trade and other receivables as at the balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables	56,971	50,113
Less: provision for impairment	(11,553)	(11,145)
Trade receivables – net	45,418	38,968
Bills receivables	10,477	3,997
Other receivables	3,775	6,018
Less: provision for impairment	(848)	(1,145)
Other receivables – net	2,927	4,873
Prepayments	6,277	2,399
Trade and other receivables – net	65,099	50,237
Less: non-current portion	–	(1,228)
Current portion	65,099	49,009

Trade receivables

Trade receivables as at 31 December 2019 and 2018 mainly represented the outstanding amounts of receivable from customers less any provision for impairment of trade receivables. The following table sets out an analysis of the trade receivables as at the balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables	56,971	50,113
Less: provision for impairment	(11,553)	(11,145)
Trade receivables – net	45,418	38,968

The customers are normally required to make payment pursuant to the credit terms which is determined by the length of the customers' relationship with the Group and the contract value. The Group generally provides a credit term normally from 90 days to 180 days to its customers.

Management Discussion and Analysis

The table below sets out the aging breakdown of trade receivables as at the balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 180 days	**29,398**	35,113
Over 180 days and within 1 year	**15,293**	2,982
Over 1 year and within 2 years	**3,313**	3,478
Over 2 years and within 3 years	**2,536**	1,801
Over 3 years	**6,431**	6,739
Total	**56,971**	50,113

The Group's trade receivables increased by approximately RMB6,858,000 or 13.7% from approximately RMB50,113,000 as at 31 December 2018 to approximately RMB56,971,000 as at 31 December 2019. The trade receivables due over 180 days increased by approximately RMB12,573,000 or 83.8% from approximately RMB15,000,000 as at 31 December 2018 to approximately RMB27,573,000 as at 31 December 2019. The increase was mainly due to the increase in sales during the Year Under Review.

Trade receivables turnover days

The following table sets out the Group's trade receivables turnover days for the year indicated:

	Year ended 31 December	
	2019	2018
Trade receivables turnover days *(note)*	**195**	199

Note:

The number of trade receivables turnover days is calculated as average trade receivables (trade receivables at the beginning of the year plus trade receivables at the end of the year then divided by 2) divided by total revenue for the year multiplied by 365.

The Group's trade receivables turnover days for the years ended 31 December 2019 and 2018 were approximately 195 days and 199 days respectively. The decrease of turnover days was mainly due to the increase in revenue.

Provision for impairment of trade receivables

Trade receivables is subject to the expected credit loss model. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected loss rates of trade receivables is based on the payment profiles of sales over a period of 36 month before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Management Discussion and Analysis

3. Trade and other payables

The following table sets out an analysis of the trade and other payables as at the balance sheet dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables	**22,278**	16,624
Other payables	**7,300**	9,402
Staff salaries and welfare payables	**2,920**	2,275
Deposits advances	**501**	629
Accrued taxes other than income tax	**897**	1,234
Total	**33,896**	30,164

As at 31 December 2019 and 2018, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

The trade payables increased by approximately RMB5,654,000 or 34.0% from approximately RMB16,624,000 as at 31 December 2018 to approximately RMB22,278,000 as at 31 December 2019.

Trade payables turnover days

The following table sets out the Group's trade payables turnover days for the year indicated:

	Year ended 31 December	
	2019	2018
Trade payable turnover days *(note)*	**121**	115

Note:

The number of trade payables turnover days is calculated as average trade payables (trade payables at the beginning of the year plus trade payables at the end of the year then divided by 2) divided by cost of sales for the year multiplied by 365. The trade payables turnover days increased from 115 days for the year ended 31 December 2018 to 121 days for the year ended 31 December 2019, which was due to the increase in average trade payables for the Year Under Review.

Management Discussion and Analysis

CASH FLOWS

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal due on its indebtedness and providing funds for capital expenditures and growth of the Group's operations.

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB10,389,000, which mainly comprised the net cash generated from operating activities of approximately 4,353,000, net cash used in investing activities of approximately RMB16,772,000, net cash generated from financing activities of approximately RMB2,098,000, and the foreign exchange loss of approximately RMB68,000. Details of cash flows of the Group are set out on page 51 of the Consolidated Cash Flow Statement of this report.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2019 was approximately RMB83,912,000 (31 December 2018: approximately RMB75,471,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. Asset-liability ratio

As at 31 December 2019, the Group's asset-liability ratio was approximately 37.3% (31 December 2018: 35.3%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. Pledge of assets

As at 31 December 2019, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB28,844,000 (31 December 2018: approximately RMB27,927,000).

4. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB9,182,000 and RMB18,354,000 for the year ended 31 December 2019 and 2018, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Year Under Review, the weight average effective annual interest rate of bank borrowings was 7.91% and the weight average effective annual interest rate of other borrowings was 3.28%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2019, the Group had cash and cash equivalents of RMB11,883,000 (31 December 2018: approximately RMB22,272,000) which was mainly generated from operations of the Group.

Management Discussion and Analysis

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2019, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2019, the Group had capital commitment of approximately RMB764,000 (31 December 2018: approximately RMB989,000).

SEGMENT INFORMATION

The chief operating decision-maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of production and sales of bentonite clay products and all of the Group's operations are carried out in China. Therefore, management considers there is only one operating segment, under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2019, the Group had not made any material acquisition or disposal.

SIGNIFICANT INVESTMENTS

The Company had not held any significant investments during the year ended 31 December 2019.

FUTURE PLANS FOR CAPITAL ASSETS

Future plans for capital assets of the Company are set out in the "Comparison of Business Objectives with Actual Business Progress" section on pages 18 to 19.

Management Discussion and Analysis

FUTURE OUTLOOK

We believe everyone can feel the pressure on the economy in 2019 which was just over. With the signing of the China-US phase one trade deal, we believe that the economy will become better in 2020. However, uncertainties arising from trade conflicts will sustain. At the same time, the recent outbreak of coronavirus in China has negative impacts on China's economy and our business. Thus, the Group will make adjustments on the strategy to enhance the competitiveness of our products and adapt to the ever-changing market.

The papermaking industry has entered into an era of consolidation. First of all, the phasing out and consolidation of the small and medium-sized enterprises increase the market share held by quality medium to large enterprises. Market barrier is gradually formed due to factors such as economies of scale and asset effect, and the market will enter into a development stage of stable competition. This situation to the fine paper chemical market, is both a challenge and an opportunity. The Group will continue to uphold the market strategy to maintain the base of "major clients".

With the rapid developments of railway transportation, construction equipment, automobile and other relevant industries, as well as the continuous improvements in various relevant domestic environmental protection regulations, water-based industrial paintings applicable to industrial painting has a broad market prospect. Technology innovation becomes the main stream of the industry's development, and craftsmanship and products featuring clean production, energy saving and environmental protection, cyclic economy and high functionality will become the new sources of growth of the industry's development. The Group will seize the opportunity presented by the trend of industrial paintings "switching from lacquer-based to water-based" and develop relevant bentonite adjuvants in order to satisfy the demand in the field of water-based paintings and expand the market.

In front of the complex and critical situations both local and overseas in 2020, as well as the uncertainty of economic development, challenges for business operation become bigger. The Group will continue to uphold the development strategy of adopting a profit-centered, innovation-driven, market-oriented and sales-led principle, and will continue to promote the work of product reform and technology enhancement to satisfy market demand and create new sources of growth. Therefore, the Group will uphold the following strategies:

1) The Group will continue to consolidate the base of "major clients" in the field of fine paper chemical;
2) The Group will continue to promote products such as bentonite and paintings and coatings and bentonite for water-based industrial paintings, and, through promotional platforms such as exhibitions, showcase the Group's products to both domestic and overseas customers; and
3) The Group will gradually develop international markets and consolidate the southeast Asia and Middle East markets.

HUMAN RESOURCES AND TRAINING

For the year ended 31 December 2019, the Group had a total of 105 employees, of which 43 worked at the Group's headquarter in Changxing, and 62 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to RMB14,486,000 (2018: RMB12,556,000). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

During the Year Under Review, the Group adhered to the "human-oriented" management concept to have its staff closely involved in the development of the Group and provided them with skills training. The Group formulates workflow and service specifications for its employees, conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly.

DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2019 (2018: nil).

Comparison of Business Objectives with Actual Business Progress

BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS OF THE COMPANY

By leveraging on the Group's current sales network, its products, technology, patent and production knowhow, as well as the customers recognition, the Group intends to continue the following plans in 2020. The plans, which are expected to be implemented by stages, include:

1. Focusing on the developments of high-purity water-purifying bentonite (高純水洗膨潤土) products to diversify into new industry sectors other than papermaking industry, particularly pharmaceutical and consumer chemical sectors. The Group has started to install the production machinery and equipment in its existing plant in Yangyuan County (陽原縣) for the high-purity water-purifying bentonite project with an annual production capacity of 15,000 tonnes;

2. Enhancing cost-effective production knowhow, improving the production techniques in producing high-quality "dual micro-particle retention and drainage aids used in papermaking" (造紙二元微粒助留助濾劑);

3. Keeping track of customers' demand and enhancing product applications. The Group plans to install advanced testing facilities, increase follow-up visits to customers and carry out stricter testings for customers, fine tuning and optimizing product formulas;

4. The Group will further extend its existing sales network in Southern China as well as other prospective markets;

5. Developing information technology system includes the establishment of intranet and information system to carry out e-commerce activities; and

6. Reinforcing the training of sales and technical teams.

Comparison of Business Objectives with Actual Business Progress

ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS FROM THE LISTING

The H shares of the Company were listed on the GEM Board of the Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB37,395,000 (equivalent to approximately HK$47,335,000), after deduction of the underwriting commission and relevant expenses. As at 31 December 2019, the Group had used up all the net proceeds of approximately RMB37,395,000, of which approximately RMB21,200,000 had been used for purchase of high-purity water-purifying bentonite production machinery and equipment, approximately RMB1,200,000 had been used for advanced research and development of papermaking chemicals, approximately RMB1,253,000 had been used for research and development of new bentonite products for consumer chemicals and pharmaceutical use, approximately RMB1,704,000 had been used for enhancement of existing sales network, approximately RMB423,000 had been used for training of sales and technical teams, approximately RMB7,868,000 had been used for repayment of bank loans of the Group and approximately RMB3,747,000 as working capital.

USE OF PROCEEDS FROM PLACING OF H SHARES ON 29 NOVEMBER 2018

The issue of in total 6,400,000 H Shares was completed in full on 29 November 2018 from which the net proceeds were approximately HK$22.15 million (equivalent to approximately RMB19.37 million).

As at 31 December 2019, all the net proceeds from the Placing has been utilised as follows:

Planned use of net proceeds	**Planned use of net proceeds** *(RMB million)*	**Actual utilised amount as at 31 December 2019** *(RMB million)*
Business development of the Group	4.84	4.84
Research and development of new bentonite products, including mainly bentonite fine chemicals for producing pharmaceutical products	3.87	3.87
Investment in environmental protection facilities for production	3.88	3.88
Construction of mining production safety facilities and keep track of customers' demand and enhancing product applications	1.94	1.94
Replenishing the general working capital of the Group	4.84	4.84
Total	19.37	19.37

Directors' and Senior Management's Biographies

DIRECTORS

Executive Directors

Mr. Zhang Youlian (張有連), aged 58, was appointed as a Director and the Chairman of the Board (董事長) on 29 December 2008. Mr. Zhang graduated from Zhejiang Taizhou Business School (浙江台州商業學校) in July 1982. He worked for Changxing Agricultural Materials Co. (長興農資公司) between February 1982 and May 1987. He worked as the vice director (理事副主任) of Changxing Litang Supplier (長興里塘供銷社) between May 1987 and December 1999. He founded Changxing Renheng Fine Bentonite Co., Ltd. (長興仁恒精製膨潤土有限公司) in December 2000 and has been a Director of the Board since December 2008. Mr. Zhang has been appointed as Chairman of the board of directors of Shanghai Nongfuguoyuan Co., Ltd. (上海農夫果園有限公司), Changxing Guyinxing Tourism Resort Co., Ltd. (長興古銀杏旅遊度假山莊有限公司) and Changxing Wuguo Agriculture and Technology Co., Ltd. (長興五果農業科技有限公司), since June 2001, February 2003 and August 2010, respectively. Mr. Zhang is a brother of Ms. Zhang Jinhua (張金花), a non-executive Director; and a cousin of Mr. Zhang Donglian (張冬連), a supervisor.

Mr. Sun Wensheng (孫文勝), aged 50, was appointed as a Director on 1 September 2012. Mr. Sun graduated from Dalian Polytechnic University (大連輕工業學院) with a bachelor's degree in pulp and papermaking (製漿造紙工程) in July 1991. He served as a deputy general manager of Yanbian Shixian Bailu Papermaking Co., Ltd. (延邊石峴白麓紙業股份有限公司) (stock code: 600462) listed on the Shanghai Stock Exchange (上海證券交易所) between July 2001 and June 2008 and served as a senior engineer on pulping and papermaking in January 2003. He joined Zhejiang Chang'an Renheng Chemicals Co., Ltd. (浙江長安仁恒化工有限公司) in June 2008 and he is now a sales manager of the Company. Mr. Sun retired as an executive Director of the Company on 19 October 2019.

Mr. Fan Fang (范芳), aged 54, was appointed as a Director of the Company on 29 December 2008 and is a member of the Nomination Committee and a member of Remuneration Committee. Mr. Fan graduated from Jinhua Supply and Marketing College in Zhejiang Province (浙江省金華供銷學校) in July 1985. He was responsible for financial matters of a subsidiary of the Changxing County Supplier (長興縣供銷社) between September 1985 and December 1997. Mr. Fan has been appointed as the head of the finance department of the Company since March 2003. Mr. Fan was appointed as the financial controller of the Company as well on 15 August 2019.

Mr. She Wenjie (佘文傑先生), aged 32, was appointed as a Director on 19 October 2019. Mr. She has been a salesman of our Company since 2016. From 2012 to 2016, Mr. She worked as a salesman of Zhejiang Hougyu New Materials Co., Ltd.* (浙江紅宇新材料股份有限公司). Mr. She held the position of a sales manager of the Northern West district of Changxing Dingneng Electrical Co., Ltd.* (長興鼎能電源有限公司). He completed his tertiary education at Chagnxing Huasheng Huasheng Hongxi Secondary School* (長興華盛洪溪中學) in 2006.

Directors' and Senior Management's Biographies

Non-Executive Director

Ms. Zhang Jinhua (張金花), aged 47, was appointed as a non-executive Director of the Company on 14 May 2016. She worked for Changxing Gulong Hotel (長興古龍大酒店) from January 1994 to December 2002 and was in charge of procurement work for the hotel. She joined the Company in January 2003 and was in charge of finance related work of the Company. Ms. Zhang is the sister of Mr. Zhang Youlian (張有連), the executive Director and Chairman of the Company and a cousin of Mr. Zhang Donglian (張冬連), a supervisor of the Company.

Independent Non-Executive Directors

Mr. Shao Chen (邵晨), aged 57, was appointed as an independent non-executive Director, a member of the Audit Committee and the chairman of the Nomination Committee of the Company on 24 February 2013. Mr. Shao graduated from Zhejiang Normal University (浙江師範學院) in July 1982 and obtained a bachelor's degree in Arts. He worked for Zhejiang Gaohan Information Technology Co., Ltd. (浙江高漢信息科技有限公司) as a general manager of the marketing department and a general manager of the network security department between July 1991 and December 1997. He served as a general manager of Hangzhou Chaofan Transgenic Engineering Co., Ltd. (杭州超凡轉基因工程有限公司) between October 1999 and May 2007. Mr. Shao is now the deputy secretary general of China Non-Metallurgical Mining Industry Association (中國非金屬礦工業協會) and the secretary general of its Professional Committee on Bentonite (膨腡土專業委員會). Mr. Shao retired as an independent non-executive Director of the Company on 19 October 2019.

Dr. Huang Zemin (黃澤民), aged 66, was appointed as an independent non-executive Director and a member of the Audit Committee and a member of the Remuneration Committee of the Company on 24 February 2013. He studied at East China Normal University (華東師範大學) between September 1989 and July 1996 and graduated with a doctoral degree in Economics. Dr. Huang was promoted to associate professor in October 1992. He has been a professor of the School of International Finance (國際金融系) at East China Normal University (華東師範大學) since August 1996 and was engaged as a tenured professor (終身教授) by East China Normal University (華東師範大學) in December 2002. Dr. Huang was also a member of the 10th, 11th and 12th Chinese People's Political Consultative Conference (全國政協委員). He served as an independent director (獨立董事) of Shanghai Tofflon Science and Technology Co., Ltd. (上海東富龍科技股份有限公司) (stock code: 300171) listed on the Shenzhen Stock Exchange between March 2011 and March 2014. He has been an independent director of Shanghai Jinfeng Wine Company Limited (上海金楓酒業股份有限公司) (stock code: 600616) listed on the Shanghai Stock Exchange since May 2013. Dr. Huang retired as an independent non-executive Director of the Company on 19 October 2019.

Mr. Chau Kam Wing, Donald (周錦榮), aged 57, was appointed as an independent non-executive Director and the chairman of the Audit Committee of the Company on 8 May 2014. He was also appointed as the chairman of the Remuneration Committee and a member of the Nomination Committee of the Company on 14 May 2016. He has over 25 years' experience in audit, tax and financial management. Mr. Chau obtained an MBA from the University of San Francisco in the USA in 2000. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is the Finance Director of Winox Holdings Limited (stock code: 06838) listed on Main Board. He is also an independent non-executive director of China Water Affairs Group Ltd. (stock code: 00855), Ching Lee Holdings Limited (Stock code: 3728) and Carpenter Tan Holdings Ltd., (stock code: 00837), companies listed on the Main Board. He is also the independent non-executive director of Eco-Tek Holdings Limited (stock code: 08169), which is listed on GEM. He was also an independent non-executive director of Zhejiang Shibao Co. Ltd. (Hong Kong stock code: 01057 and Shenzhen stock code: 002703) which is a company listed on the Main Board and the Small and Medium Enterprise Board (中小企業板) of the Shenzhen Stock Exchange from November 2009 to June 2015. Mr. Chau resigned as an independent non-executive Director of the Company on 11 May 2019.

Directors' and Senior Management's Biographies

Mr. Zhang Lei (章磊), aged 38, was appointed as an independent non-executive Director, the chairman of the Audit Committee and Remuneration Committee, and a member of Nomination Committee on 11 May 2019. He obtained a bachelor's degree in management which was awarded by Zhejiang University of Finance and Economics (浙江財經大學) in June 2003 and a master's degree in accounting which was awarded by Xiamen University (廈門大學) in December 2013. He served as the audit project manager and the department manager in Zhejiang Oriental Accounting Firm from September 2003 to December 2008 and a manager and a partner of Tianjian Certified Public Accountants from June 2008 to January 2009. He has been a partner of Ruihua Certified Public Accountants since July 2018. He is a Certified Public Accountant and an International Internal Auditor. He is also a tutor for the program of Master of Accounting at Zhejiang University of Technology (浙江工業大學) and a tutor for the Master of Professional Accounting of Zhejiang University (浙江大學).

Mr. Tang Jingyan (唐靖炎先生), aged 63, was appointed as an independent non-executive Director, the chairman of the Nomination committee and a member of Audit Committee and Remuneration Committee on 19 October 2019. Mr. Tang has been a vice president of the China Non-metallic Minerals Industry Association since August 2016. From 2006 to 2016, Mr. Tang was the chairman and general manager of Suzhou SINOMA Design & Research Institute of Non-metallic Minerals Industry Co., Ltd.* (中國建材集團蘇州中材非金屬礦工業設計研究院有限公司), the director of the National Institute of Non-metallic Mineral Processing Engineering Technology* (國家非金屬礦深加工工程技術研究中心) and a vice president of Sinoma Science & Technology Co., Ltd.* (中材科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 00280). Mr. Tang was awarded the title of professorate senior engineer in 1999. From 1990 to 1996, Mr. Tang worked in Suzhou Non-metallic Mineral Industry Design Academia* (蘇州非金屬礦工業設計研究院) and became the deputy president in 1993 and the president in 1996 respectively. Mr. Tang obtained his doctorate degree in mineral processing engineering from Wuhan University of Technology in 2008 and obtained his bachelor's degree from JiangXi University of Science and Technology in 1982 respectively.

Mr. Li Jiangning (李江寧先生), aged 53, was appointed as an independent non-executive Director and a member of Audit Committee on 19 October 2019. Mr. Li has been a deputy secretary of the China Coating Material Industrial Association* (中國塗料工業協會) since 2018 and a deputy secretary of Guangdong Coating Material Industry Association* (廣東省塗料行業協會) since 2017. Mr. Li has been working in the coating material industry since 1993. From 2014, Mr. Li has gradually taken the positions of the executive chairman of the water soluble wooden coating material industry technology alliance, a deputy secretary of the construction coating material branch, a director of artistic coating material branch and a director of the military coating material specialist committee of the China Coating Material Industrial Association* (中國塗料工業協會). Mr. Li was the marketing and sales director of Guangdong Fortress Chemical Co., Ltd* (廣東千色花化工有限公司) from 2008 to 2013. He was subsequently promoted to deputy general manager in 2013. He has also taken on the position as a general manager of the group development department since 2015. From 1999 to 2008, Mr. Li was the deputy general manager of Guangdong Hualong Coating Industrial Co., Ltd* (廣東華隆塗料實業有限公司). Mr. Li graduated from Beijing Broadcasting Institute (北京廣播學院) (current known as Communication University of China) in 1991 with a tertiary education.

Directors' and Senior Management's Biographies

SUPERVISORY COMMITTEE

Mr. Xu Qinsi (徐勤思), aged 55, is the chairman of the Supervisory Committee and was appointed as a Supervisor on 1 September 2012. He is an economist. Mr. Xu served as the vice plant manager of Changxing Thread Factory (長興線廠) between October 1993 and August 2005. He graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), majored in economic management, in December 1997. Mr. Xu served as the head of the office of the Company between September 2006 and March 2009. He worked for Zhejiang Tailun Insulator Co., Ltd. (浙江泰侖絕緣子有限公司) as a deputy director of its supply department between May 2009 and August 2010. Mr. Xu joined the Company again in August 2010 and has been responsible for human resources management. Mr. Xu Qinsi is a brother of Ms. Xu Qinwei (徐勤偉), the general manager of the Company, and the spouse of Ms. Ling Weixing (淩衛星), a Shareholder. Save as disclosed, Mr. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Zhang Donglian (張冬連), aged 53, was appointed as a Supervisor on 29 December 2008. Mr. Zhang joined the Company in March 2007 and he is now the deputy general manager of Yangyuan Renheng Fine Clay Co., Ltd. (陽原縣仁恒精細粘土有限責任公司). Mr. Zhang Donglian is a cousin of Mr. Zhang Youlian (張有連), an executive Director, and Ms. Zhang Jinhua (張金花), a Shareholder and a non-executive Director. Save as disclosed, Mr. Zhang does not have any relationship with any other Director, Supervisor, senior management of the Company, the Substantial Shareholder or the Controlling Shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Liang Guoping (梁國平), aged 59, was elected as the employee representative to serve as a Supervisor on 16 August 2012. Mr. Liang graduated from Zhejiang Taizhou Business School (浙江台州商業學校) in July 1981. He worked for Changxing County Native Products Corporation (長興縣土特產總公司) between September 1981 and July 1999. Mr. Liang joined the Company since its establishment in December 2000. He now serves as a cashier of the Company. Mr. Liang does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report. Mr. Liang retired as an employee representative to serve as a Supervisor on 11 May 2019.

Ms. Li Lijiao (李麗姣), aged 30, was elected as the employee representative to serve as a Supervisor on 22 March 2019. Ms. Li graduated from Hanzhou Institute of Technology (杭州職業技術學院) in June 2011. She worked for Changxing County Changshung Motor Sales Services Co. Ltd. (長興縣長順汽車銷售服務有限公司) between June 2011 and July 2014. Ms. Li joined the Company in May 2016. She now serves as an assistant accounting supervisor of the Company.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Ms. Xu Qinwei (徐勤偉), aged 64, is the general manager of the Company. Ms. Xu joined Changxing Jingu Industrial Co. (長興金谷實業公司) in July 1991. She was appointed as the deputy manager of Zhejiang Province Zhongrun Real Estate Co. Changxing Branch (浙江省中潤房地產總公司長興分公司) (in 2004 renamed as Zhejiang Province Zhongrun Food and Oil Trading Co. (浙江省中潤糧油工貿公司)), a subsidiary of Zhejiang Province Food Group Co., Ltd. (浙江省糧食集團有限公司), between April 1994 and March 2006. She has been the general manager of the Company since May 2006. Ms. Xu is a sister of Mr. Xu Qinsi (徐勤思), a Supervisor, and the spouse of Mr. Wang Shunmiao (王順淼), a Shareholder. Save as disclosed, Ms. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Su Pin (蘇品), aged 55, Mr. Su graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), with a graduation certificate in economic management, in December 2001. He is an economist. He served as a deputy general manager of Zhoushan Taihe Local Products Co., Ltd. (舟山市泰和土產有限責任公司) between January 1991 and April 1994, he served as the general manager of Zhoushan Taihe Local Products Co., Ltd. between April 1994 and March 2000. He worked for Zhoushan Hongli Specialty Co., Ltd. (舟山市弘立特產有限公司) as the general manager between April 2000 and June 2004. Mr. Su has been appointed as the deputy general manager of the Company since June 2004. Mr. Su does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Chan Hon Wan (陳漢雲), aged 59, is the financial controller and company secretary of the Company and joined the Group in April 2014. Mr. Chan graduated with a Bachelor's Degree in Economics from Macquarie University in Australia in 1986 and a Master's Degree in Accountancy from the Hong Kong Polytechnic University in 2005. He is currently an associate member of The Hong Kong Institute of Certified Public Accountants (HKICPA), and an associate member of The Institute of Chartered Accountants in Australia. Mr. Chan has over 31 years of extensive experience in accounting and finance fields, gaining from an international accounting firm and various listed corporations. He served as the financial controller of Fairwood Holdings Limited (stock code: 00052), a company listed on the Main Board of the Stock Exchange from 1995 to 1998. He worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a Business Director of Texwood Group from 2006 to 2008. Mr. Chan served from September 2008 to April 2009 as the company secretary, qualified accountant and authorised representative of Freeman Corporation Limited (Stock Code: 00279) (now known as Freeman Financial Corporation Limited), a company listed on the Main Board of the Stock Exchange. Mr. Chan resigned as the financial controller and company secretary of the Company on 31 March 2019. He rejoined the Group as the company secretary of the Company on 15 August 2019. Mr. Chan was re-designated as a consultant and a joint company secretary of the Company on 2 December 2019.

Directors' and Senior Management's Biographies

Mr. Lau King Pong (劉景邦), aged 61, was appointed as the financial controller, the company secretary and the Authorised Representative of the Company on 1 April 2019. Mr. Lau holds a Higher Diploma in Commerce from Polytechnic of North London. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau has over 30 years of experience in auditing, accounting and financial reporting. Mr. Lau resigned as the financial controller, the company secretary and the Authorised Representative of the Company on 15 August 2019.

Ms. Li Nan (李男), aged 32, was appointed as a joint company secretary of the Company on 2 December 2019. Ms. Li graduated from Xiangtan University (湘潭大學) with a master degree in polymer materials and physics and an undergraduate degree in material science. She served as an engineer in Elementis Special Chemistry Group (海名思特殊化學公司) from August 2013 to May 2016. Since May 2016, she has served as deputy manager of technology department in the Company. She has 3 years of experience in operational matters involing active interactions with the Directors and the senior management of the Company.

Corporate Governance Report

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules, and adopted various measures to enhance the internal control system, the Directors' continuous professional development and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Year Under Review, the Company has complied with the code provisions, other than code provisions A.2.1 and A.1.8 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Zhang Youlian is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhang to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

In addition, according to the code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors and officers. As the Board needed time to consider quotes from different insurers, during the Year Under Review, the Company did not take out directors and officers liability insurance to cover liabilities arising from legal action against its directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the Year Under Review.

BOARD OF DIRECTORS

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. Board should ensure that changes to its composition can be managed without undue disruption. Board should include a balanced composition of executive Directors (the "Executive Directors"), non-executive Director (the "Non-executive Director") and independent non-executive Directors (the "Independent Non-executive Directors") so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Board currently comprises a total of seven Directors, being three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. Mr. Zhang Youlian, Mr. She Wenjie and Mr. Fan Fang, served as Executive Directors, Ms. Zhang Jinhua served as Non-executive Director and Mr. Zhang Lei, Mr. Li Jiangning and Mr. Tang Jingyan served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. One of the Independent Non-executive Directors is a qualified accountant who has appropriate professional quantifications or accounting or related financial management expertise. Each Non-executive Director and Independent Non-executive Director has been appointed for a 3-years term of services.

There is no financial, business, family or other material/relevant relationship amongst Directors and supervisors, except (i) Mr. Zhang Youlian is a brother of Ms. Zhang Jinhua, a Non-executive Director; and a cousin of Mr. Zhang Donglian, a supervisor; (ii) Ms. Zhang Jinhua is a sister of Mr. Zhang Youlian, an Executive Director; and a cousin of Mr. Zhang Donglian, a supervisor; and (iii) Mr. Zhang Donglian is a cousin of Mr. Zhang Youlian, an Executive Director, and Ms. Zhang Jinhua, a Non-executive Director.

Corporate Governance Report

Biographical details of and the relationship between the Directors and supervisors are set out in the section headed "Directors' and Senior Management's Biographies" of this report.

An updated list of Directors and their role and functions is maintained at the websites of the Company and the Stock Exchange and the Independent Non-executive Directors are identified by name in all corporate communications.

Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 5.09 of the GEM Listing Rules.

Pursuant to Article 10.2 of the articles of association of the Company (the "Articles of Association"), Directors shall be elected or changed by the Shareholders' meeting. Every term of a Director is three years. Upon expiry of the term, a Director shall be eligible for re-election and re-appointment.

RESPONSIBILITIES OF THE BOARD

All the Directors (including the Independent Non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. Every Director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the Directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 19 December 2014 in compliance with provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosure in the corporate governance report of the annual report of the Company.

The Board has performed the abovementioned corporate governance functions during the Year Under Review.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Independent Non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association. Each Independent Non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence and must provide an annual confirmation of his independency to the Company. Up to the date of this report, no Independent Non-executive Director has served the Company more than 9 years.

BOARD DIVERSITY POLICY

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

Corporate Governance Report

As at the date of this report, the Board comprises seven Directors. One of them is a woman. Three of the Directors are Independent Non-executive Directors and independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

All Directors (with the names set out in the section "Board of Directors" in this Corporate Governance Report) are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. On 12 November 2019, the Company organized a training session to provide each of the Directors with an update on the GEM Listing Rules.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with Appendix 15 to the GEM Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the company secretary (the "Company Secretary"), are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Zhang Lei, Mr. Li Jiangning and Mr. Tang Jingyan, who are Independent Non-executive Directors. Mr. Zhang, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

The primary duties of the Audit Committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor is independent and the audit process is effective. The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The Audit Committee also serves as a channel of communication between the Board and the external auditor. External auditor and the Directors are invited to attend the committee meetings as and when necessary.

During the Year Under Review, the Audit Committee had held four meetings and all the members attended the meetings. The attendance record of committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report. Pursuant to the meeting of the Audit Committee held on 26 March 2020, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2019, the results announcement, this 2019 annual report and accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee (the "Remuneration Committee") on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Remuneration Committee currently has three members, namely Mr. Fan Fang, an Executive Director, Mr. Tang Jingyan and Mr. Zhang Lei, both Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to make recommendation to the Board the terms of remuneration packages, bonuses and other compensation (including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management. During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report.

NOMINATION COMMITTEE

The Company established a Nomination Committee (the "Nomination Committee") on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Nomination Committee currently has three members, namely Mr. Fan Fang, an Executive Director, Mr. Zhang Lei and Mr. Tang Jingyan, both Independent Non-executive Directors. Mr. Tang has been appointed as the chairman of the Nomination Committee.

The Nomination Committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required. In the selection and nomination for new Directors, the Nomination Committee identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. The Nomination Committee utilizes various methods for identifying potential candidates, including recommendations from the members of the Board, management, and professional search firms. All potential candidates are evaluated by the Nomination Committee based on their qualifications. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the Nomination Committee to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the Nomination Committee has approved their nominations.

The principal responsibilities of the Nomination Committee are (among other things) to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report.

Corporate Governance Report

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve quarterly, interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate. Minutes of meetings of the Board and Board committees are kept by the Company Secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

Details of the attendance records of Directors on Board meetings, Board committee meetings and annual general meeting for the Year Under Review are as follows:

	Attendance/Number of meetings					
Name of Directors	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Extraordinary General Meeting
Executive Directors						
Mr. Zhang Youlian *(Chairman)*	4/4	–	–	–	1/1	1/1
Mr. Sun Wensheng (retired on 19 October 2019)	3/4	–	–	–	1/1	–
Mr. Fan Fang	4/4	–	2/2	2/2	1/1	1/1
Mr. She Wenjie (appointed on 19 October 2019)	1/4	–	–	–	–	1/1
Non-executive Director						
Ms. Zhang Jinhua	4/4	–	–	–	1/1	1/1
Independent Non-executive Directors						
Mr. Shao Chen (retired on 19 October 2019)	3/4	3/4	–	2/2	1/1	–
Dr. Huang Zemin (retired on 19 October 2019)	3/4	3/4	2/2	–	1/1	–
Mr. Chau Kam Wing, Donald (resigned on 11 May 2019)	2/4	2/4	1/2	1/2	1/1	–
Mr. Zhang Lei (appointed on 11 May 2019)	3/4	3/4	1/2	1/2	1/1	1/1
Mr. Li Jiangning (appointed on 19 October 2019)	1/4	1/4	–	–	–	1/1
Mr. Tang Jingyan (appointed on 19 October 2019)	1/4	1/4	–	–	–	1/1

Subsequent to the year ended 31 December 2019 and up to date of this report, the Board held another Board meeting on 26 March 2020 for the main purposes of approving the annual results of the Group for the year ended 31 December 2019, this annual report and formulating business development strategies. All Directors attended such meeting.

Corporate Governance Report

JOINT COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the Company Secretary of the Company on 1 April 2014. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures. Mr. Chan resigned as the Company Secretary of the Company on 31 March 2019 and rejoined as the Company Secretary of the Company on 15 August 2019. Mr. Chan was re-designated as a consultant and a joint company secretary on 2 December 2019. Ms. Li Nan was appointed as the other joint company secretary on 2 December 2019.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant professional training requirements under Rule 5.15 of the GEM Listing Rules. Both Mr. Chan's and Ms. Li's biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

The Board acknowledges its responsibility, as set out in the Independent Auditor's Report, to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of PricewaterhouseCoopers, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal control and risk management

The Board recognizes its responsibility to ensure the Company maintains a sound and effective internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group during the Year Under Review. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. The Group's risk management framework includes the following elements: (i) identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business; (ii) develop necessary measures to manage those risks; and (iii) monitor and review the effectiveness of such measures. The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews the Group's risk management systems from time to time in accordance with the prevailing Group's business environment.

Audit Committee reported to the Board the implementation of the Group's risk management and internal control policy which, among other things, included the determination of risk factors, evaluation of risk level the Group could take and effectiveness of risk management measures. Based on the reports from the Group's internal control department and the Audit Committee, the Board considers the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG code.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

For the purpose of handling and disseminating inside information in accordance with the GEM Listing Rules and the Securities and Futures Ordinance (the "SFO") (Cap 571 of the Laws of Hong Kong), the Group has taken various procedures and measures, including: (i) arousing the awareness to preserve confidentiality of inside information within the Group; (ii) sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly; and (iii) disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

Corporate Governance Report

EXTERNAL AUDITOR

PricewaterhouseCoopers has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2019, the fees payable to PricewaterhouseCoopers in respect of its audit services provided to the Group was RMB900,000.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

Any Shareholder(s) who individually or jointly hold 10% or more of the Company's issued voting shares at the date of the deposit of the requisition, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the Company Secretary of the Company at the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the Shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within thirty days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

According to article 8.6 of the Articles of Association, when the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five days before the date of the meeting (including the date of the meeting but excluding the date on which the written notice is sent) to notify all shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty days before the date of the meeting.

Making Proposals at Shareholders' Meetings

According to article 8.7 of the Articles of Association, when the Company convenes a shareholder's annual general meeting, shareholders (either independently or jointly) holding 3% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of the shareholders in general meeting.

Corporate Governance Report

Shareholders who would like to propose new motions in annual general meeting should send the written requisition by post to the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong or by phone at (852) 2526 6311. Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, there had been no significant change in the Company's constitutional documents. The Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investment industry is crucial to having a deeper understanding of the Company's business and its development among investors. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the purpose for the Company to formulate investor relations policies is to let investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.renheng.com to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Zhejiang Chang'an Renheng Technology Co., Ltd.
Mr. Zhang Youlian
Chairman of the Board

Zhejiang, PRC, 29 April 2020

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2019 (the "Financial Statements").

BACKGROUND

The Company was established in the PRC as a limited liability company in December 2000 and was converted into a joint stock limited liability company in December 2008 under the Company Law of the PRC. The Company's H Shares were listed on the GEM of the Stock Exchange on 16 January 2015.

PRINCIPAL BUSINESS

The Group is principally engaged in the business of development, production and sale of bentonite fine chemicals. The Group uses bentonite as its basic raw materials to manufacture paper chemicals, bentonite for metallurgy pellet, quality calcium-bentonite and other products.

RESULTS AND DIVIDENDS

Loss of the Group for the year ended 31 December 2019 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 47 to 103.

The Board did not recommend the payment of any final dividends for the year ended 31 December 2018 (2017: nil).

CLOSURE OF THE REGISTER OF MEMBERS OF H SHARES

For the purpose of determining the Shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on Tuesday, 16 June 2020, the register of members of the Company will be closed from Friday, 15 May 2020 to Tuesday, 16 June 2020 (both days inclusive) during which period no transfer of H shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's H share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. on Thursday, 14 May 2020.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 7 to 17. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Highlights" on page 6. No important event affecting the Group has occurred since the end of the Year Under Review.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the "Dividend Policy"), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions. The Board has complete discretion on whether to pay a dividend, subject to the Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

Report of the Directors

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between our Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

The Group's principal business is located in the PRC and its major transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to professional parties that are denominated in Hong Kong dollars.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB.

Report of the Directors

Liquidity Risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2019, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the Year Under Review and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders.

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

For the year ended 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 19 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 50 of the "Consolidated Statement of Changes in Equity", Notes 21 and 33(a) to the Financial Statements, respectively.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2019, calculated in accordance with PRC rules and regulation, was retained earnings of approximately RMB14,131,000.

FINANCIAL SUMMARY

A Summary of the results, the assets and liabilities of the Group for the last five financial years is set out on page 104.

CHARITY DONATIONS

During the Year Under Review, the Group did not make any charity donations (2018: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2019 are set out in Note 13 to the Financial Statements.

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the 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.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2019 are set out in Note 32 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this report have been:

Executive Directors

Mr. Zhang Youlian *(Chairman)*
Mr. Sun Wensheng (retired on 19 October 2019)
Mr. Fan Fang
Mr. She Wenjie (appointed on 19 October 2019)

Non-executive Director

Ms. Zhang Jinhua

Independent non-executive Directors

Mr. Shao Chen (retired on 19 October 2019)
Dr. Huang Zemin (retired on 19 October 2019)
Mr. Chau Kam Wing, Donald (resigned on 11 May 2019)
Mr. Zhang Lei (appointed on 11 May 2019)
Mr. Li Jiangning (appointed on 19 October 2019)
Mr. Tang Jingyan (appointed on 19 October 2019)

Supervisors

Mr. Xu Qinsi
Mr. Zhang Donglian
Mr. Liang Guoping (retired on 11 May 2019)
Ms. Li Lijiao (appointed on 16 June 2019)

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, supervisors and senior management of the Company are set out in pages 20 to 25 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 18.39B of the GEM Listing Rules from each of the Independent Non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2019.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

Report of the Directors

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in Note 34 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 2 Directors (2018: 2 Directors). Details of the five highest paid individuals are set out in Note 34 to the Financial Statements.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors has entered into a service agreement with the Company for a term of three years. No Director and supervisor has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

None of the Directors, the supervisors, the controlling shareholders, nor their respective associates had a material interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the Year Under Review.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, DEBENTURES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2019, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of Director/supervisor	Nature of interest	Number of shares in the Company held	Approximate percentage of Issued Share Capital
Mr. Zhang Youlian	Beneficial owner	19,220,600 (Domestic Shares)	50.05%
Ms. Zhang Jinhua	Beneficial owner	398,400 (Domestic Shares)	1.04%
Mr. Xu Qinsi(i)	Interest of spouse	100,000 (Domestic Shares)	0.26%

(i) Mr. Xu Qinsi, the supervisor of the Company, is deemed (by virtue of the SFO) to be interested in 100,000 domestic shares in the Company held by his spouse. Ms. Ling Weixing.

Save as disclosed above, as at 31 December 2019, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Report of the Directors

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Year Under Review, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any directors or supervisors or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company, or any of its subsidiaries a party to any arrangement which enabled the directors or supervisors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as the Directors, having made all reasonable enquiries, are aware, the following interests of 5% or more of the issued share capital of the Company (other than the interests of the directors, supervisors and chief executive of the Company as disclosed above) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of Shareholder	Nature of interest	Number of shares in the Company held	Interest in Underlying Shares	Total number of shares in the Company held	Approximate percentage of Issued Share Capital
Ms. Yu Hua	Beneficial owner	3,576,000 (Domestic Shares)	–	3,576,000 (Domestic Shares)	9.31%

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2019.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

NON-COMPETITION UNDERTAKING

As disclosed in the Company's Prospectus, Mr. Zhang Youlian (the "Controlling Shareholder"), has executed a deed of non-competition through which he has undertaken and procure that none of his associates will (a) directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with the Group's existing business activity or any principal business activity of any member of the Group or be in competition with the Group in any business activities which the Group may undertake in the future (the "Restricted Business"); or (b) take any direct or indirect action which constitutes an interference with or a disruption to the Group's business activities including, but not limited to, solicitation of the Group's customers, suppliers or staff. He has warranted that neither he nor any of his associates is currently engaging in and has not had any interest in any business that directly or indirectly competes or may compete with the Group's business. The Controlling Shareholder also undertakes and covenants to the Group that, if any new business opportunity relating to any Restricted Business is made available to him, he will direct the Restricted Business to the Group with such required information to enable the Group to evaluate the merits of the Restricted Business.

The Controlling Shareholder has confirmed in writing to the Company of his compliance with the deed of non-competition for disclosure in this report during the Year Under Review.

Report of the Directors

CONNECTED TRANSACTION

During the Year Under Review, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

None of the Directors or supervisors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

PLEDGE OF ASSETS

As at 31 December 2019, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB28,844,000 (31 December 2018: approximately RMB27,927,000).

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was from 3.28% to 7.91%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2019, the Group had cash and cash equivalents of approximately 11,883,000 (31 December 2018: approximately RMB22,272,000) which was mainly generated from operations of approximately the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 28.5% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 10.6% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 60.1% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 46.9% of the total cost of sales of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2019 are set out in Note 9 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

At no time during the Year Under Review and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

JOINT COMPANY SECRETARY

Mr. Chan Hon Wan and Ms. Li Nan, who are also senior management, are our joint Company Secretary. Please refer to Mr. Chan's and Ms. Li's biographies in the section headed "Directors' and Senior Management's Biographies" for details.

COMPLIANCE OFFICER

Mr. Fan Fang, who is also an Executive Director, is our compliance officer. Please refer to Mr. Fan's biographies in the section headed "Directors' and Senior Management's Biographies" for details.

EVENTS AFTER THE REPORTING PERIOD

There is no material events after the reporting period as at the date of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhejiang Chang'an Renheng Technology Co., Ltd.
Mr. Zhang Youlian
Chairman of the Board

Zhejiang, PRC, 29 April, 2020

Supervisory Committee Report

The Supervisory Committee is pleased to present this report of the Supervisory Board in the annual report of the Company for the year ended 31 December 2019.

In 2019, all members of the Supervisory Committee have earnestly performed their supervisory functions to safeguard the rights and interests of the Group and the Shareholders in accordance with the Company Law of the PRC, the Articles of Association, the Terms of Reference of the Supervisory Committee and the relevant provisions in the GEM Listing Rules. Members of the Supervisory Committee carried out examination of the Company's financial accounts and supervision of the Directors, and other senior management officers for their compliance with the laws, administrative regulations and the Articles of Association in executing their respective duties.

MEETING OF THE SUPERVISORY COMMITTEE

For the year ended 31 December 2019, a meeting of the Supervisory Committee was held on 23 March 2019 to consider the 2018 audited financial report of the Company and the report of Supervisory Committee for 2018 and to receive the report on the 2018 results announcement of the Company.

INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE LAWFUL OPERATION OF THE COMPANY

The Supervisory Committee is of the view that during the Year Under Review, the operation of the Company has been consistent with the provisions of the Company Law of the PRC, the PRC Securities Law and the Articles of Association; that the decision-making process of the Company has been in compliance with the laws, and the Company has established a relatively comprehensible internal control system; and that the Directors and senior management have not violated any law, regulation or the Articles of Association, nor have they acted in a way which is prejudicial to the interests of the Company.

INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE FINANCIAL POSITION OF THE COMPANY

The Supervisory Committee agreed with the audit opinion issued on 29 April 2020 on the 2019 annual financial report of the Company, and that the financial report of the Company has given a true and fair view of the financial position and the operating results of the Company.

INDEPENDENT OPINION ON THE IMPLEMENTATION OF THE RESOLUTIONS OF GENERAL MEETINGS

The Supervisory Committee considered that the Board earnestly implemented the resolutions approved by the general meetings.

In 2020, the Supervisory Committee will continue to carry out its fiduciary duties to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Company Law of the PRC, the Articles of Association and the GEM Listing Rules; and pay close attention to the operation and management status of the Company as well as any significant development of the Company, so as to facilitate the profit growth of the Company and to dutifully protect the interest of all Shareholders of the Company.

On Behalf of the Supervisory Committee
Mr. Xu Qinsi

Zhejiang, PRC, 29 April 2020

Independent Auditor's Report

pwc

羅兵咸永道

To the Shareholders of Zhejiang Chang'an Renheng Technology Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Zhejiang Chang'an Renheng Technology Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 103, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
Tel: +852 2289 8888, Fax: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

KEY AUDIT MATTERS

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

A key audit matter is identified during the audit as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition – sales of goods	
Refer to Note 2.24 and Note 6 to the consolidated financial statements of the Group. Revenue recognition has significant and wide influence on financial statements. Revenue is recognised when the amounts and the related costs are reliably measured, and the control of the underlying products have been transferred to the customers. Revenue from the sale of goods is recognised when the Group has delivered products to the customers and the customers have confirmed the acceptance of the products. We focused on this area due to that the sales of the Group are derived from a large number of customers which locate across the country with relatively small transaction amounts. As a result, to obtain sufficient audit evidence, magnitude audit work and resources are required.	We understood, evaluated and validated the key controls related to Group's sales process from end to end, from contracts approval and sign-off, customer order's approval, recording of sales, all the way through to reconciliations with cash receipts and customers' records. We inspected contracts with customers, on a sample basis, to understand the terms of the sale transactions, including the terms of delivery and goods acceptance and any sales return arrangements, to assess the Group's revenue recognition criteria with reference to the requirements of the prevailing accounting standards. We conducted substantive testing of revenue recorded covering different products, locations and customers, using sampling techniques, by examining the relevant supporting documents including customer orders, goods delivery notes and customer receipt notes. In addition, we confirmed certain customers' receivable balances at the balance sheet date and their transaction amounts during the period, selected on a sample basis by considering the amount, nature and characteristics of those customers. Furthermore, we tested the sales transactions recognised shortly before and after the balance sheet date, including the credit notes issued after that date, whether sales transactions were recorded in the correct reporting periods. Based on our audit work performed, we found the Group's revenue recognition in relation to sales of goods was supported by the evidence that we gathered.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Chung Bor.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 April 2020

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

		Year ended 31 December	
		2019	2018
	Note	*RMB*	*RMB*
Revenue	6	100,292,835	89,231,486
Cost of sales	8	(58,785,486)	(51,609,582)
Gross profit		41,507,349	37,621,904
Distribution costs	8	(16,363,462)	(14,864,918)
Administrative expenses	8	(14,321,089)	(14,587,601)
Net impairment losses on financial assets	8	(129,604)	(2,419,067)
Research and development expenses	8	(7,427,102)	(5,789,156)
Other gains – net	7	2,050,598	6,966,851
Operating profit		5,316,690	6,928,013
Finance income	10	193,442	15,052
Finance expenses	10	(6,578,703)	(5,862,361)
Finance expenses – net	10	(6,385,261)	(5,847,309)
(Loss)/profit before income tax		(1,068,571)	1,080,704
Income tax credit/(expense)	11	167,335	(141,620)
(Loss)/profit for the year attributable to the equity holders of the Company		(901,236)	939,084
Other comprehensive income		–	–
Total comprehensive (loss)/profit for the year attributable to the equity holders of the Company		(901,236)	939,084
(Losses)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	12	(0.02)	0.03

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

as at 31 December 2019

		As at 31 December	
		2019	2018
	Note	RMB	RMB
ASSETS			
Non-current assets			
Property, plant and equipment	13	83,313,181	81,402,390
Right-of-use assets	14	6,038,868	–
Prepaid leasing expenses	14	–	6,182,192
Mining rights	14	–	47,278
Leasehold improvements	15	11,630,667	14,910,353
Deferred income tax assets	26	3,503,698	3,345,783
Trade and other receivables	16	–	1,228,248
		104,486,414	107,116,244
Current assets			
Inventories	17	42,894,158	34,301,833
Trade and other receivables	16	65,098,637	49,008,624
Prepaid income tax		569,462	476,361
Restricted cash	18	4,217	389,618
Cash and cash equivalents	18	11,883,162	22,272,273
		120,449,636	106,448,709
Total assets		224,936,050	213,564,953
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	19	38,400,000	38,400,000
Other reserves	21	49,569,370	49,806,255
Retained earnings	20	17,125,601	17,789,952
Total equity		105,094,971	105,996,207

Consolidated Balance Sheet *(Continued)*

as at 31 December 2019

		As at 31 December	
		2019	2018
	Note	*RMB*	*RMB*
LIABILITIES			
Non-current liabilities			
Deferred government grants	22	474,092	513,445
Provisions for environmental rehabilitation	23	1,520,370	1,336,956
Borrowings	25	8,366,000	21,866,000
		10,360,462	23,716,401
Current liabilities			
Deferred government grants	22	39,353	83,953
Trade and other payables	24	33,895,503	30,163,867
Borrowings	25	75,545,761	53,604,525
		109,480,617	83,852,345
Total liabilities		119,841,079	107,568,746
Total equity and liabilities		224,936,050	213,564,953

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 47 to 103 were approved by the Board of Directors on 29 April 2020 and were signed on its behalf.

Zhang Youlian
Director

Fan Fang
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

		Attributable to equity holders of the Company			
		Share capital	Other reserves	Retained earnings	Total
	Note	*RMB*	*RMB*	*RMB*	*RMB*
As at 1 January 2018		32,000,000	36,634,147	17,015,177	85,649,324
Comprehensive income					
Profit for the year		–	–	939,084	939,084
Total comprehensive income for the year		–	–	939,084	939,084
Issue of new shares		6,400,000	13,007,799	–	19,407,799
Appropriation to statutory reserve		–	164,967	(164,967)	–
Appropriation to safety fund	*21*	–	108,963	(108,963)	–
Utilisation of safety fund	*21*	–	(109,621)	109,621	–
As at 31 December 2018		38,400,000	49,806,255	17,789,952	105,996,207
As at 1 January 2019		38,400,000	49,806,255	17,789,952	105,996,207
Comprehensive income					
Loss for the year		–	–	(901,236)	(901,236)
Total comprehensive loss for the year		–	–	(901,236)	(901,236)
Appropriation to statutory reserve					
Appropriation to safety fund	*21*	–	141,099	(141,099)	–
Utilisation of safety fund	*21*	–	(377,984)	377,984	–
As at 31 December 2019		38,400,000	49,569,370	17,125,601	105,094,971

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statements

for the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB	2018 RMB
Cash flows from operating activities			
Cash generated from operations	27(a)	4,436,740	17,732,174
Income tax paid		(83,680)	(170,817)
Net cash generated from operating activities		4,353,060	17,561,357
Cash flows from investing activities			
Interest income received from time deposits		193,442	15,052
Purchases of leasehold land improvements		(2,644,895)	(695,037)
Purchases of property, plant and equipment		(14,320,469)	(20,391,226)
Net cash used in investing activities		(16,771,922)	(21,071,211)
Cash flows from financing activities			
Proceeds from issue of new shares		–	19,407,799
Proceeds from borrowings		70,892,044	86,719,717
Repayments of borrowings		(62,450,808)	(76,299,192)
Payments of interest expenses		(6,343,354)	(5,945,732)
Net cash generated from financing activities		2,097,882	23,882,592
Net (decrease)/increase in cash and cash equivalents		(10,320,980)	20,372,738
Cash and cash equivalents at the beginning of the year		22,272,273	1,845,424
Exchange difference on cash and cash equivalents		(68,131)	54,111
Cash and cash equivalents at the end of the year	18	11,883,162	22,272,273

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

1 GENERAL INFORMATION

Zhejiang Chang'anRenheng Technology Co., Ltd. (浙江長安仁恒科技股份有限公司, the "Company") and its subsidiaries (together, the "Group") are principally engaged in the business of development, production and sale of bentonite fine chemicals. The Group uses bentonite as its basic raw materials to manufacture paper chemicals, bentonite for metallurgy pellet, quality calcium-bentonite and other products.

The Company was established as a company with limited liability under the name of ChangXingRenheng Refined Bentonite Co., Ltd. (長興仁恒精製膨潤土有限公司) in the People's Republic of China (the "PRC") on 4 December 2000. Mr. Zhang Youlian (張有連) is the controlling shareholder of the Company (the "Controlling Shareholder").

On 31 December 2008, the Company was converted into a joint stock company with limited liability and changed to its current name.

The address of the Company is Laoyatang, Si'an, Changxing, Zhejiang Province, PRC.

The Company issued a total of 8,000,000 H shares with a per value of RMB1.00 each at a price of HKD9.70 per share on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16 January 2015 (the "Listing").

As at 29 November 2018, the Company issued 6,400,000 new shares at a price of HKD3.50 per share by way of placement to not less than six parties, who and whose ultimate beneficial owner are independent third parties (Note 19).

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 April 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with IFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less cost to sell, and
- defined benefit pension plans – plan assets measured at fair value.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases, and
- Annual improvements to IFRS 2015 – 2017 cycle

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

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

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

The Group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.27.

(i) Practical expedients applied

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

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using of hindsight in determining the lease term where the contract contains options to extend the lease.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(ii) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at 1 January 2019.

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by RMB6,229,470
- Prepaid leasing expenses – decrease by RMB6,182,192
- Mining rights – decrease by RMB47,278

There was no impact on retained earnings on 1 January 2019.

2.3 Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive director of the Company that makes strategic decisions.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company and its subsidiaries' functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the profit or loss within 'other gains/losses – net'.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Estimated useful lives	Estimated residual values
Buildings, fixtures and facilities	5 to 30 years	5%
Machinery and equipment	4 to 10 years	5%
Vehicles	4 to 10 years	5%
Electronic and office equipment	3 to 5 years	5%

Construction in progress represents buildings, plant and equipment under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net" in the profit or loss.

2.9 Leasehold improvements

Leasehold improvements are stated at cost and amortised over the lower of expected beneficial periods or lease periods on a straight-line basis, net of any impairment losses, if any (Note 2.12).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Investments and other financial assets *(Continued)*

(iii) Measurement

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

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

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 16 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalent.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Restricted cash

Restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as time deposits as security deposits for borrowing agreement, guaranteed deposits for issuance of bills payable and guaranteed deposits for purchase of equipment. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

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

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

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income tax *(Continued)*

(b) Deferred income tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.21 Employee benefits

(a) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group.

(b) Housing benefits

The Group contributes to the state-prescribed housing fund. Such costs are charged to the consolidated statement of comprehensive income as incurred. Apart from those described above, the Group does not have other legal or constructive obligations over such benefits.

(c) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.22 Provisions

Provisions for environmental rehabilitation are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added tax.

Sales of goods

Revenue from the sale of goods is recognised when control of the products has transferred, being when the products are delivered to the buyer, the buyer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery occurs when the products have been transferred to the buyer, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Leases

As explained in Note 2.1 above, the Group has changed its accounting policy for leases where the Group is the lessee with effect from 1 January 2019. The new policy is described below and the impact of the change is set out in Note 2.2.

Until the 2018 financial year, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date. Depreciation on right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.29 Safety fund

According to CaiQi [2012] No 16"Measures for the accruals and utilization of safety fund for enterprises", issued by the Ministry of Finance ("MOF") and Safety Production General Bureau, the Group is required to accrue a "safety fund" to improve the production safety. Accruals to the safety fund are treated as an appropriation to reserves, which will be reversed to retained earnings upon utilization and charged to cost of sales.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in Hong Kong dollar (HK$)	Cash flow forecasting Sensitivity analysis	Foreign currency forwards and foreign currency options
Market risk – interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Interest rate swaps
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments debt investments and contract assets	Aging analysis Credit ratings	Diversification of bank deposits, credit limits and letters of credit
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Group's risk management is predominantly controlled by a central finance department under policies approved by the board of directors. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to HK dollars ("HKD"). The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years ended 31 December 2019 and 2018, the Group did not enter into any forward exchange contracts or currency swap contracts.

As at 31 December 2019, if the RMB had strengthened/weakened by 5% against the HKD while all other variables had been held constant, the Group's net loss for the year would have been lower/higer by approximately RMB18 (2018: net profit higher/lower by approximately RMB722,712) for various financial assets and liabilities denominated in HKD.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risks arise from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2019, the Group's borrowings of RMB34,000,000 (2018: RMB34,000,000) were charged at variable rates while the Group's borrowings of RMB49,911,761 (2018: RMB41,893,183) were charged at fixed rates, respectively. The Group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

The Group has not hedged its respective cash flow and fair value interest rate risks. The interest rates, terms of repayments and fair value of borrowings are disclosed in Note 25.

As at 31 December 2019, if the interest rates on the Group's borrowing charged at variable rates had been 50 basis points higher/lower, the net loss for the year would have been higher/lower by approximately RMB170,000 (2018: net profit lower/higher by approximately RMB170,000).

(b) Credit risk

Credit risk is managed on a group basis. The carrying amounts of cash and cash equivalents, restricted cash and trade and other receivables included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(i) *Risk management*

The Group expects that there is no significant credit risk associated with cash and cash equivalents and restricted cash since they are substantially deposited at state-owned banks and other large or medium size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade and other receivables. The Group assesses the credit quality of and sets credit limits on their customers by taking into account their financial position, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent. See Note 16 for further disclosure on credit risk.

(ii) *Impairment of financial assets*

The Group has one type of financial assets that is subject to the expected credit loss model which is trade receivables for sales of inventory (Note 16). While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected loss rates of trade receivables are based on the payment profiles of sales over a period of 36 month before 31 December 2019 and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers as well as the staffs to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(ii) *Impairment of financial assets (Continued)*

On that basis, the loss allowance as at 31 December 2019 and 2018 was determined as follows for trade receivables:

31 December 2019	Within 180 days	More than 180 days to one year	More than one year to two years	More than two years to three years	More than three years	Total
Expected loss rate	4%	11%	50%	77%	93%	
Gross carrying amount						
– trade receivables *(RMB)*	41,250,893	3,439,981	3,313,425	2,536,027	6,431,010	56,971,336
Loss allowance						
– trade receivables *(RMB)*	1,624,904	389,615	1,641,493	1,948,725	5,948,684	11,553,421

31 December 2018	Within 180 days	More than 180 days to one year	More than one year to two years	More than two years to three years	More than three years	Total
Expected loss rate	4%	11%	50%	77%	93%	
Gross carrying amount						
– trade receivables *(RMB)*	35,112,201	2,982,115	3,478,094	1,800,910	6,739,178	50,112,498
Loss allowance						
– trade receivables *(RMB)*	1,436,089	347,118	1,737,656	1,387,601	6,236,435	11,144,899

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for the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(ii) *Impairment of financial assets (Continued)*

The loss allowances for trade and other receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Trade and other receivables 2019 RMB
Opening loss allowance as at 1 January	12,290,381
Write-off against uncollectible receivables	(18,796)
Increase in loss allowance recognised in profit or loss during this year	129,604
Closing loss allowance at 31 December	12,401,189

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 3 years past due.

Impairment losses on trade and other receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	2019 RMB
Impairment losses	
– movement in loss allowance for trade and other receivables	129,604

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for the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 3 years	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Group					
As at 31 December 2019					
Borrowings, including interest payables	21,303,377	58,362,908	8,945,890	–	88,612,175
Trade and other payables, excluding staff salaries and welfare payables, advances from customers, and accrued taxes other than income tax	29,576,927	–	–	–	29,576,927
	50,880,304	58,362,908	8,945,890	–	118,189,102
As at 31 December 2018					
Borrowings, including interest payables	14,196,584	44,317,516	14,907,816	8,945,890	82,367,806
Trade and other payables, excluding staff salaries and welfare payables, advances from customers, and accrued taxes other than income tax	26,025,958	–	–	–	26,025,958
	40,222,542	44,317,516	14,907,816	8,945,890	108,393,764

Notes to the Consolidated Financial Statements

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings less cash and cash equivalents and restricted cash. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debts.

The gearing ratios as at 31 December 2019 and 2018, respectively, are as follows:

	As at 31 December	
	2019	2018
	RMB	*RMB*
Total borrowings *(Note 25)*	83,911,761	75,470,525
Less: Cash and cash equivalents and restricted cash *(Note 18)*	(11,887,379)	(22,661,891)
Net debt	72,024,382	52,808,634
Total equity	105,094,971	105,996,207
Total capital	177,119,353	158,804,841
Gearing ratio	41%	33%

The increase in the gearing ratio was resulted primarily from the increase in net debt during this year.

3.3 Fair value estimation

Financial assets and liabilities not measured at fair value

Financial assets not measured at fair value included cash and cash equivalents, restricted cash and trade and other receivables (except for prepayments) and financial liabilities included borrowings and trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax). The carrying amount of these financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

Notes to the Consolidated Financial Statements

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates

(a) Environment rehabilitation obligations

Environment rehabilitation obligations are inherently imprecise and represent only the approximate amounts because of the subjective judgments involved in the estimation of the costs. Environment rehabilitation obligations are subject to a considerable amount of uncertainties which affects the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to, mines and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying cost of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. In addition, as prices and cost levels change from year to year, the estimate of environment liabilities also changes. Despite the inherent imprecision in these estimates, these estimates are used in assessing the provision for rehabilitation.

(b) Income taxes

The Group is subject to income taxes in a few jurisdictions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant estimate is required from the Group in determining the provision for income taxes in each of these jurisdictions. 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 such determination is made.

4.2 Critical accounting judgements

(a) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1(b).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

5 SEGMENT INFORMATION

The chief operating decision-maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of production and sales of bentonite clay products, and all of the Group's operations are carried out in China. Therefore, management considers there is only one operating segment, under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented.

6 REVENUE

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Papermaking chemicals series	55,148,388	54,904,430
Organic bentonite	35,836,979	25,756,988
Inorganic gel	4,889,052	3,632,681
Quality calcium-bentonite	2,255,974	2,750,788
Bentonite for metallurgy pellet	654,800	985,433
Others chemicals *(i)*	1,507,642	1,201,166
	100,292,835	89,231,486

For the year ended 31 December 2019, only one external customer contributed 10% or above of the Group's revenue amounted to RMB16,917,721.

For the year ended 31 December 2018, only one external customer contributed 10% or above of the Group's revenue amounted to RMB16,597,266.

(i) Other chemicals mainly comprise flocculating agent, which are principally applied in the coating preparation industry.

Notes to the Consolidated Financial Statements

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7 OTHER GAINS – NET

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Government grants		
– Relating to assets *(Note 22)*	83,953	1,083,954
– Relating to costs *(i)*	2,039,495	6,482,400
Fine	(36,000)	(617,694)
Donations	(1,530)	(66,000)
Others	(35,320)	84,191
	2,050,598	6,966,851

(i) The government grants relating to costs were certain cost-related unconditional subsidies which were granted to award the Group's effort on environmental production, product development, contribution of tax payment and innovation.

8 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Changes in finished goods *(Note 17)*	2,962,496	(2,573,221)
Raw materials and consumables used	36,638,454	39,205,818
Employee benefit expenses *(Note 9)*	14,485,982	12,556,250
Utilities	9,571,820	5,729,785
Transportation expenses	12,619,491	12,177,351
Depreciation *(Note 13)*	7,713,641	6,642,986
Marketing and promotion expenses	1,219,824	356,044
Travelling and communication expenses	2,644,037	3,867,097
Taxes and levies	1,166,033	1,073,925
Depreciation of right-of-use assets *(Note 14)*	190,603	–
Amortisation of prepaid leasing expenses	–	175,517
Amortisation of mining rights	–	31,518
Audit remuneration	900,000	1,100,000
Professional service fees	1,134,150	631,751
Amortisation of leasehold improvements *(Note 15)*	1,626,061	1,610,511
Maintenance expenses	1,486,373	689,069
Entertainment expenses	1,475,921	2,629,840
Provision for impairment of receivables *(Note 16)*	129,604	2,419,067
Reversal of provision for inventories *(Note 17)*	(3,764)	(25,119)
Miscellaneous	1,066,017	972,135
Total cost of sales, distribution costs, administrative expenses, net impairment losses on financial assets and research and development expenses	97,026,743	89,270,324

Notes to the Consolidated Financial Statements

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9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Salaries, wages and bonuses	13,219,609	11,348,185
Contributions to pension plans	701,826	741,559
Housing fund, welfare, medical and other benefits	564,547	466,506
	14,485,982	12,556,250

(a) Five highest paid individuals

The emoluments of the five highest paid individuals amounted to RMB1,633,383 for the year ended 31 December 2019 (2018: RMB1,406,160). Their emoluments are reflected in the analysis shown in Note 34.

For the years ended 31 December 2019 and 2018, no director, supervisor or senior management received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

10 FINANCE EXPENSES – NET

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Finance income		
– Interest income derived from bank deposits	193,442	15,052
Finance expenses		
– Interest expense	(6,489,689)	(5,945,732)
– Foreign exchange (losses)/gains on borrowings and cash and cash equivalents – net	(68,131)	54,111
– Unrealised (losses)/gains from financial assets measured at amortised cost	(20,883)	29,260
	(6,578,703)	(5,862,361)
Finance expenses – net	(6,385,261)	(5,847,309)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

11 INCOME TAX CREDIT/(EXPENSE)

This note provides an analysis of the Group's income tax credit/(expense), and shows how the tax credit/(expense) is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

(a) Income tax credit/(expense)

	Year ended 31 December	
	2019 *RMB*	2018 *RMB*
Current tax		
Current tax on profits for the year	(49,139)	(95,202)
Adjustments for current tax of prior periods	58,559	(214,386)
Total current tax credit/(expense)	9,420	(309,588)
Deferred income tax		
Increase in deferred tax assets *(Note 26)*	157,915	167,968
Total deferred tax benefit	157,915	167,968
Income tax credit/(expense)	167,335	(141,620)

The Company renewed the certificates of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Zhejiang province, which granted tax preferential rate of 15% for three years from 13 November 2017 to 12 November 2020.

The subsidiary "Renheng Refined Clay" obtained the certificates of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Heibei province, which granted tax preferential rate of 15% for three years from 11 September 2018 to 10 September 2021.

The other subsidiary is subject to income tax rate of 25% for the years ended 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements

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11 INCOME TAX CREDIT/EXPENSE *(Continued)*

(b) Numerical reconciliation of income tax expense to prima facie tax payable

The difference between the actual income tax credit/(charge) in the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rate to (loss)/profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
(Losses)/profits before tax	(1,068,571)	1,080,704
Calculated at statutory tax rate	267,143	(270,176)
Expenses not deductible for tax purposes	(454,926)	(1,025,543)
Additional deduction for research and development expenses *(i)*	1,303,093	885,211
Unused tax losses for which no deferred tax asset has been recognised	(635,887)	–
Preferential tax rate impact of the Company	(312,088)	268,888
Income tax credit/(expense)	167,335	(141,620)

(i) Pursuant to the Corporate Income Tax Law, the Company can enjoy an additional tax deduction calculated at 75% of the actual research and development expenses recognised under PRC GAAP. The tax deduction can be charged to the profit or loss after obtaining approval from tax authorities.

(c) Tax losses

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Unused tax losses for which no deferred tax asset has been recognised	4,239,246	–
Potential tax benefit	635,887	–

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for the year ended 31 December 2019

12 (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
	2019	2018
(Losses)/profits attributable to the equity holders of the Company *(RMB)*	(901,236)	939,084
Weighted average number of ordinary shares in issue	38,400,000	32,578,630
Basic (losses)/earnings per share (RMB per share)	(0.02)	0.03

(b) Diluted

The fully diluted (losses)/earnings per share for the years ended 31 December 2019 and 2018 are the same as the basic (losses)/earnings per share as there were no dilutive potential ordinary share for the years ended 31 December 2019 and 2018.

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13 PROPERTY, PLANT AND EQUIPMENT

	Buildings, fixtures and facilities *RMB*	Machinery and equipment *RMB*	Vehicles *RMB*	Electronic and office equipment *RMB*	Construction in progress *RMB*	Total *RMB*
At 1 January 2018						
Cost	47,565,942	46,683,335	5,195,473	1,830,976	23,450,366	124,726,092
Accumulated depreciation	(13,421,960)	(21,238,545)	(3,711,438)	(1,334,499)	–	(39,706,442)
Net book amount	34,143,982	25,444,790	1,484,035	496,477	23,450,366	85,019,650
Year ended 31 December 2018						
Opening net book amount	34,143,982	25,444,790	1,484,035	496,477	23,450,366	85,019,650
Transfers *(Note 15)*	5,147,471	8,518,119	–	5,179	(28,999,526)	(15,328,757)
Additions	46,982	186,964	797,200	290,439	17,032,898	18,354,483
Depreciation *(Note 8)*	(2,544,582)	(3,408,841)	(467,513)	(222,050)	–	(6,642,986)
Closing net book amount	36,793,853	30,741,032	1,813,722	570,045	11,483,738	81,402,390
At 31 December 2018						
Cost	52,760,396	55,388,419	5,992,674	2,126,596	13,636,339	129,904,424
Accumulated depreciation	(15,938,863)	(24,675,067)	(4,178,952)	(1,556,549)	–	(46,349,431)
Net book amount	36,821,533	30,713,352	1,813,722	570,047	13,636,339	83,554,993
Year ended 31 December 2019						
Opening net book amount	36,821,533	30,713,352	1,813,722	570,047	13,636,339	83,554,993
Transfers *(Note 15)*	1,179,975	4,480,443	–	63,717	(7,434,167)	(1,710,032)
Additions	1,271,870	86,224	323,053	185,374	7,315,340	9,181,861
Depreciation *(Note 8)*	(2,819,155)	(4,077,949)	(561,145)	(255,392)	–	(7,713,641)
Closing net book amount	36,454,223	31,202,070	1,575,630	563,746	13,517,512	83,313,181
At 31 December 2019						
Cost	55,212,241	59,955,086	6,315,727	2,375,687	13,517,512	137,376,253
Accumulated depreciation	(18,758,018)	(28,753,016)	(4,740,097)	(1,811,941)	–	(54,063,072)
Net book amount	36,454,223	31,202,070	1,575,630	563,746	13,517,512	83,313,181

As at 31 December 2019 and 2018, certain buildings with a carrying amount of RMB23,251,270 and RMB21,754,373, respectively, were pledged as collateral for the borrowings of the Group (Note 30).

Notes to the Consolidated Financial Statements

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13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation of property, plant and equipment has been charged to the consolidated statement of comprehensive income (Note 8) as follows:

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Cost of sales	4,533,059	3,542,670
Administrative expenses	3,180,582	3,100,316
	7,713,641	6,642,986

14 RIGHT-OF-USE ASSETS

The balance sheet shows the following amounts relating to leases:

	As at 31 December	As at 1 January
	2019	2019
	RMB	*RMB*
Right-of-use assets –		
Land use rights	6,023,109	6,182,192
Mining rights	15,759	47,278
	6,038,868	6,229,470

There were no additions to the right-of-use assets during the year 2019.

Expenses have been charged to the consolidated statement of comprehensive income as follows:

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Depreciation of right-of-use assets (Note 8) –		
Land use rights	159,084	–
Mining rights	31,519	–
	190,603	–

The total cash payment for leases in 2019 was nil.

Land use rights and mining rights are stated at cost and amortised over the remaining period of the lease on a straight-line basis, net of any impairment losses, if any.

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15 LEASEHOLD IMPROVEMENTS

Leasehold improvements include construction of drilling, reservoir, bleachery and other improvements engineering on leasehold land.

	RMB
At 1 January 2018	
Cost	3,963,931
Accumulated amortisation	(1,866,162)
Net book amount	2,097,769
Year ended 31 December 2018	
Opening net book amount	2,097,769
Additions	695,036
Transfer from construction in progress *(Note 13)*	15,328,757
Amortisation	(3,211,209)
Closing net book amount	14,910,353
At 31 December 2018	
Cost	19,987,724
Accumulated amortisation	(5,077,371)
Net book amount	14,910,353
Year ended 31 December 2019	
Opening net book amount	14,910,353
Additions	2,644,892
Transfer from construction in progress *(Note 13)*	1,710,032
Amortisation	(7,634,610)
Closing net book amount	11,630,667
At 31 December 2019	
Cost	24,342,648
Accumulated amortisation	(12,711,981)
Net book amount	11,630,667

Notes to the Consolidated Financial Statements

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15 LEASEHOLD IMPROVEMENTS *(Continued)*

The amortisation of leasehold improvements has been charged to the consolidated statement of comprehensive income (Note 8) and balance sheet as follows:

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Cost of sales	1,626,061	1,610,511
Inventories – raw materials	6,008,549	1,600,698
	7,634,610	3,211,209

16 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB	*RMB*
Trade receivables	56,971,336	50,112,498
Less: provision for impairment	(11,553,421)	(11,144,899)
Trade receivables – net *(1)*	45,417,915	38,967,599
Bills receivable *(2)*	10,476,740	3,997,328
Other receivables	3,774,940	6,018,281
Less: provision for impairment	(847,768)	(1,145,482)
Other receivables – net *(3)*	2,927,172	4,872,799
Prepayments *(4)*	6,276,810	2,399,146
Trade and other receivables– net	65,098,637	50,236,872
Less: non-current portion *(3)*	–	(1,228,248)
Current portion	65,098,637	49,008,624

As at 31 December 2019 and 2018, the fair values of the trade and other receivables of the Group, except for the prepayments and prepaid value added tax which are not financial assets, approximated their carrying amounts.

As at 31 December 2019 and 2018, the trade and other receivables are all denominated in RMB.

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16 TRADE AND OTHER RECEIVABLES *(Continued)*

(1) The aging analysis of trade receivables is as follows:

	As at 31 December	
	2019	2018
	RMB	*RMB*
– Within 180 days	41,250,893	35,112,201
– Over 180 days and within 1 year	3,439,981	2,982,115
– Over 1 year and within 2 years	3,313,425	3,478,094
– Over 2 years and within 3 years	2,536,027	1,800,910
– Over 3 years	6,431,010	6,739,178
	56,971,336	50,112,498

The credit period granted to customers is normally between 90 days to 180 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
At the end of last year	11,144,899	6,260,379
Amounts restated through opening retained earnings	–	2,809,682
At the beginning of the year	11,144,899	9,070,061
Provision for impairment *(Note 8)*	427,318	2,074,838
Write-off against uncollectible receivables	(18,796)	–
At the end of the year	11,553,421	11,144,899

Impairment provision for trade receivables is charged to expenses in the consolidated statement of comprehensive income.

(2) The aging of bills receivable is within 180 days, which is within the credit term. Bills receivable of RMB5,045,761 and RMB1,153,717 have been discounted to financial institutions to obtain borrowing of RMB4,977,511 and RMB1,133,427 as at 31 December 2019 and 2018, respectively (Note 25(3)).

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16 TRADE AND OTHER RECEIVABLES *(Continued)*

(3) As at 31 December 2018 and 2017, details of other receivables are as follows:

	As at 31 December	
	2019	2018
	RMB	*RMB*
Non-current:		
Guaranteed deposits for environmental rehabilitation	–	1,228,248
Current:		
Related party borrowing *(Note 31(d))*	297,775	278,900
Staff advances	2,583,080	3,050,551
Deposits	435,466	688,906
Others	458,619	771,676
Current subtotal	3,774,940	4,790,033
Total	3,774,940	6,018,281

Movements in the provision for impairment of other receivables are as follows:

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
At the end of last year	1,145,482	309,608
Change in accounting policy	–	491,645
At the beginning of the year	1,145,482	801,253
(Reversal of)/provision for impairment *(Note 8)*	(297,714)	344,229
At the end of the year	847,768	1,145,482

(Reversal of)/provision for impairment for other receivables is charged to expenses in the profit or loss.

(4) As at 31 December 2019 and 2018, prepayments are in connection with:

	As at 31 December	
	2019	2018
	RMB	*RMB*
Purchase of raw materials	6,167,268	2,084,999
Service fees	109,542	314,147
	6,276,810	2,399,146

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17 INVENTORIES

	As at 31 December	
	2019	2018
	RMB	*RMB*
Raw materials	35,521,809	23,944,598
Finished goods	7,264,534	10,227,030
Low value consumables	107,815	130,205
	42,894,158	34,301,833

The amount of the provision for impairment of inventories was RMB598,686 at 31 December 2019 (2018: RMB602,450).

The cost of inventories recognised as cost of sales amounted to RMB57,841,109 and RMB42,412,710 for the years ended 31 December 2019 and 2018, respectively.

18 CASH AND BANK BALANCES

	As at 31 December	
	2019	2018
	RMB	*RMB*
Cash at bank and on hand *(1)*	11,887,379	22,661,891
Less: Restricted cash *(2)*	(4,217)	(389,618)
Cash and cash equivalents	11,883,162	22,272,273

Cash at bank and in hand are denominated in:

	As at 31 December	
	2019	2018
	RMB	*RMB*
– RMB	11,886,895	5,656,897
– HKD	484	17,004,994
	11,887,379	22,661,891

(1) Cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash and cash equivalents, at fixed annual rates of 0.35% for the years ended 31 December 2019 and 2018.

(2) As at 31 December 2019 and 2018, details of restricted cash is as follows:

	As at 31 December	
	2019	2018
	RMB	*RMB*
Guaranteed deposits	4,217	389,618

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19 SHARE CAPITAL

On 31 December 2008, the Company was converted into a joint stock company with limited liability by converting total equity as at 30 November 2008 into 12,000,000 ordinary shares of RMB1 each at par value. The difference of RMB1,128,932 between the total equity as at 30 November 2008 of RMB13,128,932 and nominal value of total issued ordinary shares of RMB12,000,000 was recorded in share premium (Note 21).

On 12 May 2011, as approved by the shareholders, the share capital of the Company was increased by 12,000,000 ordinary shares of RMB1 by way of capitalisation of retained earnings of RMB12,000,000 to share capital, which has the same characteristics with the shares previously issued.

The Company issued a total of 8,000,000 H shares with a per value of RMB1.00 each at a price of HKD9.70 per share on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16 January 2015. The listing proceeds to the Company, netting off listing expenses, were HKD47,334,829(equivalent to RMB37,394,515), resulting in an increase of share capital of the Company by RMB8,000,000 and the share premium by RMB29,394,515 (Note 21).

As at 29 November 2018, the Company issued 6,400,000 new shares at a price of HKD3.50 per share by way of placement to not less than six parties, who and whose ultimate beneficial owner are independent third parties. The net proceeds was HKD22,400,000, after deducting the placing related expenses amounted to HKD22,149,965 equaled to RMB19,407,799 translated on December 28, 2018, being credited to share capital of RMB6,400,000 and share premium of RMB13,007,799 respectively.

Ordinary shares, issued and fully paid:

	Number of shares	Share Capital *RMB*
At 31 December 2018	38,400,000	38,400,000
At 31 December 2019	38,400,000	38,400,000

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20 RETAINED EARNINGS

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
At the end of last year	17,789,952	19,753,251
Change in accounting policies *(Note 2.2)*	–	(2,738,074)
At beginning of the year	17,789,952	17,015,177
(Loss)/profit for the year	(901,236)	939,084
Appropriation to statutory reserve	–	(164,967)
Appropriation to safety fund *(Note 21)*	(141,099)	(108,963)
Utilisation of safety fund *(Note 21)*	377,984	109,621
At the end of the year	17,125,601	17,789,952

21 OTHER RESERVES

	Share Premium	Statutory reserve	Safety fund	Total
	RMB	*RMB*	*RMB*	*RMB*
	(Note 19)			
As at 1 January 2018	30,523,447	5,873,157	237,543	36,634,147
Issue of new shares	13,007,799	–	–	13,007,799
Appropriation to statutory reserve *(i)*	–	164,967	–	164,967
Appropriation to safety fund *(ii)*	–	–	108,963	108,963
Utilisation of safety fund *(ii)*	–	–	(109,621)	(109,621)
As at 31 December 2018	43,531,246	6,038,124	236,885	49,806,255
As at 1 January 2019	43,531,246	6,038,124	236,885	49,806,255
Appropriation to safety fund *(ii)*	–	–	141,099	141,099
Utilisation of safety fund *(ii)*	–	–	(377,984)	(377,984)
As at 31 December 2019	43,531,246	6,038,124	–	49,569,370

(i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the Company and its subsidiaries, it is required to appropriate certain percentages of the annual statutory net profits of the Company and its subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserve before distributing any dividends. The statutory reserve can be used to offset prior years' losses, if any, and may be converted into capital.

(ii) Pursuant to certain regulations issued by the MOF and Safety Production General Bureau, the Group is required to set aside an amount to a safety fund at RMB2 per ton of raw ore mined. The fund can be used for improvements of safety at the mines, and are not available for distribution to shareholders.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

22 DEFERRED GOVERNMENT GRANTS

Government grants relating to integrated utilization project of associated mine are deferred. The Group benefits from the government grants by using the production lines which are depreciated on a straight-line basis to the grants. So the government grants are recognised in the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related production lines.

The analysis of deferred government grants is as follows:

	As at 31 December	
	2019	2018
	RMB	*RMB*
Deferred government grants		
– Current	39,353	83,953
– Non-current	474,092	513,445
	513,445	597,398

Movements in deferred government grants for the years ended 31 December 2019 and 2018 are as follows:

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
At the beginning of the year	597,398	1,681,352
Credited to the consolidated statement of comprehensive income *(Note 7)*	(83,953)	(1,083,954)
At the end of the year	513,445	597,398

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23 PROVISION FOR ENVIRONMENTAL REHABILITATION

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
At the beginning of the year	1,336,956	1,142,607
Debited to the consolidated statement of comprehensive income	183,414	194,349
At the end of the year	1,520,370	1,336,956

A provision is recognised for the present value of costs to be incurred for the restoration of the tailings dam which has been determined by management based on their past experience and best estimate of future expenditure. However, if the impact on the land and the environment from current mining activities becomes different in future periods from originally estimated, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, rehabilitation and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are remeasured accordingly.

24 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB	*RMB*
Trade payables	22,277,247	16,624,194
Other payables	7,299,680	9,401,764
Staff salaries and welfare payables	2,919,977	2,274,996
Deposits advances	501,199	628,570
Accrued taxes other than income tax	897,400	1,234,343
	33,895,503	30,163,867

As at 31 December 2019 and 2018, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2019 and 2018, trade and other payables were all denominated in RMB.

Notes to the Consolidated Financial Statements

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24 TRADE AND OTHER PAYABLES *(Continued)*

The aging analysis of the trade payables is as follows:

	As at 31 December	
	2019	2018
	RMB	*RMB*
Trade payables		
– Within 6 months	18,505,991	11,270,289
– Over 6 months and within 1 year	102,736	950,112
– Over 1 year and within 2 years	202,381	759,952
– Over 2 years and within 3 years	252,893	452,280
– Over 3 years	3,213,246	3,191,561
	22,277,247	16,624,194

25 BORROWINGS

	As at 31 December	
	2019	2018
	RMB	*RMB*
Non-current		
Bank borrowings – secured *(1)*	–	13,500,000
Other borrowings – secured *(2)*	8,366,000	8,366,000
	8,366,000	21,866,000
Current		
Bank borrowings – secured *(1)*	70,500,000	52,450,808
Other borrowings *(3)*	5,045,761	1,153,717
	75,545,761	53,604,525
Total borrowings	83,911,761	75,470,525

The weight average effective annual interest rates were as follows:

	As at 31 December	
	2019	2018
Bank borrowings	7.91%	7.89%
Other borrowings – secured *(2)*	10.00%	10.00%
Other borrowings *(3)*	3.28%	4.19%

25 BORROWINGS *(Continued)*

At 31 December 2019 and 2018, the Group's borrowings were repayable as follows:

	As at 31 December	
	2019	2018
	RMB	*RMB*
Within 1 year	75,545,761	53,604,525
Between 1 and 2 years	8,366,000	13,500,000
Between 2 and 5 years	–	8,366,000
	83,911,761	75,470,525

The fair values of borrowings approximate their carrying amounts as the discounting impact is not significant.

The borrowings are all denominated in RMB.

(1) Bank borrowings – secured

Bank borrowings were secured as follows:

	As at 31 December	
	2019	2018
Secured by property, plant and equipment and land use rights, and guaranteed by a third party	41,000,000	41,000,000
Guaranteed by third parties	8,000,000	3,000,000
Secured by property, plant and equipment	8,000,000	8,000,000
Secured by property, plant and equipment and land use rights	13,500,000	13,700,000
Secured by guaranteed deposits	–	250,808
	70,500,000	65,950,808

Notes to the Consolidated Financial Statements

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25 BORROWINGS *(Continued)*

(2) Other borrowings of RMB8,366,000 were obtained from a third party at Yangyuan, secured by certain buildings, fixtures and facilities (Note 13) with carrying value of RMB12,549,000 as at 31 December 2019. The due date of the borrowings is September 2021.

(3) Other borrowings of RMB4,977,511 and RMB1,133,427 were obtained from financial institutions by discounting bank acceptance notes with aggregate carrying amounts of RMB5,045,761 and RMB1,153,717 as at 31 December 2019 and 2018, respectively (Note 16 (2)).

26 DEFERRED INCOME TAX

The analysis of deferred tax assets is as follows:

	As at 31 December	
	2019	2018
	RMB	*RMB*
The balance comprises temporary differences attributable to:		
Deductible tax losses	537,956	489,389
Unrealised financial charges	–	26,792
Provision for rehabilitation	228,055	200,543
Employee benefit expenses	360,903	280,179
Unrealised profits on intra-group transactions	7,669	15,110
Provision for impairment	2,369,115	2,333,770
	3,503,698	3,345,783

Notes to the Consolidated Financial Statements

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26 DEFERRED INCOME TAX *(Continued)*

Movements in deferred income tax assets for the years ended 31 December 2019 and 2018 are as follows:

Deferred income tax assets	Provision for impairment	Unrealised profits on intra-group transactions	Accrued expenses	Employee benefit expenses	Provision for rehabilitation	Unrealised financial charges	Deductible tax losses	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 31 December 2017	1,314,320	(12,387)	165,000	328,659	285,652	34,107	499,211	2,614,562
Change in accounting policy	563,253	–	–	–	–	–	–	563,253
At 1 January 2018	1,877,573	(12,387)	165,000	328,659	285,652	34,107	499,211	3,177,815
Credited/(debited) to the consolidated statement of comprehensive income *(Note 11)*	456,197	27,497	(165,000)	(48,480)	(85,109)	(7,315)	(9,822)	167,968
At 31 December 2018	2,333,770	15,110	–	280,179	200,543	26,792	489,389	3,345,783
At 1 January 2019	2,333,770	15,110	–	280,179	200,543	26,792	489,389	3,345,783
Credited/(debited) to the consolidated statement of comprehensive income *(Note 11)*	35,345	(7,441)	–	80,724	27,512	(26,792)	48,567	157,915
At 31 December 2019	2,369,115	7,669	–	360,903	228,055	–	537,956	3,503,698

Notes to the Consolidated Financial Statements

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27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before income tax to net cash generated from operations

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
(Loss)/profit for the year before income tax	(1,068,571)	1,080,704
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 13)*	7,713,641	6,642,986
– Depreciation of right-of-use assets *(Note 14)*	190,603	–
– Amortisation of prepaid leasing expenses	–	175,517
– Amortisation of mining rights	–	31,518
– Amortisation of leasehold improvements *(Note 15)*	1,626,061	1,610,511
– Provision for impairment of receivables *(Note 16)*	129,604	2,419,067
– Reversal of for impairment of inventories *(Note 17)*	(3,764)	(25,119)
– Finance expenses *(Note 10)*	6,364,378	5,876,569
	14,951,952	17,811,753
Changes in working capital:		
– Changes of restricted cash	385,401	(389,618)
– Increase in trade and other receivables	(15,065,674)	(2,008,900)
– (Increase)/decrease in inventories	(2,580,011)	260,329
– Increase in trade and other payables	6,745,072	2,058,610
Cash generated from operations	4,436,740	17,732,174

Notes to the Consolidated Financial Statements

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27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Cash and cash equivalents *RMB*	Borrowings due within 0ne year *RMB*	Borrowings due after 0ne year *RMB*	Total *RMB*
Net debt as at 31 December 2018	22,272,273	(53,604,525)	(21,866,000)	(53,198,252)
Cash flows	(10,320,980)	(8,441,236)	–	(18,762,216)
Reclassification	–	(13,500,000)	13,500,000	–
Exchange difference	(68,131)	–	–	(68,131)
Net debt as at 31 December 2019	11,883,162	(75,545,761)	(8,366,000)	(72,028,599)

28 CONTINGENCIES

The Group had no material contingent liabilities as at 31 December 2019.

29 COMMITMENTS

Capital commitments

Capital expenditure contracted for at each balance sheet date, but not yet incurred is as follows:

	As at 31 December	
	2019 *RMB*	2018 *RMB*
Property, plant and equipment	764,000	988,888

30 ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	As at 31 December	
	2019 *RMB*	2018 *RMB*
Property, plant and equipment *(Note 13)*	23,251,270	21,754,373
Land use rights	5,593,118	5,783,383
Guaranteed deposits	–	389,618
	28,844,388	27,927,374

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31 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group, the Company and its related parties during the years ended 31 December 2019 and 2018, and balances arising from related party transactions as at 31 December 2019 and 2018.

(a) Name and relationship with related parties

Name of related party	Relationship
Zhang Youlian (張有連)	Controlling shareholder, chairman and chief executive officer of the Company
Yangyuan Huanyou Agricultural Technology Co., Ltd.	Controlled by key management of the Company

(b) Transactions with related parties

As at 31 December 2019, the bank borrowings of RMB41,000,000 (31 December 2018: RMB44,000,000) were guaranteed by Zhang Youlian.

As at 31 December 2019, the other receivables of RMB68,405 (31 December 2018: RMB278,900) were lent to Yangyuan Huanyou Agricultural Technology Co., Ltd..

(c) Key management compensation (Note 34)

	Year ended 31 December	
	2019	2018
	RMB	*RMB*
Salaries, wages and bonuses	2,984,688	2,210,800
Contributions to pension plans	58,387	39,128
Housing fund, welfare, medical and other benefits	29,184	46,632
	3,072,259	2,296,560

Key management including executive directors, non-executive directors, independent non-executive directors, supervisors and senior management.

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31 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balance with related party

Other receivables

	As at 31 December	
	2019	2018
	RMB	*RMB*
Yangyuan Huanyou Agricultural Technology Co., Ltd. *(Note 16(3))*	297,775	278,900

32 SUBSIDIARIES

The following is a list of all the subsidiaries at 31 December 2018:

Name	Place and date of establishment	Principal activities and place of operation	Registered and fully paid capital	Proportion of intend directly held by parent (%)
陽原縣仁恒精細粘土有限責任公司 ("Renheng Refined Clay")	Yangyuan, Hebei 25 March 2004	Clay miningand processing	24,335,000	100%
浙江長安仁恒化工有限公司 ("Renheng Chemicals")	Changxing, Zhejiang 21 November 2002	Wholesaling and retailing chemicals and equipment	5,000,000	100%

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33 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

		As at 31 December	
		2019	2018
	Note	*RMB*	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment		28,824,716	30,080,494
Prepaid leasing expenses		3,728,881	3,832,063
Investments in subsidiaries	*32*	26,520,736	26,520,736
Deferred income tax assets		2,116,369	1,926,219
		61,190,702	62,359,512
Current assets			
Inventories		5,728,274	6,821,126
Trade and other receivables		54,651,031	39,675,891
Trade and other receivables due from subsidiaries		51,991,885	40,893,808
Prepaid income tax		905,315	1,015,528
Restricted cash		3,541	389,618
Cash and cash equivalents		9,934,853	21,780,522
		123,214,899	110,576,493
Total assets		184,405,601	172,936,005
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital		38,400,000	38,400,000
Other reserves	*(a)*	49,569,370	49,728,843
Retained earnings	*(a)*	15,130,817	17,579,800
Total equity		103,100,187	105,708,643

Notes to the Consolidated Financial Statements

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33 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

		As at 31 December	
		2019	2018
	Note	*RMB*	*RMB*
LIABILITIES			
Non-current liabilities			
Deferred government grants		474,092	513,445
Current liabilities			
Deferred government grants		39,353	83,953
Trade and other payables		21,746,208	16,225,439
Borrowings		59,045,761	50,404,525
		80,831,322	66,713,917
Total liabilities		81,305,414	67,227,362
Total equity and liabilities		184,405,601	172,936,005

The balance sheet of the Company was approved by the Board of Directors on 29 April 2020 and was signed on its behalf.

Zhang Youlian
Director

Fan Fang
Director

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

33 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

Note (a) Reserves movements of the Company

	Retained earnings *RMB*	Other reserves *RMB*
At 31 December 2017	18,322,760	36,556,077
Change in accounting policy	(2,227,662)	–
At 1 January 2018	16,095,098	36,556,077
Proceeds from issue of new shares	–	13,007,799
Profit for the year	1,649,669	–
Appropriation to statutory reserve	(164,967)	164,967
At 31 December 2018	17,579,800	49,728,843
At 1 January 2019	17,579,800	49,728,843
Loss for the year	(2,608,456)	–
Utilisation of safety funds	159,473	(159,473)
At 31 December 2019	15,130,817	49,569,370

34 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

Directors', supervisors' and senior management's emoluments for the years ended 31 December 2019 and 2018, respectively, are set out as follows:

	Year ended 31 December	
	2019 *RMB*	2018 *RMB*
Directors' fees	310,833	316,000
Salaries, wages and bonuses	2,771,955	1,894,800
Contributions to pension plans	58,387	39,128
Housing fund, welfare, medical and other benefits	29,184	46,632
	3,170,359	2,296,560

No director, supervisor or senior management has waived or agreed to waive any emoluments for the years ended 31 December 2019 and 2018.

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34 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

Directors', supervisors' and senior management's emoluments are set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:				Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
	Directors' fees	Salaries, wages and bonuses	Contributions to pension plans	Housing fund, welfare, medical and other benefits		Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
For the year ended 31 December 2019:						
Executive Directors						
Zhang Youlian (張有連) *(i)*	–	258,000	–	3,648	210,000	471,648
Sun Wensheng (孫文勝) *(ii)*	–	86,155	6,951	3,040	189,600	285,746
Mr. She Wenjie (佘文杰) *(iii)*	–	8,000	1,390	608	–	9,998
Fan Fang (范芳)	–	168,000	8,341	3,648	96,000	275,989
Non-executive Directors						
Zhang Jinhua (張金花) *(iv)*	–	48,000	8,341	3,648	80,000	139,989
Independent Non-executive Directors						
Shao Chen (邵晨) *(v)*	80,000	–	–	–	80,000	160,000
Huang Zemin (黃澤民) *(vii)*	80,000	–	–	–	80,000	160,000
Chau Kam Wing, Donald (周錦榮) *(vi)*	49,500	–	–	–	49,500	99,000
Zhang Lei (章磊) *(vii)*	61,333	–	–	–	92,000	153,333
Tang Jinyan (唐靖炎) *(viii)*	20,000	–	–	–	80,000	100,000
Li Jiangning (李江寧) *(viii)*	20,000	–	–	–	80,000	100,000
Supervisors						
Xu Qinsi (徐勤思) *(viiii)*	–	168,000	8,341	3,648	–	179,989
Zhang Donglian (張冬連)	–	120,000	8,341	3,648	–	131,989
Liang Guoping (梁國平) *(x)*	–	15,000	2,085	912	–	17,997
Li Lijiao (李麗姣) *(xi)*	–	47,700	6,256	2,736	–	56,692
Senior Management						
Xu Qinwei (徐勤偉)	–	258,000	–	–	–	258,000
Su Pin (蘇品)	–	216,000	8,341	3,648	–	227,989
Chan Hon Wan (陳漢雲) *(xii)*	–	342,000	–	–	–	342,000
	310,833	1,734,855	58,387	29,184	1,037,100	3,170,359

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

34 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:				Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
	Directors' fees	Salaries, wages and bonuses	Contributions to pension plans	Housing fund, welfare, medical and other benefits		Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
For the year ended 31 December 2018:						
Executive Directors						
Zhang Youlian (張有連) *(i)*	–	111,000	4,891	5,829	147,000	268,720
Sun Wensheng (孫文勝) *(ii)*	–	60,000	4,891	5,829	240,000	310,720
Fan Fang (范芳)	–	49,707	4,891	5,829	94,293	154,720
Non-executive Directors						
Zhang Jinhua (張金花) *(iv)*	–	43,200	4,891	5,829	–	53,920
Independent Non-executive Directors						
Shao Chen (邵晨) *(v)*	80,000	–	–	–	–	80,000
Huang Zemin (黃澤民) *(v)*	80,000	–	–	–	–	80,000
Chau Kam Wing, Donald (周錦榮) *(vi)*	156,000	–	–	–	–	156,000
Supervisors						
Xu Qinsi (徐勤思) *(viiii)*	–	144,000	4,891	5,829	–	154,720
Zhang Donglian (張冬連)	–	132,000	4,891	5,829	–	142,720
Liang Guoping (梁國平) *(x)*	–	57,600	4,891	5,829	–	68,320
Senior Management						
Xu Qinwei (徐勤偉)	–	258,000	–	–	–	258,000
Su Pin (蘇品)	–	216,000	4,891	5,829	–	226,720
Chan Hon Wan (陳漢雲) *(xii)*	–	342,000	–	–	–	342,000
	316,000	1,413,507	39,128	46,632	481,293	2,296,560

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

34 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

(i) Mr. Zhang Youlian was also the chief executive and chairman for the year ended 31 December 2019 and 2018.

(ii) Mr. Sun Wensheng was appointed as an executive director since September 2012 and resigned as an executive director on 19 October 2019.

(iii) Mr. She Wenjie was appointed as an executive director since October 2019.

(iv) Ms. Yu Hua was appointed as a non-executive director of the Company from December 2008 to April 2014 with no emolument. Ms. Zhang Jinqin was appointed as an non-executive director to replace Ms. Yu Hua's position from May 2014 to May 2016. Ms. Zhang Jinhua was appointed as a non-executive director to replace Ms. Zhang Jinqin since 14 May 2016.

(v) Mr. Shao Chen, Mr. Huang Zemin and Mr. Wang Xiangyao were appointed as independent non-executive directors since February 2013. Mr. Wang retired as an independent non-executive director on 14 May 2016. Mr. Shao Chen and Mr. Huang Zemin retired as independent non-executive directors on 19 October 2019.

(vi) Mr. Chau Kam Wing, Donald was appointed as an independent non-executive director since May 2014 and resigned on 11 May 2019.

(vii) Mr. Zhang Lei was appointed as an independent non-executive director since 11 May 2019.

(viii) Mr. Tang Jinyan and Mr. Li Jingning were appointed as independent non-executive directors since 19 October 2019.

(viiii) Mr. Xu Qinsi was appointed as a supervisor since September 2012.

(x) Mr. Liang Guoping was appointed as a supervisor since August 2012 and resigned as a supervisor on 11 May 2019.

(xi) Ms. Li Lijiao was appointed as a supervisor since 22 March 2019.

(xii) Mr. Chan Hon Wan, was appointed as a company secretary since April 2014.

Financial Summary

The following table sets out the financial summary of our Group for the five years ended 31 December:

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	100,293	89,231	80,583	75,260	77,444
(Loss)/profit before taxation	(1,069)	1,081	(7,297)	2,059	2,539
Income tax credit/(expense)	167	(142)	933	(223)	(576)
(Loss)/profit for the year	(901)	939	(6,364)	1,836	1,963
Attributable to					
Owners of the Company	(901)	939	(6,364)	1,836	1,963

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities					
Total assets	224,936	213,565	185,375	199,193	186,718
Total liabilities	(119,841)	(107,569)	(96,988)	(104,442)	(93,802)
Equity attributable to owners of the Company	105,095	105,996	88,387	94,751	92,916

	As at 31 December				
	2019	2018	2017	2016	2015
Liquidity and Asset-liability Ratio					
Current ratio (1)	1.10	1.27	0.93	1.27	1.25
Quick ratio (2)	0.71	0.86	0.58	0.98	1.01
Asset-liability ratio (3)	37.3%	35.3%	35.1%	37.5%	36.6%

Note:

(1) Current ratio is calculated as current assets divided by current liability.

(2) Quick ratio is calculated as current assets less inventories divided by current liability.

(3) Asset-liability ratio is calculated as total borrowing divided by total assets and multiplied by 100%.