DONGWU CEMENT INTERNATIONAL LIMITED

東吳水泥國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 695

# 2018
# Annual Report

# CONTENTS

# DEFINITIONS

*In this report, unless the context otherwise requires, the following terms have the following meanings:*

| | |
|---|---|
| associated corporation(s) | has the same meaning ascribed to it under the SFO |
| Articles of Association | the Memorandum and Articles of Association of the Company |
| associate(s) | has the same meaning ascribed to it under the Listing Rules |
| Audit Committee | the audit committee of the Company |
| Board | the board of Directors |
| Company | Dongwu Cement International Limited |
| Group | the Company and its subsidiaries |
| Director(s) | the director(s) of the Company |
| Shanghai Xihua | Xihua Shanghai Investment Management Co., Ltd.*（熙華（上海）投資管理有限公司）, a company registered in the PRC with limited liability, being a wholly-owned subsidiary of the Company |
| Corporate Governance Code | the Corporate Governance Code contained in Appendix 14 to the Listing Rules |
| controlling shareholder(s) | has the same meaning ascribed to it under the Listing Rules |
| Goldview | Goldview Development Limited, a controlling shareholder and an associated corporation of the Company, wholly-owned by Mr. Tseung Hok Ming, a non-executive Director |
| HK$ | Hong Kong dollars, the lawful currency of Hong Kong |
| independent third Party(ies) | has the same meaning ascribed to it under the Listing Rules |
| IPO | the initial public offering of the Shares by the Company on June 2012 |

# DEFINITIONS

| | |
|---|---|
| Latest Practicable Date | 28 March 2019 |
| Listing | the listing of the Company on the main board of the Stock Exchange in June 2012 |
| Listing Date | 13 June 2012 |
| Listing Rules | the Rules Governing the Listing of Securities on the Stock Exchange |
| Model Code | the Model Code for Securities Transactions by Directors of Listed Issuers contained in appendix 10 to the Listing Rules |
| Placing Agent | Qilu International Capital Limited, a corporation licensed by the Securities and Futures Commission to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| "PRC" or "China" | The People's Republic of China, which only for the purpose of this report, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| Prospectus | the prospectus of the Company dated 1 June 2012 in relation to its IPO |
| RMB or Renminbi | Renminbi, the lawful currency of the PRC |
| Reporting Period | the twelve months ended 31 December 2018 |
| SFO | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| Shares | shares of the Company in issue, all of which are listed on the Stock Exchange |
| Shareholder(s) | holder(s) of Shares |
| Stock Exchange | The Stock Exchange of Hong Kong Limited |
| Substantial Shareholder(s) | has the same meaning ascribed to it under the Listing Rules |
| % | per cent |

# CORPORATE INFORMATION

## Board of Directors

***Executive Directors***

Xie Yingxia *(Chairman)*
Ling Chao
Peng Cheng
Wang Jun
Chan Ka Wing

***Non-executive Director***

Tseung Hok Ming

***Independent Non-executive Directors***

Cao Guoqi
Cao Kuangyu
Lee Ho Yiu Thomas

## Company Secretary

Sun Xin

## Auditor

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

## Authorized Representatives

Xie Yingxia
Sun Xin

## Audit Committee

Lee Ho Yiu Thomas *(Chairman)*
Cao Guoqi
Cao Kuangyu

## Remuneration Committee

Cao Guoqi *(Chairman)*
Cao Kuangyu
Lee Ho Yiu Thomas

## Nomination Committee

Cao Guoqi *(Chairman)*
Cao Kuangyu
Lee Ho Yiu Thomas

## Stock Code

695

## Company Website

www.dongwucement.com

## Registered Office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

## Principal Place of Business in the PRC

East Taipu River Bridge Southeast
Lili Town,Wujiang District
Suzhou, Jiangsu Province, PRC

## Principal Place of Business in Hong Kong

Unit 08, 43/F.,
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

## Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queens Road East
Wan Chai, Hong Kong

## Hong Kong Legal Advisor

Li & Partners
22nd Floor, World-Wide House
Central, Hong Kong

## Contacts Details

Tel: (852) 2520 0978
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Email: admin@dongwucement.com

# FINANCIAL HIGHLIGHT

**Consolidated statement of comprehensive income** *(expressed in RMB'000, unless otherwise stated)*

| | **2018** | 2017 (Re-presented) |
|---|---|---|
| Revenue | **519,403** | 357,563 |
| Operating profit | **132,764** | 46,366 |
| Profit before income tax | **131,203** | 43,484 |
| Profit for the year attributable to owners of the Company | **90,334** | 25,899 |
| Basic and diluted earnings per share (expressed in RMB per share) | **0.164** | 0.047 |

**Consolidated statement of financial position** *(expressed in RMB'000)*

| | **2018** | 2017 (Re-presented) |
|---|---|---|
| Non-current assets | **244,503** | 214,572 |
| Current assets | **464,562** | 383,128 |
| Total assets | **709,065** | 597,700 |
| Total equity | **497,416** | 413,128 |
| Non-current liabilities | **17,018** | 10,749 |
| Current liabilities | **194,631** | 173,823 |
| Total liabilities | **211,649** | 184,572 |
| Total equity and liabilities | **709,065** | 597,700 |

**Consolidated statement of cash flows** *(expressed in RMB'000)*

| | **2018** | 2017 |
|---|---|---|
| Net cash flows from operating activities | **146,713** | 11,259 |
| Net cash flows used in investing activities | **(142,232)** | (22,137) |
| Net cash flows generated from financing activities | **2,648** | 20,526 |
| Net increase in cash and cash equivalents | **7,129** | 9,648 |

# FINANCIAL HIGHLIGHT

## Financial Highlights in Previous Years

***Results***

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | **519,403** | 357,563 | 255,914 | 222,512 | 340,093 |
| Cost of sales | **(381,901)** | (289,475) | (231,164) | (226,382) | (321,677) |
| Gross profit/(gross loss) | **137,502** | 68,088 | 24,750 | (3,870) | 18,416 |
| Operating profit/(loss) | **132,764** | 46,366 | 8,632 | (13,021) | 11,488 |
| Profit/(loss) before tax | **131,203** | 43,484 | 5,657 | (16,110) | 9,978 |
| Income tax (expense)/credit | **(41,533)** | (18,388) | (1,442) | 4,373 | (4,237) |
| Profit/(loss) for the year attributable to owners of the company | **90,334** | 25,899 | 2,564 | (11,737) | 5,741 |

***Assets and liabilities***

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets | **709,065** | 597,700 | 507,890 | 502,799 | 434,927 |
| Total liabilities | **211,649** | 184,572 | 119,858 | 138,982 | 99,995 |
| Total equity | **497,416** | 413,128 | 388,032 | 363,817 | 334,932 |

## BUSINESS REVIEW

In 2018, in the context that the macroeconomy recorded steady growth and the cement industry witnessed recovery under the significant contributions of supply side, the Group proactively adjusted its strategies, strengthened internal management, diversified its revenue sources and enhanced cost reduction, controlled production and operation cost, maintained consistent product quality and expanded sales channels. During the Reporting Period, the Group recorded significant growth for its production volume, sales volume, revenue and profit as compared with 2017.

During the Reporting Period, the Group strengthened the management in the procurement of raw and auxiliary materials, the consumption of each item and the production equipment and technologies, and strictly controlled the production cost. In 2018, the output for cement clinker amounted to approximately 814,000 tonnes, and cement output amounted to approximately 1,448,000 tonnes, among which, approximately 655,000 tonnes were grade 32.5R cement and approximately 793,000 tonnes were grade 42.5R cement. The annual production costs for grade 32.5R cement, grade 42.5R cement and cement clinker increased to some extent as compared to 2017. The supply of raw and auxiliary materials for the production and the equipment operation were basically at normal levels, and the production safety were at normal levels throughout the year, and the quality acceptance rate of the outgoing cement reached 100% throughout the year.

During the Reporting Period, under the influence of the recovery in cement sector, sales within cement market was active. During the year, the Group recorded product sales volume of approximately 1,446,000 tonnes, among which, approximately 654,000 tonnes were grade 32.5R cement and approximately 791,000 tonnes were grade 42.5 cement, the income of the cement segment from principal business amounted to approximately RMB514,963,000. Both the sales volume and income showed a significant increase as compared to last year.

The Group is determined to create the "DONGWU" Cement in order to gain enduring brand dominance. Since the founding of the Group, the path of building "DONGWU" Cement has been laid with unswerving resolution to implement the principle of high level of quality and high level of services. Currently, DONGWU Cement has been well recognized by customers in the markets of municipal engineering, transportation and construction in Suzhou City, which shapes a reputable brand image for DONGWU Cement. We will continue to consolidate the brand image of DONGWU Cement in the region to establish regional brand dominance, adding an edge in the brand of the Group.

The Group continues to promote technology innovation and technological reform, improve production efficiency and reduce production cost and enhance overall competitiveness of the Group in the market. The Group has been paying assiduous attention to the development and application of new technologies and new manufacturing processes all along, and introduces them into the actual production in due course, so as to improve the quality and efficiency of production and lower production costs, adding another competitive edge to the Group in the course.

During 2018, the Board had a discussion on business planning of the Group and formulated its business strategies for the coming years. It considered that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify and broaden its revenue source by investing in businesses with growth potential. The Board is actively looking into the possibility of further development in the environmental protection sector.

The Group continues to look into possible acquisitions of relevant licences and recruitments of qualified persons to carry out the corresponding financial services activities. We believe that the development of such services can complement the one-stop solutions that the Group can offer to its customers while creating an independent business segment that can bring values to our Shareholders through better deployment of available resources. We will also look into potential investees in the financial service platform to diversify our financial services business and achieve synergy effect.

The Group will make continuous progress in light of the actual circumstances of the Group and the social development needs. Internally, we will constantly enhance production management, lower production costs; improve quality and services, stick to the path of building brand dominance; strengthen marketing management, consolidate and expand sales network; innovate unrelentingly and cultivate the Group's creativity. Externally, we pay assiduous attention to the development of up-and down-stream of the cement industry and the development of the associated industries, so as to expand outwardly in due course to scale up the Group and its revenue. We are confident that the Group will achieve better results and have a promising development future with its responsible attitude towards investors and its steering wheel in the hands of the experienced management team.

# CHAIRMAN'S STATEMENT

On behalf of the Board of Dongwu Cement International Limited and its subsidiaries, I would like to present to the Shareholders the report for the year ended 31 December 2018, together with audited consolidated financial statements.

## Financial Results

In 2018, as for the cement segment of the Group, the sales volume amounted to approximately 1,445.5 thousand tonnes, representing an increase of approximately 5.1% from 2017; the revenue amounted to approximately RMB519,403,000, representing an increase of approximately 45.3% from 2017; the gross profit margin amounted to approximately 26.6%, representing an increase of approximately 7.5% from 2017. Further details are set out in the section headed Management Discussion and Analysis. For the year ended 31 December 2018, profit attributable to the owners of the Company and the basic earnings per share were approximately RMB90,334,000 and RMB0.164, respectively.

## Dividends

A final dividend in respect of the year ended 31 December 2018 of HK$0.0725 per share (tax exclusive) was proposed pursuant to a resolution passed by the board of Directors on 28 March 2019 and subject to the approval of the shareholders at the general meetings of the Company to be held on 15 May 2019 or any adjournment thereof.

## Business Operation in 2018

In 2018, as the macroeconomy recorded steady growth and the cement industry witnessed continuous recovery under the significant contributions of supply side, the Group's sale volume, turnover and gross profit margin recorded obvious increase in 2018 as compared with the previous year.

In 2015, the Group entered into an acquisition agreement with an independent third party through its wholly-owned subsidiary Shanghai Xihua, and acquired the entire equity interest in Shanghai Biofit Environmental Technology Co. Ltd ("Biofit", together with its subsidiaries, the "Biofit Group"). Biofit is a company possessing tier-3 professional contractor qualification for environmental engineering, and mainly engaged in organic wastewater treatment, sludge treatment and disposal, comprehensive treatment of urban organic waste and other integrated environment services. The Group expected that the acquisition of Biofit may generate synergy with its existing operations and diversify business income streams of the Group. The Group has entered a sale and purchase agreement with an independent third-party on 5 January 2018 to dispose the entire equity interests it holds in Biofit (representing approximately 62.26% of equity interests of Biofit) at the aggregate consideration of HK$40 million. On 14 December 2018, the Group terminated the disposals and released and discharged each other from their respective duties, obligations and liabilities under the sale and purchase agreement.

In October 2017, (i) the Group; (ii) a company wholly-owned by Mr. Tseung Hok Ming, the non-executive Director and the controlling shareholder of the Company, as vendor; and (iii) Mr. Tseung Hok Ming, as the guarantor, entered into a sale and purchase agreement, pursuant to which the Group has conditionally agreed to acquire and the vendor has conditionally agreed to sell (i) the entire issued share capital of Loyal Fame Global Limited and Greensburg Holdings Limited, being companies incorporated in the British Virgin Islands with limited liability (together with their subsidiaries, the "Saipan Group"); and (ii) all obligations, liabilities and debts owing or incurred by the Saipan Group to the vendor and its associates, at a consideration of HK$472,000,000. On 31 July 2018, the above transaction was terminated and the parties thereto released and discharged each other from their respective duties, obligations and liabilities under the sale and purchase agreement.

# CHAIRMAN'S STATEMENT

## Future Prospect

In 2019, under the guidance of long-term development strategy, the Group will continue to enhance current manufacturing facility reform, proactively promote disposal of municipal sewage sludge and domestic waste unanimously, continue the transformation towards environmental preservation-oriented cement manufacturing entity, and improve the comprehensive competitiveness and market position, to ensure the Group becoming a leading cement manufacturing company within the region while focusing on local market. Meanwhile, the Group will also look into further developments in the environmental protection sector, with an aim to diversify the business of the Group and achieve synergies.

## Appreciation

Lastly, on behalf of the Board, I would like to express my sincere gratitude to all our Shareholders, customers, consigners and bankers for their consistent trust and supports. Meanwhile, I would like to thank the management and all employees as well for their hard work and dedicated efforts, without which we would not achieve what we have achieved today.

In the new fiscal year, we will strive to move forward together, and believe that we will achieve better results in 2019. Thank you!

**Xie Yingxia**
*Chairman*

28 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## Industry Overview

### *Cement Segment*

In 2018, China's various macroeconomic indicators experienced steady growth. The gross domestic product for the year amounted to RMB90,030.9 billion, representing a growth of 6.6% over the corresponding period of last year (2017: 6.8%). According to the statistics announced by National Bureau of Statistics (NBS) on 13 March 2019, in 2018, fixed asset investment of China (excluding rural households) reached RMB63,563.6 billion, representing a year-on-year growth of 5.9%. National property development and investment reached RMB12,026.4 billion, representing a year-on-year nominal growth of 9.5% (Source: website of NBS of the PRC).

According to the NBS, accumulated domestic cement production and clinker production in 2018 amounted to 2,177 million tonnes and 1,422 million tonnes, representing a year-on-year increase of 3.0% and 3.56%, respectively. The growth of the cement production and clinker production was characterized by substantial lower production in northwest and northeast regions, rising production in north China and southwest regions represented by the Beijing-Tianjin-Hebei region, and steady growth in east China and south-central region as a whole. Among 31 provinces in our country, 11 of them recorded a negative growth on a year-on-year basis, of which 6 provinces were located in north region. Xinjiang, Ningxia, Heilongjiang and Jilin recorded a decrease of 10% or above, while Xizang, Shanxi, Zhejiang and Hainan recorded an increase of over 10% driven by rising demands. According to Digital Cement of China Cement Association, domestic price of PO42.5 cement increased by RMB77 per tonne from RMB350 per tonne in 2017 to RMB427 per tonne in 2018, representing a year-on-year increase of 22%. It also reached a new record, representing an increase of RMB20 per tonne as compared to RMB407 per tonne in 2011, being the second highest price. In the view of the trend throughout the year, the overall price remained at a stable and high level for the first three quarters, ranging from RMB400 to RMB430 per tonne, and then commenced to grow sharply in the fourth quarter, with average domestic price in December reaching to RMB464 per tonne (Source: Digital Cement).

From the region perspective, the east China region where the Group locates deserved the leading position among all regions across China whatsoever for the price or amounts of increase. The average price in east China was RMB472 per tonne in 2018, representing an increase of 30% as compared to that of 2017. Its highest price of RMB553 per tonne in history was recorded in December, and the price of some regions even exceeded RMB600 per tonne. The south-central region ranked the second place, with the average price of RMB453 per tonne in 2018, representing an increase of 25% as compared to that of 2017, which also reached a new record of RMB504 per tonne in December. For the southwest region, the average price was RMB422 per tonne in 2018, representing an increase of 25% as compared to that of 2017. Though the overall prices in north China, northeast and northwest for the year were all higher than that in 2017, the absolute values and the amounts of increase were not comparable to the south regions, and the average prices were generally lower than RMB400 per tonne (Source: Digital Cement).

As a result of increased cement price, revenue and gross profit margin of cement segment of the Group for 2018 increased markedly as compared with the corresponding period of last year. The Group recorded a profit of approximately RMB98,570,000 from the cement segment in 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

***Environmental Protection Segment***

The PRC government and all parties from the society are paying more concern to the environmental protection issues, and have listed the environmental protection industry as one of the strategic industries in the long term development. With the promulgation of the Action Plan on Prevention and Control of Water Pollution (the "Ten Measures for Water Pollution") by the State Council on 16 April 2015, it is proposed that by 2020, China's water quality will gradually improve, the quality of drinking water will be safeguarded and the underground water pollution will be under strict control. It is expected that the external investment in the environmental protection industry will increase rapidly. "The Thirteen Five-Year Plan" intends to invest RMB6 trillion on environmental protection in terms of air, water and soil, representing an increase of RMB1 trillion as compared to RMB5 trillion in the Twelfth Five-Year Plan, among which, RMB4.6 trillion is to be invested in water pollutant prevention and control. It is intended to implement overall control on pollutants such as the total nitrogen and phosphorus in the key areas, including areas around rivers, lakes and seas and in the key industries. The environmental protection industry in the PRC will continue to expand in the near future, with sewage and sludge treatment as focus on environmental improvements, and generate more return on investment.

According to the annual report issued by the United Nations on 20 March 2015, 40% of the countries and regions around the world will face drought issues by 2030. China lacks water resource, the average ownership per capita only accounts for one fourth of the average level of the world, ranking one of the 13 most water-deficient countries in the world. Therefore, advocating scientific water consumption is urgent. With the continuous development of the economy, increase in population, and the urbanization process, emission of sewage and sludge in China has been increasing in successive years. Industries related to traditional fossil energy and water-usage intensive industries usually consume plenty of water resources and cause pollution accordingly. The development of these industries provides good opportunities for the development of the sewage and sludge market.

Recently, China has imposed high standards for sewage and sludge treatment, strictly monitoring environmental pollution and protection while increasing environmental protection subsidy for enterprises, as a result of which, sewage and sludge treatment in cities and towns is currently in a stage of rapid development. In this stage, with the increasing investment in projects and the promotion under the national strategies, enterprises, merchants and investors in capital markets are paying more concern to environmental protection industry.

In view of this, the Group acquired the Biofit Group in 2015, aiming to explore the environmental protection segment market. The Biofit Group is devoted to such niches as sludge treatment and disposal, reclaimed water treatment and dyeing wastewater treatment. The operation of environmental protection segment of the Group has been incorporated into the consolidated statement of the Group on 30 April 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS

With the consideration and approval of the Board, the Group entered into a sale and purchase agreement with an independent third-party on 5 January 2018 to dispose the entire equity interests it holds in Biofit (representing approximately 62.26% of equity interests of Biofit) at the consideration of HK$40 million. For details of the above transaction, please refer to the Company's announcement dated 5 January 2018. On 14 December 2018 (after trading hours of the Stock Exchange), the Vendor and the Purchaser entered into a termination deed (the "Termination Deed"), details of which please refer to the Company's announcement dated 14 December 2018. In addition to the existing business, the Group has been proactively exploring other aspects of environmental protection, including disposal of iron and steel dust and nonferrous solid waste.

### *Money Lending and Financial Services Segment*

In December 2017, the Group entered into the money lending business through the acquisition of Golden Stars Assets Management Limited ("Golden Stars") from a third party independent of the Company and its connected persons (as defined under the Listing Rules). Golden Stars holds a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) to carry out money lending business in Hong Kong. During the Reporting Period, the money lending operation had not commenced yet. The management will formulate a fundamental policy to establish its internal control systems. The Group will adopt a prudent approach and conduct regular reviews of the composition of the loans portfolio and lending rates charged to each customer in order to maximise the return of the money lending business as well as diversify the credit risk. In August 2017, (i) a direct wholly-owned subsidiary of the Company, as the purchaser; (ii) third parties independent of the Company and its connected persons (as defined under the Listing Rules), as the vendor; and (iii) the Company (being the guarantor) entered into a conditional sales and purchase agreement for a proposed acquisition to acquire the entire issued share capital in Goldenway Securities Company Limited ("Goldenway"), which is licensed to carry out Type 1 (Dealing in securities) regulated activity under the SFO (Chapter 571 of the Laws of Hong Kong) at a total consideration of HK$16,000,000 (subject to adjustments determined by the net asset value of Goldenway as at the date of completion of the sales and purchase agreement). On 25 May 2018, as the requirements stipulated in the sales and purchase agreement could not be fulfilled upon the expiry of the long stop period, the sales and purchase agreement was terminated. For details of the above transaction, please refer to the Company's announcement dated 28 May 2018. The Group is looking into other financial service platforms such as fund management companies and plans to further expand this segment via business combination.

## Business Review

Set out below is a detailed discussion and analysis of the performance of the Group during the financial year, as well as the major factors affecting its results of operations and financial position:

### *Turnover*

During the Reporting Period, the Group's turnover amounted to approximately RMB519,403,000, representing an increase of approximately RMB161,840,000 or 45.3% from approximately RMB357,563,000 in 2017.

In particular, turnover of cement segment amounted to approximately RMB516,037,000, representing an increase of approximately RMB159,055,000 or 44.6% from approximately RMB356,982,000 in 2017. The increase was primarily attributable to the significant increase of cement prices during the Reporting Period.

# MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth an analysis of the turnover by product category:

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Sales Volume** | **Average selling price** | **Turnover** | Sales Volume | Average selling price | Turnover |
| | ***Thousand Tonnes*** | ***RMB/Tonne*** | ***RMB'000*** | *Thousand Tonnes* | *RMB/Tonne* | *RMB'000* |
| PO 42.5 Cement | **791.2** | **392.88** | **310,846** | 724.6 | 282.13 | 204,429 |
| PC 32.5R Cement | **654.3** | **311.96** | **204,117** | 651.2 | 234.3 | 152,553 |

Categorized by product type, the sales volume of cement products in 2018 amounted to approximately 1,445.5 thousand tonnes, representing an increase of approximately 5.1% from 2017, while the sales income of cement products was approximately RMB514,963,000, representing an increase of approximately 44.3% from 2017.

The table below sets forth an analysis of the turnover by geographical region:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Turnover** | **% of total turnover** | Turnover | % of total turnover |
| | ***RMB'000*** | | *RMB'000* | |
| **Jiangsu Province** | **446,213** | **86.65%** | 300,130 | 84.07% |
| Wujiang District | **402,038** | **78.07%** | 283,990 | 79.55% |
| Suzhou (excluding Wujiang District) | **44,175** | **8.58%** | 16,140 | 4.52% |
| **Zhejiang Province** | **50,070** | **9.72%** | 33,132 | 9.28% |
| South Zhejiang Province (Taizhou, Zhoushan and Ningbo) | **47,925** | **9.31%** | 32,600 | 9.13% |
| Jiaxing | **2,145** | **0.41%** | 532 | 0.15% |
| **Shanghai** | **18,680** | **3.63%** | 23,720 | 6.65% |
| **Total** | **514,963** | **100.00%** | 356,982 | 100.00% |

During the Reporting Period, due to improved sales performance, the sales income and volume of cement products of the Group increased significantly as compared to the corresponding period of last year. The sales in substantially all regions recorded different extents of increase as compared to the corresponding period of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

As to the environmental protection segment, the Biofit Group is mainly devoted to niches such as sludge treatment and disposal market, reclaimed water treatment market, and dyeing wastewater treatment market.

As of 31 December 2018, a total of four projects have been completed or are in progress. One new project has been initiated in 2018. During the Reporting Period, two have 0.0% work finished, one has 100.0% work finished, and one has 68.0% work finished.

紹興祥禹環保科技有限公司(Shaoxing XiangYu Environmental Technology Co., Ltd.*), a company affiliated to Biofit, is a third-party professional operator committed to industrial park environment, with a focus on the professional third-party operation of facilities for wastewater treatment in the dyeing industry, and receives services fees through providing the third-party operation services.

During the Reporting Period, the environmental protection segment achieved turnover of approximately RMB3,366,000, representing an increase of RMB2,785,000 or 479% as compared to approximately RMB581,000 of 2017. The increase was mainly due to constructions income recognised according to the percentage of the completed progress.

### *Gross Profit and Gross Profit Margin*

During the Reporting Period, the Group's gross profit amounted to approximately RMB137,502,000.

As to cement segment, the gross profit amounted to approximately RMB137,375,000, representing an increase of approximately RMB69,061,000 or approximately 101.1% as compared to a gross profit of approximately RMB68,314,000 in 2017; while the gross profit margin amounted to approximately 26.6% in 2018, representing an increase of approximately 7.5% compared to the approximately 19.1% in 2017. The increase was mainly due to the significant increase of cement prices.

As to environmental protection segment, the gross profit for 2018 amounted to approximately RMB127,000, and the gross profit margin for 2018 amounted to approximately 3.8%. For the corresponding period of last year, the gross loss amounted to approximately RMB226,000, and the gross loss margin amounted to approximately 38.9%. The increase was mainly due to constructions income recognised according to the percentage of the completed progress.

### *Other Income*

The Group's other income amounted to approximately RMB45,480,000 during the Reporting Period, representing an increase of approximately RMB29,180,000 or approximately 179.0% compared to approximately RMB16,300,000 in 2017, which was mainly due to recognition of guaranteed profit from Biofit Group's former shareholder of approximately RMB24,679,000 during the Reporting Period.

* *For identification purpose only*

*The English translation of the entity name is for reference only. Its official name is in Chinese.*

# MANAGEMENT DISCUSSION AND ANALYSIS

### *Sales and Distribution Expenses*

The Group's sales and distribution expenses, all generated from cement segment, amounted to approximately RMB4,065,000 during the Reporting Period, representing an increase of approximately RMB741,000 or approximately 22.3% as compared to approximately RMB3,324,000 in 2017. The increase was mainly due to the increase in sales volume in 2018. Sales and distribution expenses in 2018 accounted for approximately 0.8% of the consolidated turnover of the cement segment, which remained about flat as compared to approximately 0.9% in 2017.

### *General and Administrative Expenses*

The Group's general and administrative expenses amounted to approximately RMB44,860,000 during the Reporting Period.

As to the cement segment, the general and administrative expenses amounted to approximately RMB26,085,000, representing a decrease of approximately RMB6,613,000 or approximately 20.2% from approximately RMB32,698,000 in 2017. The decrease in the general and administrative expenses was primarily due to a net reversal of provision for impairment of trade receivables of approximately RMB1,709,000 during the Reporting Period whereas a net provision for impairment of trade receivables of approximately RMB3,157,000 in 2017 and the decrease of professional institution services fees.

As to the environmental protection segment, the general and administrative expenses increased by approximately RMB11,977,000 or 178.8% from approximately RMB6,700,000 in 2017 to approximately RMB18,677,000 during the Reporting Period. The increase was mainly due to impairment loss on goodwill and intangible assets of approximately RMB9,396,000 and RMB3,258,000 respectively.

### *Tax*

The Group's income tax expense amounted to approximately RMB41,533,000 during the Reporting Period.

As to the cement segment, the income tax expense amounted to approximately RMB39,245,000 in 2018, representing a significant increase from approximately RMB18,769,000 of income tax expense in 2017, which was primarily due to the recorded significant profit growth of the Group in 2018.

As to the environmental protection segment, during the Reporting Period, the income tax expense increased by approximately RMB2,669,000 or 700.5% from income tax credit of approximately RMB381,000 in 2017 to income tax expense approximately RMB2,288,000 in 2018. The increase was mainly due to the recognition of the guaranteed profit from Biofit Group's former shareholder during the Reporting Period.

Details of the Group's income tax are set out in note 15 to the consolidated financial statements.

### *Net Profit Margin*

During the Reporting Period, the Group's net profit margin was approximately 17.3%.

As to the cement segment, the net profit margin was approximately 19.1%, representing an increase as compared to approximately 12.5% in 2017. The increase was mainly attributable to the increase in sales income in 2018, resulting in an increase from a net profit of approximately RMB44,647,000 in 2017 to a net profit of approximately RMB98,570,000 in 2018.

As to the environmental protection segment, during the Reporting Period, the net profit amounted to approximately RMB5,090,000, and the net profit margin was approximately 151.2%. In 2017, the net loss amounted to approximately RMB3,916,000, and the net loss margin was approximately 674%.

## Liquidity and Capital Sources

The Group planned to meet its working capital requirements primarily through cash flow from operating activities, borrowings and utilising trade and other payables, proceeds from initial public offering, and part of the proceeds from the placement of new shares.

| | **31 December 2018** *RMB'000* | 31 December 2017 *RMB'000* |
|---|---|---|
| Cash and cash equivalents | **35,726** | 28,597 |
| – Cement Segment | **34,227** | 27,738 |
| – Environmental Protection Segment | **1,490** | 852 |
| – Money lending and financial services segment | **9** | 7 |
| Borrowings | **71,553** | 64,910 |
| – Cement Segment | **50,000** | 50,000 |
| – Environmental Protection Segment | **5,000** | 5,000 |
| – Unallocated | **16,553** | 9,910 |
| Debt to equity ratio | **14.4%** | 15.7% |
| – Cement Segment | **10.7%** | 13.3% |
| – Environmental Protection Segment | **9.8%** | 10.9% |
| Debt to asset ratio | **29.8%** | 30.9% |
| – Cement Segment | **25.3%** | 27.5% |
| – Environmental Protection Segment | **35.2%** | 37.1% |

# MANAGEMENT DISCUSSION AND ANALYSIS

### *Cash Flow*

As at 31 December 2018, the Group's cash and cash equivalents amounted to approximately RMB35,726,000.

As to the cement segment, the cash and cash equivalents amounted to approximately RMB34,227,000, representing an increase of approximately 23.4% from approximately RMB27,738,000 as at 31 December 2017, which was mainly due to profit generated during the year.

### *Borrowings*

| | **31 December 2018** *RMB'000* | 31 December 2017 *RMB'000* |
|---|---|---|
| Current: | | |
| Borrowings | | |
| – Cement Segment | **50,000** | 50,000 |
| – Environmental Protection Segment | **5,000** | 5,000 |
| – Unallocated | **16,553** | 9,910 |
| Borrowings | **71,553** | 64,910 |

As at 31 December 2018, the Group's bank borrowings amounted to approximately RMB71,553,000, representing an increase of approximately 10.2% from approximately RMB64,910,000 as at 31 December 2017, which was mainly due to increase of borrowings.

As at 31 December 2018 and 31 December 2017, the aforesaid borrowings were not secured, pledged and guaranteed by the Group's properties, plant and equipment, land use rights, bill receivables and restricted bank deposits. As at 31 December 2018, bank borrowings of approximately RMB5,000,000 (as at 31 December 2017: approximately RMB5,000,000) was secured by personal guarantees provided by the Director, Mr. Ling Chao and his close family members and borrowings of approximately RMB2,656,000 was secured by corporate guarantees from the Company (2017: Nil).

As at 31 December 2018, the Group had no unutilised bank financing facilities.

### *Debt to Equity Ratio*

As at 31 December 2018, the Group's debt to equity ratio was 14.4%.

Among others, the debt to equity ratio of the cement segment was 10.7%, which decreased as compared with 13.3% as at 31 December 2017.

As to the environmental protection segment, the debt to equity ratio was 9.8%, representing a slight decrease from 10.9% as at 31 December 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

The debt to equity ratio is calculated by dividing the borrowings by the difference between total assets and total liabilities.

## Capital Expenditure and Capital Commitments

The Group's capital expenditure amounted to approximately RMB47,448,000 in 2018.

Among others, the capital expenditure of the cement segment amounted to approximately RMB47,448,000, representing a significant increase from approximately RMB10,903,000 in 2017, which was mainly due to purchase of properties and fixed assets.

As to the environmental protection segment, the capital expenditure amounted to approximately RMBNil (2017: RMBNil).

As at 31 December 2018, the Group had capital commitments of approximately RMB3,140,000 (2017: Nil).

## Pledge of Assets

As at 31 December 2018, the Group did not pledge any assets during the Reporting Period.

## Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

## Foreign Currency Risk

The Group conducted its business primarily in mainland China with the majority of its operating expenses and capital accounts denominated in Renminbi, and a small amount denominated in Hong Kong dollars. During the Reporting Period, the Group was not materially affected in operating business and working capital due to fluctuations in foreign exchange rates.

During the Reporting Period, the Group did not expose to any significant currency exchange risks, nor did the Group implement any hedging measures for such risks.

As Renminbi is not a freely convertible currency, the future exchange rates of Renminbi could vary significantly from the current or historical exchange rate levels as a result of any controls that the PRC government may impose. The exchange rates may also be affected by economic development and political changes in mainland China and/or internationally, as well as the demand and supply of Renminbi. The management will closely monitor its foreign exchange exposure and will consider taking appropriate measures on hedging foreign currency exposure when necessary.

## Substantial Acquisitions and Disposals of Subsidiaries and Associated Companies

Except as described below, during the Reporting Period, the Group did not conduct any material acquisitions or disposals of subsidiaries or associated companies.

# MANAGEMENT DISCUSSION AND ANALYSIS

As disclosed in the announcement of the Company dated 5 January 2018 regarding the Sale and Purchase Agreement and the Disposal, Dongwu International Investment Limited (the "Dongwu International"), a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement (the "Sale and Purchase Agreement") with Great Future Development (HK) Limited (the "Great Future"), pursuant to which Dongwu International agreed to sell, and Great Future agreed to purchase the entire issued share capital of Dongwu Science & Technology Investment Company Limited, an indirect wholly-owned subsidiary of the Company, at a total consideration of HK$40 million (the "Disposal"). For the further details, please refer to the announcement of the Company dated 5 January 2018.

As disclosed in the announcement of the Company dated 14 December 2018 regarding the termination of transaction in relation to the Disposal, Dongwu International and Great Future entered into a termination deed, pursuant to which each of the parties thereto agreed to terminate the Sale and Purchase Agreement with effect from 14 December 2018 and release and discharge each other from their respective duties, obligations and liabilities under the Sale and Purchase Agreement. For the further details, please refer to the announcement of the Company dated 14 December 2018.

As disclosed in the announcement of the Company dated 31 July 2018 regarding the termination of the transaction in relation to the Acquisition, the Group, Sure Ocean Investments Limited, a company wholly-owned by Mr. Tseung Hok Ming, the non-Executive Director and the controlling shareholder of the Company, and Mr. Tseung Hok Ming entered into a termination deed, pursuant to which each of the parties thereto agreed to release and discharge each other from their respective duties, obligations and liabilities of the major and connected transaction in relation to the sale shares and the sale loan involving the issue of the convertible bonds of the Company as set out in the Agreement, which disclosed in the announcement of the Company dated 30 October 2017. For the further details, please refer to the announcements of the Company dated 30 October 2017 and 14 December 2018.

## Dividend

A final dividend in respect of the year ended 31 December 2018 of HK$0.0725 per share (tax exclusive) (2017: Nil) was proposed pursuant to a resolution passed by the Board of Directors on 28 March 2019 and subject to the approval of the shareholders at the annual general meetings of the Company to be held on 15 May 2019 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

## Employees and Remuneration Policies

As at 31 December 2018, the Group has a total of 238 employees. The total remuneration amounted to approximately RMB25,031,000 during the Reporting Period. The remuneration levels of employees are commensurate with their responsibilities, performance and contributions and set on the basis of their merits, qualification and competence as well as the opinions from the Remuneration Committee of the Company (if applicable).

## Future Prospects

In 2019, the Group will continue to reduce costs in an effective manner through improving its internal control; expand market share and increase profitability of our products by refining customer services; continue to conduct prudent research and promote the businesses in environmental protection field; and make attempts in capital operation to enhance operating efficiency and improve overall competitiveness.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

Ms. Xie Yingxia (謝鶯霞), aged 42, is the Chairman and an executive Director of the Company, responsible for the overall planning and budget management of the Group. Ms. Xie also served as the authorized representative of the Company (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Ms. Xie obtained a bachelor degree in investment economics from Fudan University (復旦大學) and a master degree in business administration from China Europe International Business School (中歐國際工商學院), an accredited institution authorized by the PRC Ministry of Education to grant the said degree. Ms. Xie has extensive experience in financial management. From 1998 to 2001, Ms. Xie had worked for Xiamen International Bank as the account manager and the deputy head of the credit department, responsible for marketing, running account credit and account services. Subsequently from 2001 to 2008, Ms. Xie had worked for Orient Holdings Group Limited ("Orient Holdings"), an investment holding company, as the manager of the investment department, the chief financial officer and the vice president, responsible for evaluation and management of project investment, financial management, human resources and administrative matters, etc. Since joining our Group in July 2008, Ms. Xie has been serving as a Director of the Company and was responsible for formulating annual budget, business plan, long term/strategic development of the Company and monitoring the implementation, conducting internal audit as well as reviewing and monitoring the performance of our senior management. Ms. Xie has served as authorized representatives of the Company since 28 May 2015 (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Through active involvement in daily operation and management of the Company, Ms. Xie gained specific knowledge and experience in cement industry. Ms. Xie did not hold any directorship in any other listed companies in the past three years.

Mr. Ling Chao (凌超), aged 40, is an executive Director of the Company. Mr. Ling, is the chairman of Biofit since 1 April 2003. He has extensive experience in the financial and investment sectors and held senior position in investment, finance and risk management industries. Mr. Ling obtained his bachelor degree in management accounting from Xi'an University of Technology in 2001; master degree in industrial economics from Fudan University in 2004; master degree in finance from Arizona State University USA in 2009 and EMBA degree from Tsinghua University in 2013. Mr. Ling also qualifies as a financial controller. Mr. Ling has not held any other directorships in listed public companies in the last three years.

Mr. Peng Cheng (彭程), aged 36, was appointed as an executive Director of the Company on 17 October 2016. Mr. Peng completed a Bachelor of Commerce/Bachelor of Information Systems double degrees from the University of Melbourne in 2004. In addition to his Chartered Financial Analyst designation, he is also a member of The Institute of Chartered Accountants in Australia. Mr. Peng has extensive experience in corporate strategy, corporate finance and financial advisory. Prior to joining the Company, he worked in a global institutional bank as an associate director responsible for advising on cross border merger and acquisition transactions as well as ancillary financing and risk management. Mr. Peng had also previously worked in a large listed company in Australia during 2009 to 2012 focusing on corporate development and strategy, as well as a global investment bank during 2006 to 2008 focusing on investment analysis. Save as disclosed above, Mr. Peng has not held any other directorships in listed public companies in the last three years.

Mr. Wang Jun (汪俊), aged 37, was appointed as an executive Director of the Company on 14 November 2016. Mr. Wang graduated from Chongqing Normal University majoring in Finance. He has extensive experience in public relations, leadership, management and business development strategies. Mr. Wang held senior management positions in various private companies. Mr. Wang was an executive director of Enterprise Development Holdings Limited (stock code: 1808), the shares of which are listed on the Main Board of the Stock Exchange, from January 2014 to November 2016. Save as disclosed above, Mr. Wang did not hold any directorship in any other listed companies in the past three years.

Mr. Chan Ka Wing (陳嘉榮), aged 36, was appointed as an executive Director of the Company on 1 September 2017. Mr. Chan graduated from The Hong Kong University of Science and Technology with a bachelor's degree in Business Administration in Accounting. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since 2010. Mr. Chan has over 10 years of experience in financial accounting and auditing of listed companies in Hong Kong. He has been involved in the management and business development of two listed companies and several private companies in Hong Kong, having operations in integrated resort development, property development, consultancy and financial services.

## Non-Executive Directors

Mr. Tseung Hok Ming (蔣學明), aged 57, is a non-executive Director of the Company. Mr. Tseung possesses over 25 years of experience in business and investment. Mr. Tseung has been a director of Orient Financial Holdings Limited since July 2002, a director of Far East International since March 2004, a director of Orient International Petroleum & Chemical Limited since December 2004, a director of Orient International Resources Group Limited since April 2010 and a director of Fidelix Co., Ltd., a company listed on KOSDAQ (stock code: 032580) since 30 June 2015. Mr. Tseung began his career in 1986 as a director of a factory in Suzhou City and was responsible for overseeing textile manufacturing and trading. In 1996, he established Orient International Group (HK) Limited, a company principally engaged in textile trading and investment business, and managed the business as a director of the company until 2005. In 1995, Mr. Tseung invested into Wujiang Yuan Tong Highway Construction and Development Limited, a company principally engaged in highway construction and operations management business. He has acted as its vice chairman since 1995, and has been responsible for its investment and construction business. In 2003, Mr. Tseung invested in Anhui Hefei-Caohu-Wuhu Highway Limited, which principally engaged in the business of highway construction and maintenance, and acted as its chief representative until 2005. In June 2003, Mr. Tseung invested in the Company, whose main business scope is manufacture and sales of clinker and cement. Mr. Tseung acted as a director of the second session of the board of directors of China Foreign Affairs University since 2005. Mr. Tseung is currently a vice chairman of the Hong Kong Financial Services Institute and the Hong Kong China Education Fund. Mr. Tseung graduated from the Chinese Academy of Social Sciences (中國社會科學院) in 1998 majoring in International Trading. Save as disclosed above, Mr. Tseung did not hold any directorship in any other listed companies in the past three years.

## Independent Non-Executive Directors

Mr. Cao Guoqi (曹國琪), aged 56, is an independent non-executive Director of the Company. Mr. Cao specializes in project investment, finance and management, fund operation and management, mergers and acquisitions, assets and capital operations, human resources management and project consultation. Mr. Cao obtained a doctoral degree in political economics from Shanghai Academy of Social Sciences (上海社會科學院) in 2004. Mr. Cao has been the MBA supervisor in Shanghai Advanced Institute of Finance, Shanghai Jiaotong University (上海交通大學上海高級金融學院) since December 2011, the part-time professor of Hunan University (湖南大學) since April 2008, the consultant to the government of Dongli District of Tianjin Municipality (天津市東麗區政府顧問) since March 2010, the executive director and general manager of Probest Limited in Hong Kong, the executive director and general manager of Master Energy INC in Hong Kong, and was appointed as the general manager of Shanghai Lingang New City Investment and Development Co., Ltd. (上海臨港新城投資開發集團有限公司) from April 2002 to April 2005. Mr. Cao is also an independent non-executive director of Shanghai Jiaoda Withub Information Industrial Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8205). Mr. Cao is also an independent director of Inner Mongolia Jinyu Group Stock Company (內蒙古金宇集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600201). Mr. Cao serves as an executive director of China Smartpay Group Holdings Limited, a company listed on the Stock Exchange (stock code: 8325) since 18 September 2013. Save as disclosed above, Mr. Cao did not hold any directorship in any other listed companies in the past three years.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Cao Kuangyu (曹貺予), aged 69, is an independent non-executive Director of the Company. Mr. Cao has over 30 years of experience in the banking industry. Mr. Cao graduated from Hunan University in 1981 with a bachelor degree in economics, and obtained his master's degree in financial management from the University of London in 1998. Mr. Cao worked in the Bank of China, Hunan branch as a director and senior management from 1981 to 1996 and his last position was the deputy general manager of the branch. In 1996, Mr. Cao was transferred to the Singapore branch of Bank of China as deputy general manager until 1999. Mr. Cao worked in the Citic Bank, Shenzhen branch from 1999 to 2003 and his last position was the president of the branch. Mr. Cao came to Hong Kong in 2003 when he worked as a managing director and head of global investment banking division of BOCI Asia Limited until 2007. Mr. Cao served as an independent non-executive director of Simsen International Corporation Limited (stock code: 00993) from April 2010 to June 2010. Mr. Cao also served as an independent non-executive director of King Stone Energy Group Limited (stock code: 00663, formerly known as Yun Sky Chemical (International) Holdings Limited) from February 2010 to April 2012. Mr. Cao also served as a non-executive director of Continental Holdings Limited (stock code: 00513) from April 2010 to December 2011. Mr. Cao is currently an independent non-executive director of JLF Investment Company Limited (stock code: 00472, formerly known as Applied (China) Limited), Huili Resources (Group) Limited (stock code: 01303), Junefield Department Store Group Limited (stock code: 00758) and Dingyi Group Investment Limited (stock code: 00508). All the aforesaid companies are listed on the Stock Exchange. Save as disclosed above, Mr. Cao did not hold any directorship in any other listed companies in the past three years.

Mr. Lee Ho Yiu, Thomas (李浩堯), aged 41, is an independent non-executive Director of the Company. Mr. Lee has extensive experience in auditing, accounting and financial management. Mr. Lee is currently a partner of Messrs. Lee, Au & Co., Certified Public Accountants. Mr. Lee previously worked as an assistant financial controller in a multinational luxury brands group and worked at one of the big four international accounting firms. Mr. Lee is a fellow member of the Association of Chartered Certified Accountants, a practicing member of the Hong Kong Institute of Certified Public Accountants, a certified tax advisor and member of the Hong Kong Taxation Institute, a certified internal auditor of the Institute of Internal Auditors and a certified information systems auditor of the ISACA. Mr. Lee obtained a bachelor's degree in science from the University of Warwick and a second bachelor's degree in Chinese law from Tsinghua University (清華大學) in Beijing, and subsequently attained his Master of Business Administration Degree from the University of London in 2016. Mr. Lee served as an independent non-executive director of SunCorp Technologies Limited (Stock Code: 1063) from August 2012 to June 2018 and Sino Energy International Holdings Group Limited (formerly known as Active Group Holdings Limited, Stock Code: 1096) from September 2011 to June 2018, which were listed on the Main Board of the Stock Exchange. Mr. Lee served as an independent non-executive director of Shenglong Splendecor International Limited (Stock Code: 8481) from July 2017 to May 2018, and served on Inno-Tech Holdings Limited (Stock Code: 8202) as an independent non-executive director from January 2013 to February 2018, which were listed on the GEM of the Stock Exchange. Save as disclosed above, Mr. Lee did not hold any directorship in any other listed companies in the past three years.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Senior Management

Mr. Jin Chungen (金春根), aged 57, is the Chief Executive Officer of the Company, responsible for the Group's general operation. Mr. Jin has extensive experience in cement related industries such as highway operation, maintenance and renovation, etc. From 1995 to 2005, Mr. Jin had been the general manager of Wujiang Yuan Tong Road Construction and Development Co., Ltd. (吳江遠通公路建設發展有限公司), a company principally engaged in the operation and toll collection of the National Highway Road No. 318 (Wujiang Section), responsible for the company's day-to-day management such as operation of toll roads, daily maintenance and renovation of roads, human resources, financial and administrative matters, etc. During the said period, Mr. Jin was actively involved in the operation of toll highways as well as maintenance and renovation of roads, and since the operation, maintenance and renovation of roads involve substantial use of, inter alia, cement, Mr. Jin has also gained specific knowledge and experience in cement. Mr. Jin also possesses over 34 years of experience in corporate management. Between 1979 and 1990, Mr. Jin had worked for Jiangsu Orient as an officer and supervisor, responsible for the company's daily operational and management affairs. Subsequently from 1991 to 1994, Mr. Jin had served as a general manager for Wujiang Fuyuan Garment Co., Ltd (吳江富源製衣有限公司), a company principally engaged in the garment processing, responsible for the company's overall management. Since joining our Group in January 2007, Mr. Jin has served as the Director, chairman and general manager, respectively, of the Company, and is responsible for the management of the Company's daily operation, such as making production plan, raw materials procurement and sales etc. On 11 September 2013, Mr. Jin resigned as general manager of Suzhou Dongwu, but remained as chairman and legal representative of Suzhou Dongwu. Currently, Mr. Jin is the vice chairman of the Cement Committee (the third session) of Jiangsu Province Building Material Industry Association (江蘇省建材行業協會第三屆水泥分會). Mr. Jin did not hold any directorship in any other listed companies in the past three years.

Mr. Wu Junxian (吳俊賢), aged 38, is the deputy manager of Suzhou Dongwu. Mr. Wu is responsible for human resources, internal control and procurement of the Group. Mr. Wu joined our Group in March 2009, and has held various positions in Suzhou Dongwu such as assistant to general manager and deputy general manager. Mr. Wu assumed the title of general manger of Suzhou Dongwu on 11 September 2013. Prior to joining our Group, Mr. Wu worked for Orient Holdings, an investment holding company, as an officer of the assets management department, responsible for project research and development from 2003 to 2007. Mr. Wu subsequently worked for Shanghai Keli Communications Technology Co., Ltd. (上海科立通訊科技有限公司), a company principally engaged in communication construction and services, as a project manager and was responsible for project development and customer service from 2007 to 2009. Mr. Wu graduated from Nanjing Audit University (南京審計學院) in 2003 with a bachelor degree in management administration.

Mr. Feng Bing Song (馮炳松), aged 50, is the deputy general manager of Suzhou Dongwu. Mr. Feng is responsible for marketing and sales of the Group. Prior to joining to the Group in December 2014, Mr. Feng, having been engaged in the finance matters and sales in the cement industry for about 20 years, has a knowledge of market trends and possesses extensive experience in sales. Mr. Feng once served as the financial controller of Piaoyang Orient Cement Company (漂陽東方水泥公司) and then was promoted to the deputy general manager, in charge of corporate finance and business planning. Later, Mr. Feng joined in Wujiang Xingyuan Cement Co., Ltd. as the vice president of sales responsible for making the strategic plans for the company.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Cai Linfen（蔡林芬）, aged 48, is the deputy general manager of Suzhou Dongwu. Ms. Cai is responsible for production of the Group. Ms. Cai possesses more than 25 years of experience in production management of cement. She has served as deputy general manager of Zhejiang Tongxing Cement Company Limited（浙江桐星水泥股份有限公司）and Tongxiang South Cement Company Limited（桐鄉南方水泥有限公司）before and was responsible for production respectively. Ms. Cai joined the Group in 2014, and had taken the position of chief engineer and deputy general manager etc. Ms. Cai graduated from Tongxiang Radio and TV University（桐鄉廣播電視大學）in 2013 and obtained a college degree in Management.

Ms. Sun Xin（孫馨）, aged 35, was appointed as the joint company secretary of the Company on 28 May 2012, and has been the chief financial controller of the Company since 16 August 2013. Ms. Sun also served as the authorized representative of the Company (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Ms. Sun joined the Group in August 2010. From August 2006 to August 2010, Ms. Sun acted as the senior consultant of the business advisory and tax consultancy department of Deloitte Touche Tohmatsu CPA Ltd. During the office term, Ms. Sun was responsible for the provision of due diligence service and structuring support to the foreign multi-national companies and the private equity funds concerning acquisition activities in the PRC, as well as the provision of tax consultancy services, including international tax consultancy, indirect tax consultancy, general domestic tax consultancy and tax standardization. From September 2002 to July 2006, Ms. Sun studied at Shanghai International Studies University（上海外國語大學）majoring in international economic law and obtained a bachelor degree in law. From September 2003 to June 2005, she studied at Shanghai University of Finance and Economics（上海財經大學）and obtained the Certificate for Second Major（輔修專業證書）in Accounting. Ms. Sun is currently a member of The Chinese Institute of Certified Public Accountants（中國註冊會計師協會）, an associate of the Hong Kong Institute of Chartered Secretaries（香港特許秘書公會）(ACS), and an associate of the Institute of Chartered Secretaries and Administrators (ACIS).

## Company Secretary

Ms. Sun Xin（孫馨）, aged 35, was appointed as the joint company secretary of the Company on 28 May 2012. For details of the biography of Ms. Sun Xin, please refer to paragraph headed "Senior Management" of this section. Ms. Sun was confirmed by the Stock Exchange that she had sufficient experience to fulfill the responsibility of company secretary and served as company secretary of the Company with effect from 21 March 2014.

# DIRECTORS' REPORT

## Principal Activities

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 November 2011. The Group mainly operates through its subsidiaries in the PRC. The Group is principally engaged in the production and sales of cement, and provision of sewage and sludge treatment operation and construction services. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

## Results and Dividends

The Group's results for the year ended 31 December 2018 are set out in the Consolidated Statement of Comprehensive Income on page 84 to 85.

A final dividend in respect of the year ended 31 December 2018 of HK$0.0725 per share (tax exclusive) is recommended by the Board.

## Business Review

A review of the business of the Group for the year ended 31 December 2018, a discussion on the Group's future prospects, and an account of the principal risks and uncertainties facing the Group are provided in "Management Discussion and Analysis" in pages 10 to 19 in this annual report, an analysis of the Group's performance during the Reporting Period using key performance indicators are provided in "Financial Highlights" in pages 5 to 6 in this annual report.

## Environmental Policy and Performance

The Group has not only attached importance to the improvement of the production technology to enhance its own market competitiveness, but also has strong social responsibility. It emphasizes on environmental protection, beauty, greening and the comprehensive utilization of resources, bearing the concept that building a harmonious factory is its always goal, and proactively driving the performance of energy-saving and emission reduction as well as the sustainable development.

In order to strengthen environmental protection, strictly control the arising of pollutant and comprehensively achieve the emission standard, the Group invested in approximately RMB6,602,000 on upgrading technology for environmental protection facilities and energy-saving and emission reduction projects in 2018. The Group implemented energy conservation and emissions reduction from several aspects, such as filter improvement and dust emissions deduction; improved denitration device to reduce nitrogen oxide emissions; built large water pool to save water resources; constructed loop water treatment and purification equipment to no longer use tap water; and equipped with muffler and sound barriers to further weaken the noise.

The Group made strong emphasis in cycle economy to drive cleaner production and conduct comprehensive utilization of resources. The Group also actively assisted the local government to dispose of urban domestic sludge and solid waste projects. The Group is confident of transition to green environmental protection enterprise with cycle economy. At the meantime, the Group will comprehensively promote the pure low-temperature residual heat power generation technology in NSP kilns to achieve energy-saving and cost-reducing by technical transformation, so as to reduce production cost and improve the efficiency of the enterprise.

# DIRECTORS' REPORT

## Compliance of Laws and Regulations

The Company is aware of the importance of complying with the relevant laws and regulations. The Company has distributed human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication. During the Reporting Period, to the knowledge of the Directors, the Company has complied with SFO, Listing Rules and all other relevant legislations and regulations which have significant impacts on the Company.

## Important Relationship with Employees, Clients and Suppliers

The relationships between the Group and employees, clients and suppliers have a material impact on our business and constant development. Therefore, the Group has established good and stable relationship with employees, customers and suppliers.

The Group regards its employees as the most important and valuable assets. The objective of human resources management is to motivate outstanding staffs with competitive remuneration package and comprehensive performance assessment, and assist the staff to develop their career and get promotion in the Group by providing suitable training and opportunities. Through a variety of incentive mechanism and organizing various activities, the Company has formed an enterprise culture that comprising able person should do more work, more pay for more work, competition out who ever needs upward, unity and harmony and innovation. The Group encouraged employees to actively participate in the management of the enterprise, to adopt reasonable suggestion, promote all staff to treat plant as home, be proud of the factory, and give full play to the staff's enthusiasm and subjective initiative.

The Group has always adhered to the principle of customer first, and identified the customer's demand and improved customer satisfaction by customer information collection, analysis and processing. For consultation with customer by way of interviewing, letter, telephone, fax and so on, there is specially-assigned person to answer, record and collect. Through a variety of activities, the Company grasped the market dynamics and customer requirements timely. If found customer complaints, suggestions for improvement, implicit requirements or expectations, feedback immediately to the relevant departments, making necessary improvement measures and implementation, to ensure the increment of the customer satisfaction.

The Group established cooperation relationship and mutual benefits and win-win with its suppliers, and jointly explore the market to expand market demands and share and reduce operating cost of the early stage of the product through the integration of resources and competitive advantages. The Group clear procurement requirements and exchange information to make the transparency of the procurement process, improve the efficiency of supply chain and the reaction ability and therefore maximize the interests on both sides.

# DIRECTORS' REPORT

## Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 8 May 2019 to Wednesday, 15 May 2019 (both days inclusive), during which period no transfer of shares will be registered. For determining Shareholders' entitlement to attend and vote at the annual general meeting to be held on Wednesday, 15 May 2019, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, 7 May 2019 (Hong Kong time).

## Property, Plant And Equipment

Details of movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statement of this annual report.

## Bank Loans And Other Borrowings

Details of bank loans and other borrowings are set out in note 29 to the consolidated financial statement of this annual report.

## Share Capital

As at 31 December 2018, the authorised share capital of the Company was HK$100,000,000 divided into 10,000,000,000 Shares including issued capital of HK$5,520,000 divided into 552,000,000 Shares with nominal value of HK$0.01 per share. During the Reporting Period, the Company has not issued any new Shares.

## Reserves

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity of this annual report.

## Distributable Reserves

The Group's reserves available for distribution to Shareholders was approximately RMB144,759,000 (31 December 2017: approximately RMB66,838,000) as at 31 December 2018.

## Public Float

Based on information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the prescribed minimum percentage of public float approved by the Stock Exchange and permitted within the Listing Rules as of the Latest Practicable Date.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association of the Company or applicable laws of the Cayman Islands where the Company was incorporated.

# DIRECTORS' REPORT

## Tax Reduction

Pursuant to the laws of the Cayman Islands, the Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations by virtue of their interest in the Shares and there is no taxation in the nature of inheritance tax and estate duty.

## Charge on The Assets and Contingent Liabilities

Save as disclosed in note 19 to the consolidated financial statement of this annual report, as at 31 December 2018, the Group did not have any significant contingent liabilities, guarantees or any litigation against the Group (2017: nil).

## Subsidiaries and Associates

Details on the business performance of the Company's major subsidiaries and associates respectively are set out in notes 20 and 21 to the consolidated financial statement of this annual report.

## Directors and Chief Executive

The directors of the Company during the year ended 31 December 2018 and up to the date of this annual report were as follows:

| | |
|---|---|
| Chairman and Executive Director | Ms. Xie Yingxia |
| Chief Executive Officer | Mr. Jin Chungen |
| Executive Directors | Mr. Ling Chao |
| | Mr. Peng Cheng |
| | Mr. Wang Jun |
| | Mr. Chan Ka Wing |
| Non-executive Director | Mr. Tseung Hok Ming |
| Independent Non-executive Directors | Mr. Cao Guoqi |
| | Mr. Cao Kuangyu |
| | Mr. Lee Ho Yiu Thomas |

There is no financial, business, family or other material/relevant relationship amongst the Directors.

### *Independence*

The Company has received from each of the independent non-executive Directors (namely Mr. Cao Guoqi, Mr. Cao Kuangyu and Mr. Lee Ho Yiu Thomas) an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all of the independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and is independent in accordance with the terms of the guidelines.

# DIRECTORS' REPORT

## Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for executive Directors and non-executive Directors:

### *Emolument Policy for Executive Directors*

1. A proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

2. The performance-related elements of remuneration should be designed to align the executive Directors' interests with those of Shareholders and to give the Directors incentives to perform at the highest levels.

3. Factors for defining performance-based remuneration:

   (a) Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance

   (b) Examples of performance indicators:

      (i) share price

      (ii) net earnings figure

### *Emolument Policy for Non-executive Directors*

1. Levels of emolument of non-executive Directors should reflect the time commitment and responsibilities of the role.

2. Non-executive Directors should have the opportunity to have part of their remuneration in shares on condition that share options should be granted in accordance with the Listing Rules.

### *Principles of Long-Term Incentive Schemes*

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.

2. The link between executive reward and company performance should be strong and clear.

3. Grants under such schemes should be phased rather than awarded in one large block.

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The fees and any other reimbursement or emolument payable to the Directors are set out in details in this annual report.

# DIRECTORS' REPORT

## Directors' Service Contracts

Each of the executive Directors has entered into a service contract or letter of appointment with the Company for a term of three years with effect from their respective dates of appointment unless terminated by not less than three months' notice in writing served by either the executive Director or the Company. All the non-executive Director and the independent non-executive Directors had signed letters of appointments with the Company for a term of three years with effect from their respective dates of appointment unless terminated by not less than three months' notice in writing served by either the non-executive Director and independent non-executive Directors or the Company. The Directors are subject to the provisions of re-election and retirement by rotation under the Articles of Association of the Company.

In accordance with the Articles of Association of the Company, Mr. Cao Guogi, Mr. Cao Kuangyu and Mr. Lee Ho Yiu Thomas will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable within one year without payment of compensation (other than statutory compensation).

## Directors' Emoluments and Five Highest Paid Individuals of the Company

All of the Directors are entitled to a fee as approved by the Board with reference to the prevailing market conditions. Executive Directors are entitled to fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) or discretionary bonuses, which are determined by the Board having regard to the Group's performance and the prevailing market conditions and approved by the remuneration committee.

Details of Directors' emoluments and emoluments of five highest paid individuals of the Company are set out in note 14 to the consolidated financial statement.

For the years of 2017 and 2018, senior management of the Company comprises 6 and 6 individuals, respectively. The emoluments of senior management of the Company fell within the following bands:

| **Emolument band** | **Number of individuals Year ended 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| Nil to HK$1,000,000 | **4** | 4 |
| HK$1,000,001 to HK$2,000,000 | **2** | 2 |
| | **6** | 6 |

# DIRECTORS' REPORT

## Directors' Material Interests in Transactions, Arrangements or Contracts of Significance

No transaction, arrangement or contract of significance in which the Directors (or an entity connected with a Director) had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the Reporting Period.

## Contract of Significance

No contract of significance was entered into between the Company, or any of its subsidiaries and any of the controlling Shareholder or any of its subsidiaries subsisted at the end of the financial year or at any time during the Reporting Period.

## Directors' Rights to Acquire Shares or Debentures

At any time during the Reporting Period, none of the Company or any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their respective spouses or children under the age of eighteen, had any right to subscribe for the interests or debentures of the Company or any other body corporate, or had exercised any such rights.

## Directors' Interests in a Competing Business

None of the Directors or controlling Shareholders had interests in business which competes or may compete with the Group's business.

## Connected Transactions

For the year ended 31 December 2018, the Group has entered into the following connected transactions.

1. ***Acquisition of 18% equity interests of Dongfang Kangtan***

   On 4 April 2018, Suzhou Dongwu Cement Co., Ltd. ("Suzhou Dongwu"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Orient Hengxin Capital Holdings Limited (the "Vendor"), pursuant to which the Suzhou Dongwu agreed to acquire and the Vendor agreed to sell its 18% equity interests in Suzhou Dongfang Kangtan New Energy Technology Company Limited ("Dongfang Kangtan") at a cash consideration of RMB9,000,000. Dongfang Kangtan is principally engaged in the solar power and electric heating, and application of grapheme and carbon fiber for heating generation and transmission; the manufacture of floor, under-floor heating and far infrared products; technology transfer and cooperation on intellectual property as well as other operations.

   As at the date of the transaction, the Vendor holds 68% equity interests of Dongfang Kangtan. Upon the completion of the transaction, Suzhou Dongwu and the Vendor hold 18% and 50% equity interests of Dongfang Kangtan, respectively. Mr. Wu Yufan and Mr. Zhang Yongzhong, the Independent Third Parties, hold 25% and 7% equity interests of Dongfang Kangtan, respectively.

As at the date of the transaction, Mr. Tseung Hok Ming, the non-executive Director and the controlling Shareholder ("Mr. Tseung") who indirectly holds 53.89% equity interests of the Company and holds 70% equity interests of the Vendor is a connected person of the Company. Pursuant to Rule 14A.12 of the Listing Rules, as the Vendor is an associate of Mr. Tseung, the Vendor is accordingly also considered as a connected person.

Please refer to the announcement of the Company dated 4 April 2018 for details.

*2. Acquisition of property*

On 29 June 2018, Suzhou Dongwu, as purchaser, entered into a property sale and purchase agreement with 蘇州泰隆房地產開發有限公司 *(Suzhou Tailong Real Estate Development Co., Ltd) (the "Property Vendor"), pursuant to which the Company agreed to acquire a property at a total consideration of RMB23,000,000 (equivalent to approximately HK$27,255,000).

As at the date of the transaction, Mr. Tseung is a connected person of the Company and indirectly holds 71% equity interests in 東方恒信資產控股有限公司 (Dongfang Hengxin Assets Holdings Co., Ltd*) which holds 100% equity interests in the Property Vendor. Pursuant to Rule14A.12 of the Listing Rules, as the Property Vendor is an associate of Mr. Tseung, the Property Vendor is accordingly also a connected person of the Company.

Please refer to the announcement of the Company dated 29 June 2018 for details.

Save as disclosed above, the Group did not have any other connected transaction during the Reporting Period.

## Pension Scheme

The employees of members of the Group in the PRC are members of the state-managed employee benefit scheme (such as pension, medical insurance, occupational injury insurance, unemployment insurance, maternity insurance and housing fund) operated by the PRC government. The Group is required to make contributions to the employee benefit scheme based on certain percentage of the salaries of its employees to fund the benefits.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

During the year ended 31 December 2018, the employee benefit scheme contributions made by the Group amounted to approximately RMB3,665,000.

## Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2018, the interests of the Directors, chief executive or their respective associates in the Shares and underlying Shares of the Company and its associated corporations which were required, pursuant to section 352 of the SFO, to be recorded in the register maintained by the Company, or pursuant to the Model Code, had to be notified to the Company and the Stock Exchange are as follows:

| Name | Capacity | Long position/ Short position | Number of Shares held | Approximate percentage of shareholding interest |
|---|---|---|---|---|
| Mr. Tseung Hok Ming *(note 1)* | Interest of a controlled corporation | Long position | 297,500,000 | 53.89% |

*note:*

1. *Goldview is wholly-owned by Mr. Tseung Hok Ming, a non-executive Director. Accordingly, Mr. Tseung is deemed to be interested in the same Shares held by Goldview by virtue of Part XV of the SFO. Goldview is also an associated corporation of the Company.*

Save as disclosed in the above, as at 31 December 2018, so far as is known to the Directors, no Directors or chief executive of the Company or their respective associates had or were deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations by virtue of part XV of the SFO which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which, pursuant to the Model Code, had to be notified to the Company and the Stock Exchange.

As at 31 December 2018, none of the Directors and chief executive of the Company (including their respective spouses and children under the age of 18) had or were granted any rights to subscribe for the securities and share options of the Company and its associated corporations, nor had they exercised any such rights.

## Interests and Short Positions of Substantial Shareholders in the Shares and Underlying Shares

As at 31 December 2018, so far as is known to the Directors, the person(s), not being the Directors or chief executive of the Company, who had any interests or short positions in the Shares and underlying Shares required to be recorded in the register kept under section 336 of the SFO are set out below:

| Name | Capacity | Long position/Short position | Number of Shares held | Approximate percentage of shareholding interest |
|---|---|---|---|---|
| Goldview[1] | Beneficial owner | Long position | 297,500,000 | 53.89% |
| Inventive Star Limited[2] | Beneficial owner | Long position | 77,500,000 | 14.04% |

# DIRECTORS' REPORT

*Notes:*

1. *Goldview is wholly-owned by Mr. Tseung Hok Ming, a non-executive Director. Accordingly, Mr. Tseung is deemed to be interested in the same Shares held by Goldview by virtue of part XV of the SFO.*

2. *Inventive Star Limited is wholly-owned by Mr. Cui Lijie. Accordingly, Mr. Cui is deemed to be interested in the same Shares held by Inventive Star Limited by virtue of part XV of the SFO.*

Save as disclosed in the above, as at 31 December 2018, so far as is known to the Directors, no other persons had any interest or short position in the Shares and underlying Shares which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

## Share Option Scheme

On 28 May 2015 ("Adoption Date"), the Company adopted a share option scheme (the "Share Option Scheme"), which was approved at the annual general meeting of the Company held on the same date. The Share Option Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the tenth anniversary of the Adoption Date (the "Share Option Scheme Period"), after which period no further options shall be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects in respect of the options remaining outstanding and exercisable on the expiry of the Share Option Scheme Period.

The purpose of the Share Option Scheme is to provide person(s) and parties working for the interests of our Group with an opportunity to obtain an equity interest in the Company, thus linking their interests with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

Pursuant to the terms of the Share Option Scheme, the Board shall have the right to determine and select all directors (whether executive or non-executive and whether independent Director or not), any employee (whether full time or part-time), any consultant or adviser of or to the Company or the Group (whether an employment or contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to the Company or the Group ("Eligible Persons") to whom the options may be granted. The eligibility of any of the Eligible Persons to an offer for the grant of options under the Share Option Scheme shall be determined by the Board from time to time on the basis of the contribution to the development and growth of the Group.

Unless otherwise determined by the Board in the relevant offer letter to a grantee, there is no minimum period for which any option must be held before it can be exercised and no performance target which need to be achieved by the grantee before it can be exercised. The maximum number of shares which may be issued pursuant to the Share Option Scheme on the Adoption Date will be 55,200,000 Shares, which represents 10% of the issued share capital of the Company as at the date of approval of the proposed adoption of Share Option Scheme by the Shareholders at the AGM held on 28 May 2015 and represents 10% of the total issued share capital of the Company as at the date of this report.

The maximum number of Shares which may be issued upon exercise of all options granted under the Share Option Scheme or any other share option schemes that the Company adopts must not exceed 30% of the Shares of the Company in issue from time to time. Any option lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the scheme mandate limit. Unless approved by Shareholders in general meeting, the total number of Shares issued and to be issued upon grant of options by each under the Share Option Scheme in any 12-month period must not exceed 1% of the Shares of the Company in issue at such time.

Subject to any condition or restriction in connection with the exercise of the option which may be imposed by the Board when granting the option and other provisions of the Share Option Scheme, there is no minimum period for which an option must be held before it can be exercised and the option may be exercised by the Grantee (or his or her legal personal representative) at any time during the option period (the option period shall not be more than ten years from the grant date). All of the outstanding options shall lapse if the option period expires, the holders loss of office or cease to be the member of the Group.

An offer shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option, duly signed by the Eligible Person, together with the remittance of HK$1 in favor of the Company, irrespective of the number of Shares in respect of which the Option is accepted, as consideration for the grant is received by the Company.

The subscription price (the "Subscription Price") in respect of any particular option shall be such price as the Board may at its absolute discretion determine at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the Subscription Price must be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

No options under the Share Option Scheme have been granted and no options remain outstanding and unexercised during the year ended 31 December 2018.

As of the Latest Practicable Date, the remaining life of the Share Option Scheme is about 6 years and 2 month.

## Purchase, Sale or Redemption of Listed Securities

The Company or any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the Reporting Period.

## Management Contracts

Save for labor contracts, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

## Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2018 is as follows:

| | Percentage of the Group's total sales (%) | | Percentage of the Group's total purchases (%) |
|---|---|---|---|
| The largest customer | 10.00 | The largest supplier | 23.75 |
| Five largest customers in aggregate | 30.08 | Five largest suppliers in aggregate | 56.74 |

None of the Directors or their associates or any Shareholder holding more than 5% equity interest in the Company had any interest in any of the Group's five largest customers or five largest suppliers.

## Auditor

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by BDO Limited ("BDO"), who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution on re-appointment of BDO as the external auditor of the Company will be proposed at the forthcoming annual general meeting for Shareholders' approval.

## Material Litigation and Arbitration

During the Reporting Period, so far as is known to the Directors, the Group was not involved in any litigation, arbitration or claims of material importance and there was no litigation or claims of material importance to be pending or threatened by or against the Company.

## Permitted Indemnity Provisions

The Articles of Association of the Company provide that the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all losses or liabilities which they incur or sustain as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted. The Company has taken out and maintained directors' liability insurance which provides appropriate coverage for the Directors and directors of the subsidiaries of the Company.

*Chairman*
**Xie Yingxia**

28 March 2019

# CORPORATE GOVERNANCE REPORT

## Compliance with the Corporate Governance Code

The Company is committed to achieving and maintaining high standards of corporate governance. The Board believes that effective corporate governance and disclosure practices are not only crucial to the enhancement of the Company's accountability and transparency and investor confidence, but also critical to the Group's longterm success. The Company has adopted the code provisions in the Corporate Governance Code contained in Appendix 14 of the Listing Rules as its own code on corporate governance.

During the Reporting Period and up to the Latest Practicable Date, the Company has complied with the provisions of the Corporate Governance Code, saved as the deviations (with reasons for deviation) disclosed in this report.

### *Code Provision A.1.1*

Code Provision A.1.1 stipulates that board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the Reporting Period, the Board held 2 regular meetings. The Board considers that during the Reporting Period, the Group had no significant matters which required to convene formal Board meetings for discussion. Nevertheless, the Board maintains good communications with each Director through other informal means and ensures that each Director is updated with the latest developments of the Group in a timely manner. The Board also holds provisional meetings to review, discuss and decide specific matters related to the development and strategy of the Group as and when required.

## Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiries, all Directors confirmed that they had complied with the required standards as set out in the Model Code during the Reporting Period.

## Board of Directors

### *Duties and Divisions*

The Board acts for the interest of all Shareholders and is responsible for the general meeting. The Board is mainly responsible for executing the resolutions of the general meeting, overseeing and supervising all material matters of the Company, including developing and approving the overall strategy for management and operation, operation plan and investment proposals, reviewing organization structure, the systems of internal control and risk management and the financial performance regularly, determining dividend policies, developing, reviewing and monitoring policies and practices on corporate governance of the Company and the code of conduct applicable to employees and Directors, reviewing and monitoring the training and continuous professional development of Directors and senior management, policies and practices of the Company on compliance with legal and regulatory requirements, reviewing the Company's compliance with the code and disclosure in the Corporate Governance Report, monitoring operational activities and performance of senior management, so as to protect and enhance the interests of the Company and its Shareholders. In respect of overseeing specific aspects in the Company's affairs, the Company has established 3 committees of the Board, i.e. the audit committee, the remuneration committee and the nomination committee. The Board has delegated various authorities to each of the committee of the Board, particulars of which are set out in the terms of reference for each committee.

# CORPORATE GOVERNANCE REPORT

The Board makes decisions on matters with specific responsibilities, and the management is authorized to execute and manage the daily affairs of the Company.

During the Reporting Period and up to the Latest Practicable Date, the Board had, among other things, considered and approved the annual budget, management performance and the latest performance as compared with the annual budget as well as the business reports of the management, the annual results for the year ended 31 December 2018, monitored the significant operational management and assessed the internal control and financial matters of the Group.

### *Board Composition*

The Board currently comprises nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. The profiles of these Directors are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

### *Board Meetings*

The Board shall meet regularly and hold at least four Board meetings each year, so as to discuss the overall strategies and operational and financial performances of the Group. For the year ended 31 December 2018, the Board held 5 meetings in accordance to the operational and business development of the Group, including 2 regular meetings and 3 provisional meetings. The attendance of each Director is detailed as follows:

| | Attended meetings/ convened meetings | Attendance rate |
|---|---|---|
| ***Executive Directors*** | | |
| Ms. Xie Yingxia *(Chairman)* | 5/5 | 100% |
| Mr. Ling Chao | 5/5 | 100% |
| Mr. Peng Cheng | 5/5 | 100% |
| Mr. Wang Jun | 5/5 | 100% |
| Mr. Chan Ka Wing | 5/5 | 100% |
| ***Non-executive Director*** | | |
| Mr. Tseung Hok Ming | 5/5 | 100% |
| ***Independent Non-executive Directors*** | | |
| Mr. Cao Guoqi | 5/5 | 100% |
| Mr. Cao Kuangyu | 5/5 | 100% |
| Mr. Lee Ho Yiu Thomas | 5/5 | 100% |

During the Reporting Period, the Company held each regular meeting with prior notices of fourteen days, to ensure that all Directors have the opportunity to propose matters to be discussed into the agenda. The Company held provisional meetings with reasonable notice, to enable all Directors to attend in their conveniences.

## Chairman and Chief Executive Officer

Ms. Xie Yingxia serves as the Chairman of the Company.

The duties of the Chairman include: (a) approve and monitor the strategies and policies of the Company, annual budget and business planning, assess the performance of the Company, and oversee the management of the Company; (b) lead and monitor the duties of the Board to ensure the efficiency of the Board, perform due responsibilities, and discuss on all significant and appropriate issues in a timely manner; (c) ensure that all Directors are timely informed of the issues proposed at the Board meetings in due course, and all Directors are timely informed of sufficient and accurate information; and (d) examine and monitor the implementation of resolutions by the Board.

Mr. Jin Chungen serves as the Chief Executive Officer of the Company.

The duties of the Chief Executive Officer include: (a) manage the Group's businesses and coordinate the overall business operations; (b) participate in the formulation and implementation of the Group's policies and strategies approved by the Board, including facilitating the implementation of the Board resolutions, the annual operation plans and the investment plans of the Company; (c) with the assistance from the senior management team, submit the annual budget for the consideration and approval of the Board; (d) formulate the basic management systems of the Company, terms of reference, position standards and professional management procedures of each department as well as the performance assessing standards of the management of each level; and (e) fulfill other authorities granted by the Articles of Association of the Company and the Board.

There is no financial, business, family or other material/relevant relationship between the Directors and in particular the Chairman and the chief executive of the Company.

### *Independent Non-executive Directors*

During the Reporting Period, the Board had complied with the requirement as set out in the Listing Rules regarding appointment of at least three independent non-executive directors, one of which shall have appropriate professional qualifications or accounting or related financial management expertise. Independent non-executive directors play an important role through their independent judgments and advice of which is of great influence to the decision of the Board.

Each independent non-executive Director signed a letter of appointment with the Company for a term of three years since their respective dates of appointment. The Company has received an annual confirmation of independence from each of the three independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considered that all the independent non-executive Directors to be independent.

### *Time Commitment of the Directors*

Besides attending formal meetings to learn more about business, the Directors could attend affairs of the Company through other channels, including debriefing to the Company's management, reviewing the operating information provided regularly by the Company and paying on-site visits to the Company's business, in order to gain a full understanding to the Company's business and perform their duties effectively. Having been through serious review, the Board is of the opinion that the Directors had dedicated sufficient time and efforts to perform their duties during the Reporting Period.

### *Directors' Continuous Training*

Pursuant to the Corporate Governance Code, all Directors should participate in the continuous professional training to improve and enrich their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, all Directors have (i) attended the directors' training held by competent professionals engaged by the Company, in relation to, among other things, responsibilities of directors, continuous responsibilities of the listed company on information disclosure, corporate governance and the latest amendment to the Listing Rules; and (ii) went through information on the Listing Rules and other latest information on regulatory requirements. The training records of each Director are kept and updated by the company secretary of the Company.

### *Directors' Insurance*

The Company has always emphasized the importance of risk prevention of our Directors liabilities and continued to purchase liability insurance for all the Directors.

## Board Committees

The Board established the audit committee, the nomination committee and the remuneration committee. The Board committees have been provided with sufficient resources for performing their duties, and are able to seek independent professional advice under proper situation after proposing reasonable requests at the expense of the Company.

## Audit Committee

The Company established the audit committee on 28 May 2012 in accordance with the requirements of Rule 3.21 of the Listing Rules and the Corporate Governance Code. The written terms of reference of the audit committee were formulated in compliance with the Corporate Governance Code. The audit committee is comprised of three members, namely, Mr. Lee Ho Yiu Thomas, Mr. Cao Kuangyu and Mr. Cao Guoqi, all of whom are Independent non-executive Directors. Mr. Lee Ho Yiu Thomas is the chairman of the audit committee. The primary duties of the audit committee include reviewing and supervising the Company's financial reporting processes and internal control systems, nominating and monitoring external auditors and providing advice and comments to the Directors.

For the year ended 31 December 2018, the audit committee held 2 meetings to discuss with the management the accounting standards and practices adopted by the Group, and to approve the results and financial statements of the Company for the year ended 31 December 2017 as well as the interim results and financial statements of the Company for the six months ended 30 June 2018.

The attendance of the meetings is as follows:

| | Attended meetings/ convened meetings | Attendance rate |
|---|---|---|
| Mr. Lee Ho Yiu Thomas *(Chairman)* | 2/2 | 100% |
| Mr. Cao Guoqi | 2/2 | 100% |
| Mr. Cao Kuangyu | 2/2 | 100% |

## Remuneration Committee

The Company established the remuneration committee on 28 May 2012 in compliance with the Corporate Governance Code. The written terms of reference of the committee were formulated in compliance with the Corporate Governance Code. The remuneration committee is comprised of three members, namely, Mr. Cao Guoqi, Mr. Lee Ho Yiu Thomas and Mr. Cao Kuangyu, all of whom are Independent non-executive Directors. Mr. Cao Guoqi is the chairman of the remuneration committee. The primary duties of the remuneration committee include evaluating the performance of executive Directors and senior management and determining their remuneration packages and making recommendations on the remuneration of non-executive Directors.

For the year ended 31 December 2018, the remuneration committee held 1 meeting to consider and review the employee's salary and benefit, as well as the remuneration policies and structure of Directors and senior management of the Company.

The attendance of the meetings is as follows:

| | Attended meetings/ convened meetings | Attendance rate |
|---|---|---|
| Mr. Cao Guoqi *(Chairman)* | 1/1 | 100% |
| Mr. Lee Ho Yiu Thomas | 1/1 | 100% |
| Mr. Cao Kuangyu | 1/1 | 100% |

## Nomination Committee

The Company established the nomination committee on 28 May 2012 in compliance with the Corporate Governance Code. The written terms of reference of the committee were formulated in compliance with the Corporate Governance Code. The nomination committee is comprised of three members, namely, Mr. Cao Guoqi, Mr. Lee Ho Yiu Thomas and Mr. Cao Kuangyu, all of whom are independent non-executive Directors. Mr. Cao Guoqi is the chairman of the nomination committee. The primary duties of the nomination committee include reviewing the structure, size, composition and diversity (including but not limit to gender, age, cultural and educational background, professional experience, skills and knowledge) of the Board; making recommendations on any proposed changes to the Director and senior management to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members; making recommendations to the Board on appointment or re-appointment of the Directors; in identifying suitable individuals, considering individuals on merit and against the objective criteria, with due regard for the benefits of diversity on the Board; reviewing the board diversity policy, as appropriate; and assessing the independence of the independent non-executive Directors.

For the year ended 31 December 2018, the nomination committee held 1 meeting to consider and review the structure and composition of the Board, assess the independence of independent non-executive Directors, nominate the Directors to be retired by rotation and review the board diversity policy.

The attendance of the meetings is as follows:

| | **Attended meetings/ convened meetings** | **Attendance rate** |
|---|---|---|
| Mr. Cao Guoqi *(Chairman)* | 1/1 | 100% |
| Mr. Lee Ho Yiu Thomas | 1/1 | 100% |
| Mr. Cao Kuangyu | 1/1 | 100% |

## Board Diversity Policy

According to the latest amendments to the Listing Rules on board diversity, the Board formulated and adopted the board diversity policy ("Board Diversity Policy"). The Company recognizes the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of Board diversity. The Company will also take into consideration factors based on its own business scope and specific needs from time to time in determining the optimum composition of the Board. The Board has set measurable objectives (in terms of gender, skills and experience) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The nomination committee reviewed the board composition pursuant to the above policy and the requirement of the Listing Rules and was of the opinion that the board members of the Company comply with the Board diversity as required by the Listing Rules in respect of age, educational background and professional experience. For details on the composition of the Board, please refer to section headed "Board Composition" and "Biographical Details of Directors and Senior Management" in this annual report.

## Company Secretary

Ms. Sun Xin was appointed as a joint company secretary of the Company on 28 May 2012, and has been the company secretary of the Company since 21 March 2014. Details of the profiles of Ms. Sun Xin are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

According to Rule 3.29 of the Listing Rules, Ms. Sun Xin took no less than 15 hours of relevant professional training for the year ended 31 December 2018.

## Shareholders' Rights

### *Procedures for Shareholders to convene an extraordinary general meeting*

Pursuant to article 58 of the Articles of Association of the Company, Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so 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 to the requisitionist(s) by the Company.

### *Procedures for making enquiries to the Board*

Any Shareholder who has enquiries or advice may deliver to the Board through mail at Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, or e-mail to admin@dongwucement.com.

### *Procedures for putting forward proposals at general meetings*

Shareholders can feel free to put forward proposals relating to the operations, strategy and/or management of the Group for discussion at general meetings. Such proposals shall be submitted to the Board or the company secretary by written requisition through mail at Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong or using email at admin@dongwucement.com. Pursuant to the Articles of Association of the Company, Shareholders who proposed to submit proposals should convene an extraordinary general meeting in accordance to the procedures as set out in the "Procedures for Shareholders to convene an extraordinary general meeting" above.

In respect of recommendation on proposing certain candidate to be elected as a Director, please refer to (i) the procedures as set out in the Articles of Association of the Company published on the websites of the Company and the Stock Exchange; and (ii) the "procedures for shareholders to propose a person for election as a director of the Company" on the website of the Company.

# CORPORATE GOVERNANCE REPORT

***General Meeting***

During the Reporting Period, the Company convened an annual general meeting on 28 May 2018 to approve (among others) the audited consolidated financial statements of the Group for the year ended 31 December 2017, the reports of Directors and auditor and the re-election of Directors. All Directors have attended the annual general meeting. The attendance of each Director is detailed as follows:

| | **Attended general meetings/convened meetings** | **Attendance rate** |
|---|---|---|
| ***Executive Directors*** | | |
| Ms. Xie Yingxia *(Chairman)* | 1/1 | 100% |
| Mr. Ling Chao | 1/1 | 100% |
| Mr. Peng Cheng | 1/1 | 100% |
| Mr. Wang Jun | 1/1 | 100% |
| Mr. Chan Ka Wing | 1/1 | 100% |
| ***Non-executive Director*** | | |
| Mr. Tseung Hok Ming | 1/1 | 100% |
| ***Independent Non-executive Directors*** | | |
| Mr. Cao Guoqi *(chairman of the remuneration committee and the nomination committee)* | 1/1 | 100% |
| Mr. Cao Kuangyu | 1/1 | 100% |
| Mr. Lee Ho Yiu Thomas *(chairman of the audit committee)* | 1/1 | 100% |

***Nomination of Director***

According to Article 85 of the Articles of Association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting, provided that a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting is given, stating his intention to propose such person for election and also a notice signed by the person to be proposed is given, stating his willingness to be elected, both of which shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting for such election) the period for lodging of such notice(s) shall commence on the day after the despatch of the notice of the general meeting for such election and end no later than seven (7) days prior to the date of such general meeting.

## Internal Control

The Board is responsible for maintaining an effective internal control system to safeguard the assets and the interests of Shareholders of the Group, and regularly reviewing and monitoring the effectiveness of internal control and risk management system to ensure an adequate and sufficient system. The Group implemented internal control system to minimize the risks encountered by the Group, and functioned it as a management tool of daily business operation management. The system only provides reasonable, rather than absolute, guarantee against misstatements or losses.

The Company has adopted a set of guides and policies on internal control, including manuals on corporate governance, to improve the existing internal control system, covering corporate governance, risk management, operation, legal affairs, finance and audit.

During the Reporting Period, the Company has maintained high-level corporate governance. The Board has conducted annual review on the implemented systems and procedures, covering finance, operation, legal compliance control, and risk management functions.

For the year ended 31 December 2018, the Board considered the internal control system of the Company was adequate and effective, and the Company also complied with the code provisions in relation to internal control as set out in the Corporate Governance Code. The Audit Committee will constantly review and assess the effectiveness of the internal control system of the Group, and report the results to the Board. The Board would conduct review and assessment of the internal control system of the Group at least once a year, so as to ensure that it is free from any major supervisory deficiency.

### *Directors' Responsibilities in respect of Financial Statements*

The Directors acknowledge that they are responsible for giving honest, clear, and plain assessment on the performance, position and prospect of the consolidated financial statements as set out in annual and interim reports of the Group in accordance with the statutory requirements and the applicable accounting standards. The Directors also acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2018. Having made all reasonable enquiries, the Directors confirm, to the best of their knowledge, information and belief, that they were unaware of any significant uncertainties relating to the events or situations that may seriously cause doubt on continuing operation of the Company on an ongoing basis. To prepare the financial statements for the year ended 31 December 2018, the Directors have adopted appropriate accounting policies and applied consistently, and made prudent and reasonable judgments and estimates.

### *Risk Management and Internal Control*

In order to ensure efficient operation and efficiency of our business as well as compliance with relevant laws and regulations, the Group emphasizes the importance of establish a sound internal control system. Further, the system is an integral part in mitigating the risks borne by the Group. The Group's internal control system is designed to provide reasonable but not absolute assurance against material misstatement or loss; to manage but not eliminate risks of failure in operational systems or failure to achieve business objectives; and to achieve business objectives. The Board continues to review the internal control system, enabling it an effective and viable system that can provide reasonable assurance, protect our important assets and identify business risks. According to the information available to the Board and its observation, the Board believes that the Group's existing internal control is satisfactory. The Group strives to identify, control and manage risks related to its business activities and implement effective and viable control system, including management structure with specific written terms of reference, sound cash management system as well as regular review on the Group's performance carried out by the Audit Committee and the Board. The Board has reviewed the effectiveness of the internal control system of the Group. It is of the opinion that the internal control system adopted during the year ended 31 December 2018 was sound and effective, and is sufficient to safeguard the investment benefits of the Shareholders and the Company's assets.

### *Main features of the risk management and internal control systems*

Board is responsible for overseeing the risk management and internal control systems of the Group on an ongoing basis. The main duties are as follows:

(a) to set the strategic goal of risk management, evaluate and determine the nature and extent of risk it is willing to take in achieving strategic objectives;

(b) to ensure that an appropriate and effective risk management and internal control systems is established and maintained; and

(c) to review the effectiveness of the risk management and internal control systems at least once a year.

Meanwhile, the Board authorizes the Audit Committee to oversee the financial reporting system, internal control and risk management procedure. The main duties are as follows:

(a) to review the Company's financial control, and, unless expressly under the handling of an otherwise established risk committee under the Board or the Board itself, to review the Company's internal control, risk management systems and other major financial matters;

(b) to review the annual report prepared by the management and certified by the external auditor of the Company, among which, the external auditor shall evaluate the effectiveness of the Company's internal control set out in the financial report and set forth the duties of the management to establish and maintain an effective risk management and internal control systems;

(c) to discuss the risk management and internal control systems with the management to ensure that the management has performed its duty to have an effective system in place. The discussion should include the adequacy of resources of the Company's accounting, financial reporting, risk management and internal control function, staff qualifications and experience, and the sufficiency of training programmes and budget in this regard;

(d) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

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

(f) to review the Group's financial and accounting policies and practices, and to monitor the Company's financial operation and core business status;

(g) to review the external auditor's Letter of Statement on Audit provided to the management, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and management's response;

(h) to ensure that the Board will provide a timely response to the issues raised in the Letter of Statement on Audit provided by the external auditor to the management;

(i) to report to the Board on the matters set out in the Corporate Governance Code under Appendix 14 of the Listing Rules;

(j) to review the following arrangements made by the Company: the employees of the Company may, in confidence, raise concerns about potential improper behaviors arising from financial reporting, internal control, risk management or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigations of such matters and appropriate actions;

(k) to timely ascertain the reasons of resignation of the executive Director, general manager, financial controller or head of internal audit/head of credit control of the Company upon their resignations;

(l) to prepare draft reports or summary of work reports for the prescribed period, the former shall be submitted to the Board for review and the latter shall be included in the Group's quarterly, interim and annual reports;

(m) to consider the proposal of the Board in relation to the appointment, replacement or removal of any member of the Audit Committee and the auditors;

(n) to review regularly the following matters with the Company's financial officer and the external auditor:

   (i) all major deficiencies and serious defects in the internal control measures of financial report during the setting or implementation may adversely impact the capability of recording, handling, summarizing and reporting of financial information; and

   (ii) any fraudulent acts in respect of the management or other employees who play an important role in the internal control over the Company's financial report, regardless of the seriousness of such frauds;

(o) to act as the key representative body to oversee the Company's relationship with its external auditor; and

(p) to consider any other matters as authorized by the Board.

The Company has also set up the internal audit function, which reports directly to the Audit Committee and is responsible for making analysis and independent assessment as to whether the risk management and internal control systems is sufficient and effective.

***Procedures on identifying, assessing and management material risks***

The risk management procedures of the Group are as follows:

Project initiation — to initiate risk management and prepare for relevant activities.

Risk identification — to identify the current risk exposure.

Risk analysis — to conduct two-dimension risk analysis, including the extent of influence and possibility of occurrence.

Risk response — to select the proper risk response and develop strategies to mitigate risks.

Control measures — to propose up-to-date internal control measures and policy and process.

Risk control — to continuously monitor the identified risks and implement relevant internal control measures to ensure the effective operation of risk response strategies.

Risk management report — to conclude the findings of risk assessment and analysis and internal audit, formulate and report an action plan.

***Procedures on handling and disseminating inside information and internal control measures***

The Group handles and disseminates inside information in accordance with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information. In addition, the Company keeps the Directors, senior management and employees appraised of the latest regulatory updates. The Company shall prepare or update appropriate guidelines or policies to ensure the compliance with regulatory requirements. The Board has reviewed the risk management and internal control systems for the year ended 31 December 2018 to ensure the effectiveness and adequacy of the systems. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of Company for the year ended 31 December 2018 were effective and adequate.

## Auditor's Remuneration

BDO Limited was the independent auditor of the Company. For the year ended 31 December 2018, the remuneration payable by the Company to BDO Limited is set out below:

| **Services rendered by the auditor** | **Remuneration** *(RMB'000)* |
| --- | --- |
| Annual audit service | 1,000 |
| Non-audit services (for review of the interim results of the Group) | 130 |
| | 1,130 |

## Investor Relationship

The Company leverages on various formal channels of communication to ensure a fair and transparent disclosure on the business and financial performance. The information of the Company will be published on its website at www.dongwucement.com. The interim and annual reports, circulars and notices of the Group will be uploaded on the websites of the Stock Exchange and the Company and hard copies of the same will be dispatched to the Shareholders in due course.

The website of the Company provides information such as e-mail address, correspondence address and telephone number for public enquiries, as well as information on the business activities of the Company.

The annual general meeting of the Company provides a communicative opportunity between the Board and the Shareholders. The notice for the annual general meeting and related documents will be dispatched to the Shareholders in accordance to the Listing Rules, and will be published on the websites of the Stock Exchange and the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THE REPORT

This report is the third Environmental, Social and Governance (“ESG”) Report of Dongwu Cement International Limited (thereafter referred to as the “Company” or “Dongwu Cement”, together with its subsidiaries, the “Group”), which summarises the performance relating to the Group’s business activities on sustainable development during the Reporting Period from 1st January 2018 to 31st December 2018, and presents the Group’s objectives, management strategies and compliance condition in terms of that respect during the year. The Board of the Group has reviewed this report and confirmed its content to be true, accurate and complete.

### *Reporting guidance and scope*

This report has complied with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited and been prepared in accordance with the actual conditions of the Group. Information relating to the corporate governance has been set out in the Corporate Governance Report on pages 37 to 49 of the annual report of the Group.

This report mainly discloses the environmental and social performance of the Group’s cement segment. The information and data in this report have covered “Suzhou Cement Co., Ltd.”, a subsidiary of the Group in cement segment. The Group will consistently enhance its data collection and gradually expand the scope of disclosure. Please refer to the content index at the end of this report for the disclosure summary of the respective indicators.

### *Feedback*

This report is published both in English and Chinese version. In the event of discrepancies, the Chinese version shall prevail. You are welcome to provide your valuable opinions. You can contact us through following ways:

**Dongwu Cement International Limited**
Address: Unit 08, 43/F., Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong
Tel: (852) 2520 0978
Fax: (852) 2520 0696
Email: admin@dongwucement.com

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## MESSAGE FROM THE CHAIRMAN

Dear stakeholders,

Dongwu Cement has been dedicating to provide high-quality, safe and environmentally-friendly cement products, with an aim to foster the development of infrastructure in China. Sustainable development has gradually become an essential factor in our operational decision-making process. To cope with the rising demands and expectations from stakeholders, Dongwu Cement has maintained regular communication with its customers, staff, suppliers, investors and other stakeholders, through which to recognise the risks and opportunities for sustainable development and reflect them in the objectives, requirements and operational standards in the management system of the Group, seeking to achieve the consistency between the expectation of stakeholders and the sustainable development objective of the Group. As of the ESG disclosure, we have determined to make a more transparent disclosure as compared with the previous year thus to improve our stakeholders' knowledge of our objectives and efforts in environment protection and social responsibility.

**Quality First**

"Quality First, Customer-Oriented" is the principle of our quality control. In order to meet customers' requirements and the Group's quality objectives, we have maintained a stringent product quality control and implemented sustainable procurement, so that every stage of our production process is under close monitoring. During the year, the quality conformity rate of our ex-factory cement was 100%. In addition, we have consistently communicated with our customers and suppliers and improved our management and technology so as to cope with the demands and expectation of relevant parties. During the year, our customer satisfaction rate was 94.8%, and after-sale service satisfaction rate was 96.7%. In the future, we will continuously optimize our product quality to further improve the customer satisfaction.

**People-Oriented**

The Group has been dedicating to ensure the interests of our employees. In addition to complying relevant laws and establishing an internal management system that protects the rights and benefits of the employees, we established the Safety and Environment Department to control our occupational health and safety risks thus to ensure the orderly operation and safe production in our factory workshops. During the year, we conducted safety and environment protection training, analysing the recent production safety incidents in peer companies to improve the awareness of production safety of our employees as a whole. As for community, we have been devoted to contribute to the communities where we operate. During the year, we donated RMB160,000 to charity group to support the poor families in communities where we operate.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Environmental Responsibility

The Group is fully aware that cement production consumes a large amount of resources and can bring impact to the environment. We have been devoted to improve the efficiency of our environment management system, with an aim to reduce pollution. During the year, our environmental mission team conducted the project using cement kilns to facilitate the treatment of solid wastes, technical improvement of pollutant treatment facilities and harbour environment protection, etc.. Besides, our energy leadership team conducted an energy-saving technology improvement project and enhanced the production site management. With those environmental protection and energy-saving measures, we successfully met the emission standard and improved the energy utilisation rate of the Group as a whole in 2018.

We have realised that there are still room to further improve our sustainable development. Looking forward, we will proceed to achieve sustainable development, consistently improving our management principles and objectives in environmental and social practices through promoting production technology improvement and absorbing advanced international experience. I hereby express my sincere gratitude to all our employees, customers and investors for their support and contribution to Dongwu Cement and expect your continued attention and support in the future.

*Chairlady of the Board*
**Xie Yingxia**
**Dongwu Cement International Limited**

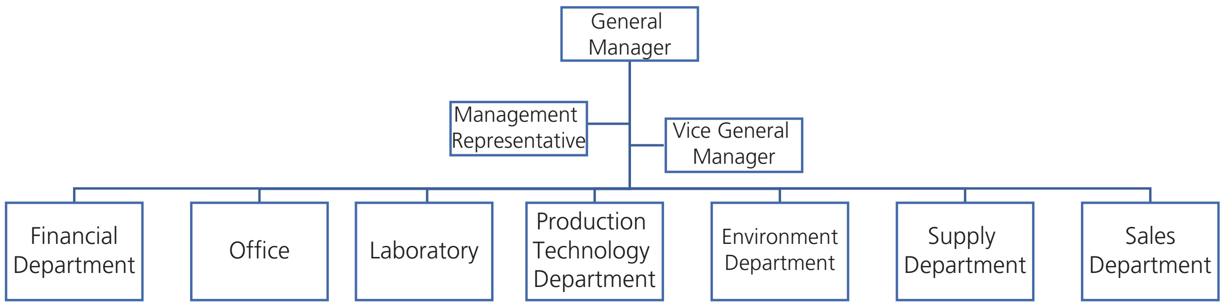
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ESG Management Approach

Our "Quality, Environment and Occupational Health and Safety Management System Handbook" (the "Management Handbook") has been prepared in accordance with the applicable laws and regulations and obtained certifications in terms of three international standards including ISO 9001:2015 Quality Management System, ISO 14001:2015 Environment Management System and OHSAS 18001:2007 Occupational Health and Safety Management System. The Management Handbook is not only the basis of the Group's activities related to quality, environment and occupational health and safety, but also the principle of conduct of all our employees.

| The Principles of ESG Management | | |
|---|---|---|
| Quality First, Customer-Oriented, Service Innovation, Consistent Improvement | To prevent pollution, save energy, lower consumption, reduce emission and comply relevant laws and regulations | To control the risks, protect the health of employees and ensure safe production |

The Group has set a management structure in terms of the quality, environment and occupational health and safety management system (the "Management System"), which is leaded by general manager, and proper senior management member and employee have been assigned as the management representative and employee representative. The Management Handbook has clarified the specialization and responsibility of the management representative, employee representative and each functional department when manage affairs related to above three standards, so as to ensure the effective operation of the Management System.




***The Structure of Quality, Environment and Occupational Health and Safety Management System***

| Management Representative | Employee Representative |
| --- | --- |
| • To organize, establish, implement and maintain the Management System<br>• To report the operation of the Management System to the top management of the Company on a regular basis<br>• To adopt effective measures to improve the occupational health and safety and environment protection awareness of all employees of the Company<br>• To take in charge of the communication with respective external parties in terms of the Management System on behalf of the Group | • To take part in the review of the principles and objectives of occupational health and safety on behalf of the employees and participate in the management assessment<br>• To take part in the discussion of any change that may affect the occupational health and safety in the workplace<br>• To take part in other affairs related to occupational health and safety on behalf of the employees |

When determine and analyze the risks and opportunities for sustainable development, we have taken account of factors such as the Group's internal and external issues, the demands and expectations of stakeholders, the requirements of applicable laws and regulations and the environmental hazards. Then on that basis we establish objectives and implement relevant measures through the Management System to make sure that each department is on the right path to achieve those objectives. In order to improve the performance of the Management System on an ongoing basis, we consistently monitor, measure, analyse and evaluate the ESG related issues by tracking the customer satisfaction and compliance condition, and take correct measures timely according to the internal review results with an evaluation of the effectiveness of those measures after that.

## Stakeholder Engagement

The sustainable development of our Group requires the consideration and balance of the interests of related parties. Through regular communication, we are able to recognise the risks and opportunities for sustainable development and the demands and expectations of the stakeholders, which will then be converted into the objectives, requirements and operation standard of the Management System.

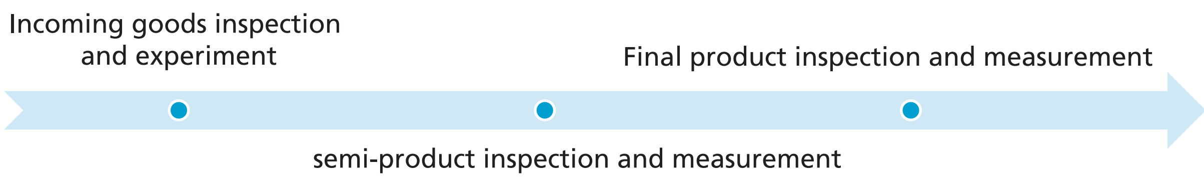
| Stakeholder | Communication Channel | Related Topic | Achievement in the year | Corresponding section |
|---|---|---|---|---|
| Government Authority | • Attending government meeting<br>• Reporting to relevant authorities actively<br>• Accepting supervision voluntarily | • Operation compliance<br>• Environmental emission compliance<br>• Legitimacy of our products | • Complying with relevant laws and regulations<br>• Accepting environment supervision and evaluation to ensure emission meeting relevant standards | • Operational Excellence, Environmental Responsibility |
| Investor/ Shareholder | • General Meeting<br>• Disclosing listing information<br>• Activities such as annual or interim results press conference | • Corporate governance<br>• Business operation<br>• Information disclosure | • Releasing annual ESG report | • Operational Excellence |
| Customer | • Customer complaint mechanism<br>• Customer satisfaction survey | • Customer satisfaction<br>• Product quality and safety<br>• Privacy protection | • Conducting annual customer satisfaction survey with a result of 94.8%<br>• The quality conformity rate of final product was 100% | • Operational Excellence |
| Employee | • Regular and irregular interviews with employees<br>• Employee trainings<br>• Employee activities | • Training and development<br>• Remuneration and benefits<br>• Occupational health and safety | • Organizing introductory training, regular training and safety training<br>• Distributing performance bonus | • Caring for Our People |
| Supplier | • Supplier meeting<br>• Telephone inquiry<br>• On-site inspection | • Communication with suppliers<br>• Third party risk management | • Visiting suppliers on a regular basis and holding supplier meeting | • Operational Excellence |
| Media | • Press conference<br>• Email communication<br>• Telephone interview | • Information disclosure | • Releasing annual ESG report | • Operational Excellence |
| Community | • Participating community activities<br>• Social donation | • Environment protection<br>• Social contribution | • Donating RMB160,000 in total to poor mountainous areas and charity funds | • Caring for Our People |

## Operational Excellence

The products of Dongwu Cement have been widely used in national level projects and awarded by relevant authorities over these years. We maintain an excellent product quality through efficient quality control and sustainable production process, with an aim to create value for our customers and end-users.

### *Product Quality Management*

The quality management section in our quality, environment and occupational health and safety management system has obtained the certification of ISO 9001:2015 Quality Management System. The "Quality, Environment and Occupational health and safety management system Handbook" of the Group has been prepared in accordance with the ISO 9001 standards and the requirements in applicable laws and regulations, in which clarifies the responsibility of staff in respective department in terms of product quality management to ensure the effective operation of the Management System. The Group strictly complies with the relevant product responsibility laws and regulations such as "Product Quality Law of the People's Republic of China" and "Quality Management Procedures Of Cement Enterprise", dedicating to provide high-quality, safe, legitimate cement products.




***The process of product quality control***

In order to meet customers' requirements and our own quality objectives, the Group has formulated control and measuring requirements for every stage in the production process so as to sustain the safety, compliance and high quality of the products from the production to shipping stage. The incoming goods from suppliers shall be inspected by the Laboratory in accordance with "Internal Standard for Raw and Fuel Materials", and, when necessary, the inspector will conduct on-site inspection at the source of the suppliers' goods. In terms of the semi-products in the production process, the operators in central control station will monitor the processing data and inspectors will inspect semi-products of key process in accordance with Quality Management Practice Rules. Once the production process is completed, inspectors will conduct inspection and experiment for final products using national standards and internal standards of the Group. Only products that meet the relevant standards will be arranged for delivery procedure. In 2018, the quality conformity rate of our final product was 100%.

In addition to controlling the product quality in the production process, the Production Technology Department conducts monthly inspection for the production facilities and provides amendment and maintenance when necessary to ensure the production equipment is in perfect condition at any time. As the key department for quality control, the Laboratory is equipped with devices and equipment under "Basic Conditions of Cement Enterprise Laboratory", for which professional technical operators have been arranged to ensure that the Laboratory will be able to inspect the product quality, recognize source of risks and dispose nonconforming products effectively.

### Disposal of nonconforming products

When nonconforming products are identified in the process of incoming goods, semi-products and final products inspection, the Group will dispose those in accordance with "Control Procedure for Non-conformance Correction and Prevention Measure", formulating corresponding measures after cataloging the quality problems, and keeping record. Any nonconforming products will not be delivered to customers, and corrected nonconforming products can only be delivered after passing re-inspection.

### Label and advertisement

Our products are sold in bulk cement or under the registered brand "". Our product labels are marked with "ex-factory cement quality certificate" which contains the requirements of "GB175-2007 General Portland Cement Standards". When promote our brand from time to time in the industry magazine, we publish genuine and appropriate advertising content strictly in accordance with the provisions of Advertising Law of the People's Republic of China, without any incorrect or misleading information.

| Quality Management Objectives | Progress of the Year |
|---|---|
| 100% quality conformity rate of our final product | ✓ |
| Customer satisfaction rate over 90% | ✓ |

## *Customer-Oriented*

### Customer communication

We have maintained constant communication with our customers, listening from them and promoting our technology improvement, in order to satisfy the increasing demands and expectations from customers and other related parties. The Sales Department of the Group is responsible for communication with customers, recognizing their requirements, tracking the product delivery and collecting opinions from customers.

When receiving complaint from customers, Sales Department will inform Laboratory in which technical staff will evaluate and confirm with the customer and then decide to degrade or recall the product based on its nonconforming level. During the year, the Group did not receive any customer complaint related to product quality nor had any product recall.

### Customer satisfaction

The Group focuses on its customers and take customer satisfaction as the foundation to improve product quality. In June 2018, we sent "customer satisfaction survey form" to our customers to research customers' satisfaction to our products and services. According to the statistics, the overall customer satisfaction concluded from this survey is 94.8%, among which after-sale service received the highest mark of 96.7%. Therefore our quality objective to achieve over 90% customer satisfaction has been reached.

- Quality
- Price
- Delivery period
- After-sale service
- Inquire or complaint settlement
- Timely supply of goods

Although the Group has established mutual trust with our long-term customers in terms of quality, price, service and delivery period and maintained a smooth communication with them, we will not stop with that. In the future, we will continuously make use of our advantages and make constant improvements to achieve a higher customer satisfaction for our products and services.

### *Privacy and Intellectual Property Protection*

The Group has complied with the Hong Kong Personal Data Privacy Ordinance to protect the benefits of the customers, including to protect the commercial agreements, business secrets and privacy of our customers. We require technical employees to sign strict confidentiality agreements. Confidential information of our customers is only accessible to employees who are responsible for the corresponding project. If information leakage occurs, we will explain the incident through media to minimise the impact.

In order to protect the intellectual property, we strictly complied with Hong Kong Intellectual Property Law. When the Group engages with its customers and suppliers, it will include the protection of intellectual property in the contractual terms. The Group's legal department will also review all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights.

During the Reporting Period, the Group was not aware of any violation of relevant laws and regulations that have a significant impact on the Group relating health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

***Supply Chain Management***

We have been dedicating to maintain the partnership with our suppliers, since high-quality products require a quality and stable supply chain. We have established an internal procedure to select and manage supplier to ensure their compliance with the national laws, industry standards and the Group's requirements in terms of quality, delivery, service and other relevant respects.

**Procurement procedures**

The Supply Department of the Group selects suppliers according to the "Purchase Control Procedure", evaluates the quality management capability of new suppliers and testes the samples. During the approval process, we collect information related to environmental protection and occupational health and safety from suppliers, and select suppliers with less risks to environmental impact and employee health and safety. Since the materials we purchase include highly polluting raw materials such as bituminous coal, we must ensure that the suppliers of raw materials selected are responsible for the environment. The Group's laboratory shall inspect the purchased articles according to the "Internal Control Standard for Quality of Raw Materials". When quality problems are found, the Supply Department shall contact the supplier, put forward the correction requirements, and record them in the quality file of the supplier. If necessary, the Group's inspectors will go to the supplier's production site for verification.

We included qualified suppliers in the "List of Qualified Suppliers", from which departments can choose to purchase. In addition to regular follow-up, the Supply Department will evaluate the qualified suppliers at any time according to market changes, and verify the article sources of the suppliers who are subject to verification according to the "Control Procedure for Inspection and Measurement of Products". All qualification records and quality records of suppliers shall be properly kept by the Supply Department for future follow-up. When the inspector confirms the supplier as unqualified, we will return the articles and stop purchasing from the supplier if it is found unqualified twice.

**Green procurement**

The Supply Department is an important gatekeeper to ensure that the equipment and facilities used in the production process and routine operations are of high efficiency and low energy consumption. In the procurement of energy products and equipment, we prohibit the purchase of obsolete products and equipment specified in the "Catalogue for the Elimination of Obsolete Production Capacity, Technology and Products", the "Catalogue for the Elimination of Obsolete Mechanical and Electrical Equipment (Products) with High Energy Consumption", and the "Industrial Structure Guidance Catalogue". When replacing existing products and equipment, we also try our best to adopt efficient energy-saving products, or energy-saving products and equipment encouraged by the State, so as to promote the effective operation of energy management of the Group.

**Continuous communication**

Through visits to suppliers, telephone consulting, supplier meetings and other means, we keep regular communication with suppliers, establish good relationship, and maintain the supply chain so that our products are of high quality and stability.

### *Honest Sales*

The Group values and adheres to the principles of honesty and fairness, and adopts a "zero tolerance" attitude towards corruption. The Group strictly complied with the "Criminal Law of the People's Republic of China", the "Anti-Unfair Competition Law of the People's Republic of China" and Hong Kong's "Prevention of Bribery Ordinance", and implemented anti-corruption measures in the routine operation of the Group. All employees of the Group are required to be in compliance.

The Group established the "Prevention of Commercial Bribery Management Policy" to fully practice the integrity of the enterprise. We encourage employees to report any form of corruption, extortion, fraud, bribery, money laundering, false statements or falsification to their superiors, and a number of employee WeChat groups were established within the Group to enable employees to report any misconduct to department leaders. The Group was also provided with inspection teams and reporting channels to enable employees and all persons involved in the Group's business, including customers and suppliers, to report to the Group any suspected misconduct within the Group. Where conflicts of interest are likely to arise, employees are required to report to Group management in a timely manner.

During the Reporting Period, the Group was not aware of any violation of laws and regulations that prevent bribery, extortion, fraud and money laundering and have a significant impact on the Group. The Group was not involved in any corruption cases.

## Human-oriented Culture

The Group considers employees as its invaluable assets and is committed to safeguarding the interests of employees and protecting them with comprehensive system for assuring their rights.

### *Employment Practices*

The Group is in strict compliance with the relevant laws and regulations in relation to employment in Mainland China, including the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, etc. We have formulated and implemented the Human Resources Procedures and Human Resources Management System based on national standards, in order to create a fair, just and friendly working environment for our employees. The Group offers equal treatment and opportunities to all employees regardless of their sex, race and religious belief, and takes zero-tolerance attitude towards any kind of discrimination.

The Group prevents the occurrence of child or forced labour through various methods including evaluation. During the recruitment process, the Group makes it clear that only persons of or over 16 years old are qualified for employment. In this regard, it inspects documents strictly and handles candidates' identification documents carefully to prevent any occurrence of child labour.

In terms of recruitment, the Group has internally formulated an Employee Recruitment Management Provision to recruit employees with clear and open criteria. Since the Group has adopted the principles of "comprehensive performance evaluation, appointing the best person for the job on the basis of merit, internal election before external recruitment", the Human Resources Department would publish recruitment advertisements when there is no suitable candidates qualified for promotion within the Group. After the receipt of application requests, we will conduct primary evaluation of the abilities of candidates based on the conditions set out in the Recruitment Demand Letter and arrange for interviews by the heads of the department concerned and further screening based on positions by the deputy managers or general manager in charge of such recruitment. Only after obtaining the final approval, the candidate can be recruited as a probationary employee. In the meantime, we also protect employees' right for resignation by following resignation procedures in line with the Management Provisions on Resignation of Employees. The Human Resources Department and department leaders would communicate and interview with such resignation applicants to understand their reasons and retain outstanding employees when necessary.

### Remuneration and benefits

Salaries of employees are composed of basic salaries, overtime payments and performance bonus. Salaries are subject to adjustment in accordance with the annual performance appraisal of employees and can also include performance bonus, which is good for encouraging employees to break their limits and achieve perfection. For benefits, we provide employees with diversified benefits. In order to create a good working atmosphere for employees to unleash their maximum abilities, the office building of the Group has set up a recreation room for employees to enjoy leisure time. We maintained five insurances and one fund, namely, pension, medical, unemployment, work injury and maternity insurances and housing provident fund, for our employees in accordance with the Social Insurance Law of the People's Republic of China. Employees are also entitled for marriage, maternity, miscarriage, annual and work injury leaves. All of the above policies can protect the basic benefits and rights of employees. In addition, we also offer additional holiday and allowance such as holiday allowance, heat allowance, paid annual leave and recreation activities e.g. tour and gathering, so that employees can relax themselves after work and enjoy physical and mental health.

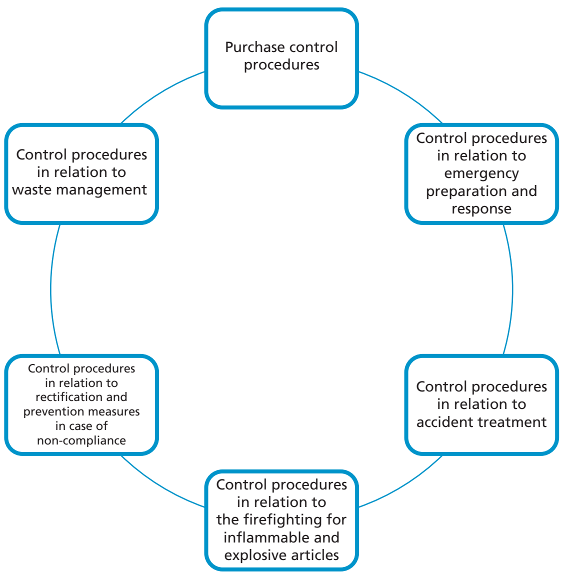
During the Reporting Period, the Group was not aware of any violation of laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, anti-discrimination, prevention on child and forced labour and other benefits and welfare. There was also no cases in relation to child and forced labour during the year.

### *Health and Safety*

#### Safety management structure

The Group understands the importance of employees to the success and sustainable development of the Group. In order to protect the occupation safety of employees and provide with them a healthy and safe working environment, we have established a comprehensive quality, environmental and occupational health and safety management system in accordance with the Requirements on Quality Management System, the Requirements and Guidelines on Environmental Management System and the Requirements on Occupational Safety and Management System, and implemented, maintained and continuously improved such system's effectiveness. The Safety and Environment Department is responsible for identifying risks affecting the occupational health and safety, and discerning and updating major risks for managing and controlling such risks.

For activities, products and services associated with environmental factors and occupational health and safety risks, we have established operational procedures from the several aspects as shown in the chart and the Safety and Management Department is responsible for the supervision and inspection on the implementation. During the production process, safety officers are responsible for the coordination of environmental and labour protection matters and conducting the relevant supervision and inspection work. When choosing suppliers, the Group shall add requirements on environmental protection and occupational health and safety in contract or supplementary agreements. Meanwhile, the Supply Department shall evaluate the environmental protection and labour protection performance of suppliers and monitor and oversee their behaviors in order to choose the most suitable suppliers meeting the Company's environmental and occupational safety and management requirements. Furthermore, we have established the Management System on Safety Production to guarantee the orderly operation and production safety of our workshops.



The Group has obtained the OHSAS 18001:2007 Occupational Health and Safety certification, which represents our occupational health and safety management system has achieved international standards. The Group has always been in strict compliance with the relevant laws and regulations of China, including the Production Safety Law of the People's Republic of China, the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, the Special Equipment Safety Law of the People's Republic of China, the Regulation of the People's Republic of China on Prevention and Control of Pneumoconiosis (《中華人民共和國塵肺病防治條例》) and the Rules of Work Injury Insurance of Jiangsu Province (《江蘇省工傷保險條例》), as well as the relevant regulations of Hong Kong, such as the Occupational Safety and Health Ordinance.

### Safety education

To implement the Group's occupational health and safety related policies, we regularly arrange safety training. All employees are required to attend relevant training, including education at the level of company, workshop and group team, to ensure employees are equipped with the necessary safety production knowledge, familiar with the relevant safety production rules and regulations as well as safe operating procedures, and master the safe operation skills of their positions.

According to the Management Regulations on Employee Training, safety education training should be carried out before new employees or employees for job reshuffle starting to work, and before major festivals. The accumulated daily education for the whole year should not be less than 6 times. Safety education training for employees at special positions invloving in hazardous operations must be carried out at least 4 times every year. Engagement in any actual duty assignments is forbidden for employees who have not received or passed the safety production education or training.

### Highlight for safety education

In July 2018, we conducted safety and environmental protection knowledge training with a major focus on the analysis of safety accidents occurred in the peer production, to teach the basic knowledge related to safety production technology, fire protection and occupational health management, as well as the knowledge and matters needing attention about environmental protection standards and other production processes, and carried out test on safety production knowledge. Through this training, the participants have mastered the relevant knowledge of safety production and environmental protection and also have acknowledged the importance of safety production and environmental protection, which have a significant influence on improving the management level of safety production and environmental protection.

### Safe production

Relevant employees at special positions should wear labor protection articles to avoid common occupational diseases such as pneumoconiosis and ear diseases. In addition, we ensure that employees at special positions should hold relevant qualifications and can only be employed after being certified such qualifications. In terms of fire protection, we strictly abide by the Fire Control Law of the People's Republic of China and the Fire Regulations of Jiangsu Province, and conduct one-to-two emergency rescue training and drill every year to enable all employees familiar with emergency arrangements. Office staffs are prohibited from smoking in office areas and public areas, and also prohibited from drinking alcohol when working and during lunch break.

| Occupational Health and Safety Management Objectives | Progress of the Year |
|---|---|
| Incident rate of major casualty to be 0 | ✓ |
| Fire incident rate to be 0 | ✓ |
| Occupational disease incident rate to be 0 | ✓ |
| Minor work-related injury less than 1% | ✓ |

During the Reporting Period, the Group was not aware of any violations of laws and regulations concerning the provision of a safe working environment and the protection of employees from occupational hazards and which have a significant impact on the Group. There was no case of work-related fatality or occupational diseases during the year.

### *Staff Training and Development*

The Group attaches great importance to the comprehensive development of its employees and implements diversified training modes and management methods based on performance appraisal. Employees can not only learn the correct concepts and technologies, but also consolidate their professional knowledge and skills by way of assessments. This helps them make progress and reach their highest potential.

In terms of training modes, the Group provides three types of trainings, including internal, external, employee self-improvement trainings. At the same time, it combines them with management methods based on performance appraisal with a view to enhance the capacities of its employees through probation, regular and year-end assessments.

Our internal trainings include induction training, job skill training and safety education training. New employees must participate in induction trainings where they can learn the business philosophy, code of employee, quality awareness and practical procedures of the Group. They must take part in the probation assessment organized by the Human Resources Department and relevant department after the training courses and only the qualified ones can become formal employees. The Group also provides employees with targeted trainings on skills necessary for different positions in order to enhance their practical work capability. Employees are also required to pass the assessment including examinations or on-site assessment organized by the Human Resources Department and relevant department after the training courses. Those who fail must participate in the trainings again and can only take up their jobs formally after they pass. In addition to internal trainings, the Group also provides its employees with external and self-improvement trainings, encouraging them to enhance their personal potential and achieve development on their own.

**Induction Training**

- Three months after induction
- About business philosophy, code of employee, quality awareness, general responsibilities and practical procedures of the Group
- Assessed by examination

**Regular Training**

- Mainly designed for improving job skills
- On-site assessment

**Safety Training**

- About knowledge and rules for safety Production and skills for safety operation of individual positions

Besides probation assessment designed for new employees, employees are required to take part in regular training once a month, which are carried out by department heads for assessing the work efficiency, conduct, attitude and knowledge of the employees in the department, and the results and comments will be recorded. They are also required to participate in year-end appraisals at the end of December every year for assessment of their working capacities. Relevant results will be one of the references for internal promotion in the Group. The Group will also determine the salary increase of employees based on the comments. With diversified training and effective management based on performance appraisal, the employees can improve their capabilities significantly and develop together with the Group.

***Caring for Communities***

The Group is committed to contributing to the communities in which it operates and creating value for the local society. During the year, we donated RMB60,000 and RMB100,000 to the poverty-stricken rural areas in Guizhou and Wujiang Charity Foundation to support underprivileged families in the region. The Group also actively encourages its employees to participate in charitable activities and contribute to the society. We will invest more in the communities in the future with an aim to thrive together with our communities and achieve sustainable development.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Environmental Responsibility

### *Environmental Management*

The environmental management section of the Group's quality, environment and occupational health and safety management system has been certified by the ISO 14001:2015 environmental management system standards. We have set up an Environmental Leadership Group to take charge of the establishment, implementation and improvement of the environmental management system. The Environmental Leadership Group is dedicated to promoting the effective operation of the environmental management system by setting management guidelines and goals to ensure that the emissions generated from production process can meet the standards and the daily operation of the Group can be maintained above the certification standards of the ISO14001:2015 environmental management system.

The Group strictly complies with the relevant environmental laws and regulations, including the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on the Prevention and Control of Water Pollution, the Law of the People's Republic of China on the Prevention and Control of Environment Pollution by Solid Waste and the Emission Standard for Industrial Enterprise Noise at Boundary (《工業企業廠界環境噪聲排放標準》), etc. During the year, the Group was not aware of any violation of laws and regulations that have a significant impact on the Group relating to the emission of exhaust gas and greenhouse gas, the discharge of pollutants to water or soil or the generation of hazardous or non-hazardous waste.

### *Energy Management*

The production of cement consumes resources and emits $CO_2$ and has considerable impact on environment. Therefore, the Group strictly complies with the Law of the People's Republic of China on Conserving Energy, effectively manages energy in operation and proactively delves into new processes with high energy efficiency and low environmental load to achieve the sustainable development of cement industry.

#### Adoption of new production process

Bituminous coal is an indispensable fuel during the cement production process and the Group is committed to exploring new process to reduce coal consumption and pollution while actively developing its business. Dongwu Cement adopts new dry process cement production process, which can significantly reduce the coal consumption for per tonne of clinker. We also use residual heat of waste gas from cement kilns as heat source to reduce our reliance on fossil fuels for heat, saving 10,412 tonnes of standard coal per year. During the year, the energy leadership group completed the technology upgrading project for high pressure blowers by equipping 5 high pressure blowers with frequency converters, which is expected to further save 1,000 tonnes of standard coal per year.

### Energy Leadership Group

The Energy Leadership Group arranges various energy-consuming departments to prepare the Energy Objectives and Targets Management Programmes of the following year, which includes the feasibility study for energy management projects and review of management methods, in early December of each year. In addition to the annual plan, the group summarizes energy management system operation information and energy performance on a quarterly basis and reports the summary to the Company. The group is also responsible for receiving national and industrial energy management policies, standards and other requirements and reviewing the applicability of such received external information and delivering the same in a timely manner.

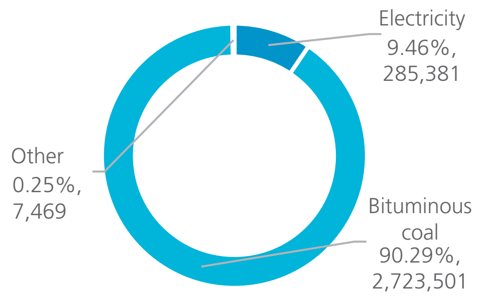
**Main content of the Energy Target Indicator Management Plan**

- Forming energy measures and anticipating the energy savings to be realized
- Proposing the technical and operation methods and problems that should be paid attention to during the implementation process
- Determining the human, material and financial resources needed for energy saving projects
- Determining the time schedule for energy saving projects
- Determining the implementation procedures and verification method of energy saving projects

### *Resources Consumption*

The energy types involved in the daily business operation of the Group mainly include electricity, bituminous coal, petrol and diesel. In 2018, the total energy consumption of the Group amounted to 3,016,351 GJ, among which Bituminous coal accounted for approximately 90%. Energy consumption intensity is 5.81 GJ per thousand RMB revenue. In addition, the Group's packaging materials consumption is mainly laminating woven bags, being 180 tonnes during the year.

Energy consumption distribution
(GJ)



**Construction of pure low-temperature residual heat power station**

In order to save electricity, the Group built a 4.5MW pure low-temperature residual heat power station in 2009, which generate electricity by driving the steam turbine using the furnace and kiln exhaust gas in the cement production process. After the power station was put into operation, the Group can reduce the annual purchase of electricity of approximately 27.40 million kWh from the East Grid, and also reduce the consumption of coal for power generation and the indirect greenhouse gas emissions arising from burning coal for power generation.

### *Water Resources Management*

Our main water source is urban tap water, and its uses include production water and office water. In order to save water resources, Dongwu Cement adopts the closed-circuit circulating water system, and the production water is transported from each workshop to the circulating pool, and the reuse rate can reach over 95%. The remaining sewage that cannot be recycled, including domestic sewage, is treated by the domestic sewage treatment device after collection, and then used for greening in the plant area to achieve zero discharge.

During the year, the Group consumed a total of 22,967 tonnes of water and produced and recovered 9,000 litres of sewage. The water consumption intensity is 0.044 tonnes per thousand RMB revenue. The Group did not have any issue in sourcing water that is fit for the purpose.

### *Emission Control*

**Exhaust emission**

The main pollutants of the Group are sulfur dioxide, nitrogen oxides and particulate matter. The sources of emissions include kiln emissions from cement production and vehicle emissions. For the exhaust from the kiln, we use the electrostatic precipitator and the denitration device to purify the exhaust. For the exhaust from vehicle, we ensure the emission meets the national standards through the annual inspection. For other air pollutants such as dust, we collect it through a bag collector and discharge it after purification. Our pollution prevention equipment is operated synchronously with the production process equipment. The Group also receives supervision and assessment every year to ensure that the treated exhaust meets the national and industrial emission standards such as the "Integrated Emission Standards for Air Pollutants" and the "Air Pollution Emission Standards for Cement Plants".

In 2018, the Group discharged a total of 17,410.47 kg of sulfur oxides, 452,714.82 kg of nitrogen oxides and 14,702.96 kg of particulate matter. The following table shows the pollutant discharge data for factory kilns and vehicles of the Company.

| Air emission | Unit | Stationary source emission (kiln exhaust) | Mobile source emission (vehicle exhaust) |
|---|---|---|---|
| Sulfur oxides ($SO_x$) | Kg | 17,410 | 0.47 |
| Nitrogen oxides ($NO_x$) | Kg | 452,580 | 134.82 |
| Particulate matters (PM) | Kg | 14,690 | 12.96 |

### GHG emission

In 2018, our total GHG emissions were 733,951.68 tonnes of carbon dioxide equivalent ($tCO_2e$), of which direct emissions and indirect emissions were 678,183.44 $tCO_2e$ and 55,768.24 $tCO_2e$, respectively. The emission intensity was 1.41 $tCO_2e$ per thousand RMB revenue.

| | Unit | GHG emission |
|---|---|---|
| Total emissions | $tCO_2e$ | 733,951.68 |
| Direct emissions (Scope 1) | $tCO_2e$ | 678,183.44 |
| Indirect emissions (Scope 2) | $tCO_2e$ | 55,768.24 |

### Waste disposal

The non-hazardous waste generated by the Group includes solid waste and domestic waste generated from the production process. The waste generated in the Dongwu Cement's production process mainly includes waste refractory bricks and scrap metal, which are recycled by qualified third-party collectors. Domestic waste is entrusted to the Management Office for Environmental Health of Lili Town, Wujiang District for collection and disposal. During the year, the Group produced a total of 158 tonnes of non-hazardous waste, of which 98 tonnes were recycled and 60 tonnes were disposed. The Group's operation does not involve the generation of hazardous waste.

The Group advocates the "Repair and Reuse". During the year, we strengthened the routine maintenance and repaire of production equipment and extended the service life of consumables to reduce the production of waste.

**2018 key emission reduction and greening work**

**Completion of the construction of the "Project of Cooperative Disposal of Solid Waste with Cement Kiln"**
The Environmental Leadership Group completed the construction of the "Project of Cooperative Disposal of Solid Waste with Cement Kiln". The completion of the project solves the problem of local waste disposal and provides a timely and effective way to deal with local environmental emergencies.

**Technical transformation of environmental protection facilities**
During the year, Dongwu Cement upgraded two electrostatic precipitators in the cement kiln to significantly reduce the energy consumption of the equipment and reduce pollutant emissions by improving dust removal efficiency.

**Creation of a "garden" factory**
During the year, Dongwu Cement carried out a comprehensive improvement of the factory appearance, and planted green lawns on both sides of the main road in the plant and beautified the plant and the silo.

**Environmental remediation of the port terminal**
The Environmental Leadership Group planted trees along the port terminal and renovated the public facilities of the terminal to beautify the environment along the terminal.

### *Noise Control*

In order to reduce the noise emitted by industrial parks day and night, the Group adopts qualified sound-absorbing equipment and regularly cleans and inspects the use of equipment to ensure that the noise emission is lower than the allowable limit required by the "Environmental Noise Emission Standard for Industrial Enterprises". During the year, the Group achieved its goal of satisfying noise emission standards.

### *Green Office*

The Group's office has implemented various programs to encourage employees to work with the Group to save energy, reduce waste and build a green office.

- Regularly monitor the consumption volume of paper, toner cartridges and ink cartridges in the office
- Promote green information and electronic communication to implement "paperless system" and "systematization" concepts
- Place environmental tips on office equipment
- Utilise double-side printing, and single-side printing is only available for official documents and confidential documents

| **Environmental management objectives** | **Progress of the Year** |
|---|---|
| Noise emission meets standards | ✓ |
| Control dust at the production site to meet the standards for dust emission | ✓ |
| 100% solid waste classification and collection rate and 100% unified treatment rate | ✓ |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Performance Data Summary

| | | Unit | 2018 |
|---|---|---|---|
| | Resources consumption | | |
| | Energy consumption | GJ | 3,016,351 |
| | Energy consumption intensity | GJ per thousand RMB revenue | 5.81 |
| | Electricity | kWh | 79,272,550 |
| | Bitumite | Tonnes | 126,088 |
| | Petrol | Litres | 19,470 |
| | Diesel | Litres | 191,162 |
| | Water resource | Tonnes | 22,967 |
| | Water resource consumption intensity | Tonnes per thousand RMB revenue | 0.044 |
| | Emission | | |
| | Greenhouse gas emission | | |
| | Scope1: direct carbon emission | $tCO_2e$ | 678,183.44 |
| | Scope2: indirect carbon emission | $tCO_2e$ | 55,768.24 |
| | Total | $tCO_2e$ | 733,951.68 |
| | Greenhouse gas emission intensity | $tCO_2e$ per thousand RMB revenue | 1.41 |
| Environmental | Exhaust emission | | |
| | $SO_x$ | Kg | 17,410.47 |
| | $NO_x$ | Kg | 452,714.82 |
| | PM | Kg | 14,702.96 |
| | Hazardous waste | Tonnes | No hazardous waste was generated from the operation of the Group. |
| | Non-hazardous waste | | |
| | General waste | | |
| | Generated | Tonnes | 158 |
| | Recycled | Tonnes | 98 |
| | Disposed | Tonnes | 60 |
| | Sewage | | |
| | Generated | Litres | 9,000 |
| | Recycled | Litres | 9,000 |
| | Packaging materials | | |
| | Compound plastic bags | Tonnes | 180 |
| Social | Community Donations | RMB | 160,000 |

## Environmental, Social and Governance Reporting Guide Index

| KPI | Requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange | | Section/note |
|---|---|---|---|
| **A. Environmental** | | | |
| **Aspect A1:** | | | |
| **Emissions** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | | Environmental Responsibility – Environmental Management and Energy Management |
| | KPI A1.1 | The types of emissions and respective emissions data. | Environmental Responsibility – Emission Control |
| | KPI A1.2 | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Environmental Responsibility – Emission Control |
| | KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | No hazardous waste was generated from the operation of the Group |
| | KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Environmental Responsibility – Emission Control |
| | KPI A1.5 | Description of measures to mitigate emissions and results achieved. | Environmental Responsibility – Emission Control |
| | KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Environmental Responsibility – Emission Control |

| KPI | Requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange | | Section/note |
|---|---|---|---|
| **Aspect A2:** | | | |
| **Use of Resources** | **General Disclosure**<br>Policies on the efficient use of resources, including energy, water and other raw materials. | | Environmental Responsibility – Energy Management |
| | KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | Environmental Responsibility – Resources Consumption |
| | KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Environmental Responsibility – Water Resources Management |
| | KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Environmental Responsibility – Energy Management |
| | KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Environmental Responsibility – Water Resources Management |
| | KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Environmental Responsibility – Resources Consumption |
| **Aspect A3:** | | | |
| **The Environment and Natural Resources** | **General Disclosure**<br>Policies on minimising the issuer's significant impact on the environment and natural resources. | | Environmental Responsibilities – Emission Control, Noise Control and Green Office |
| | KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Environmental Responsibilities – Emission Control, Noise Control and Green Office |

| KPI | Requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange | | Section/note |
|---|---|---|---|
| **B. Social** | | | |
| **Aspect B1:** | | | |
| **Employment** | **General Disclosure**<br>Information on:<br>a) the policies; and<br>b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | | Human-oriented Culture – Employment Practices |
| **Aspect B2:** | | | |
| **Health and Safety** | **General Disclosure**<br>Information on:<br>a) the policies; and<br>b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to providing a safe working environment and protecting employees from occupational hazards. | | Human-oriented Culture – Health and Safety |
| | KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Human-oriented Culture – Health and Safety |
| **Aspect B3:** | | | |
| **Development and Training** | **General Disclosure**<br>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | | Human-oriented Culture – Staff Training and Development |

| KPI | Requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange | | Section/note |
|---|---|---|---|
| **Aspect B4:** | | | |
| **Labour Standards** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to preventing child and forced labour. | | Human-oriented Culture – Employment Practices |
| | KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Human-oriented Culture – Employment Practices |
| | KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | No non-compliance occurred during the year |
| **Aspect B5:** | | | |
| **Supply Chain Management** | **General Disclosure**<br><br>Policies on managing environmental and social risks of the supply chain. | | Operational Excellence – Supply Chain Management |
| **Aspect B6:** | | | |
| **Product Responsibility** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | | Operational Excellence – Product Quality Management, Customers – oriented and Privacy and Intellectual Property Protection |
| | KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Operational Excellence – Privacy and Intellectual Property Protection |

| KPI | Requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange | | Section/note |
|---|---|---|---|
| | KPI B6.4 | Description of quality assurance process and recall procedures. | Operational Excellence – Product Quality Management |
| | KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Operational Excellence – Privacy and Intellectual Property Protection |
| **Aspect B7:** | | | |
| **Anticorruption** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to bribery, extortion, fraud and money laundering. | | Operational Excellence – Honest Sales |
| | KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | No legal proceedings regarding corruption occurred during the year |
| | KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Operational Excellence – Honest Sales |
| **Aspect B8:** | | | |
| **Community Investment** | **General Disclosure**<br><br>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | | Human-oriented Culture –Caring for Communities |
| | KPI B8.1 | Focus areas of contribution. | Human-oriented Culture –Caring for Communities |
| | KPI B8.2 | Resources contributed to the focus area. | Human-oriented Culture –Caring for Communities |

# INDEPENDENT AUDITOR'S REPORT

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永安中心25樓

**TO THE SHAREHOLDERS OF DONGWU CEMENT INTERNATIONAL LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of Dongwu Cement International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 84 to 178, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

## Key Audit Matters *(Continued)*

***Impairment assessment of goodwill and intangible assets***

Refer to Notes 5(f),17 and 19 to the consolidated financial statements.

The gross carrying amounts of goodwill and intangible assets as at 31 December 2018 were approximately RMB9,396,000 and RMB3,258,000 respectively, which were allocated to the cash generating unit ("CGU") of the Biofit Group as described in Notes 17 and 19 to the consolidated financial statements, for the purpose of impairment assessment.

The Company's management made significant judgement and assumptions in determining the recoverable amount of the CGU based on higher of a value-in-use calculation and fair value less costs of disposal, and concluded that there was impairment in respect of the goodwill and intangible assets amounting to RMB9,396,000 and RMB3,258,000 respectively as at 31 December 2018.

We have identified the impairment of goodwill and intangible assets as a key audit matter because of the significant judgement and assumptions involved in the determination of the recoverable amount of the CGU. Significant judgement was involved on the key assumptions adopted in the valuation prepared by independent professional valuer.

**Our response:**

Our audit procedures in relation to management's impairment assessment of goodwill and intangible assets included:

– Evaluating the competence, capabilities and objectivity of the independent professional valuer engaged by the Group to measure the fair value less costs of disposal;

– Checking the arithmetic accuracy of the value-in-use calculation;

– Assessing the reasonableness of the discount rate used and the growth rate applied to the period beyond the fifth year, by reviewing management's assumptions underlying the cash flow projections and comparing them to independent market data and industry forecasts;

– Evaluating the reasonableness of management's key assumptions of the underlying cash flow projections for the five-year period, by comparing historical budgets and achievements and the reasons for any deviations; as well as agreeing the cash flow projections against the latest budgets approved by the respective board of directors;

– Obtaining and evaluating management's sensitivity analysis to assess the impact of reasonably possible changes to the key assumptions of cash flow projections, discount rate and growth rate on the recoverable amount of the CGU; and

– Reviewing the appropriateness of disclosure on impairment assessment.

## Key Audit Matters *(Continued)*

***Impairment assessment of trade, loan and other receivables***

Refer to Notes 5(c) and 24 to the consolidated financial statements.

The gross carrying amounts of the Group's trade, loan and other receivables as at 31 December 2018 were approximately RMB132,662,000, RMB157,400,000 and RMB68,343,000, respectively, and provisions for impairment losses thereon were approximately RMB3,853,000, RMB3,888,000 and RMB1,344,000, respectively.

Management reviews trade, loan and other receivables for expected credit losses ("ECL") on a periodic basis. In determining this, management makes significant judgement on the credit worthiness of the debtors, including whether there have been significant adverse changes in the debtors' financial condition affecting the debtors' ability to settle the debts. Where there is objective evidence of impairment, management estimates the ECL rates that should be made against the receivables, taking into consideration the ages of trade, loan and other receivables, the estimation of future cash flows of these receivables and other forward-looking information.

We have identified the impairment assessment of trade, loan and other receivables as a key audit matter because of significance of the carrying amount of trade, loan and other receivables to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in identification of impairment indicators and the determination of the amount of impairment loss.

Our response:

Our procedures in relation to management's impairment assessment of trade, loan and other receivables included:

– Analysing and testing, on a sample basis, the accuracy of the ageing profiles of trade, loan and other receivables by checking to the underlying sales invoices and other source documents, to ensure that it was appropriate for management to use them for impairment assessment;

– Conducting a detailed discussion with management on significant overdue trade, loan and other receivables as to whether these aged receivables were impaired;

– Reviewing the adequacy and appropriateness of the ECLs made by management with reference to the ageing profiles, default history, settlement records, subsequent settlements and other facts and circumstances currently available for the significant overdue receivables;

– Evaluating the independent valuer's competence, capabilities and objectivity; and

– Engaging in-house valuation specialist to assist us evaluating and assessing the appropriateness of the key assumptions used in ECL calculation by valuer.

## Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Business Review and Management Discussion and Analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and Definitions, Corporate Information, Financial Highlights, Chairman's Statement, Biographical Details of Directors and Senior Management, Directors' Report, Corporate Governance Report and Environmental, Social and Governance Report which are expected to be made available to us shortly after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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.

When we read the Definitions, Corporate Information, Financial Highlights, Chairman's Statement, Biographical Details of Directors and Senior Management, Directors' Report, Corporate Governance Report and Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to audit committee of the Company (the "Audit Committee") and take appropriate action considering our legal rights and obligations.

## Directors' responsibilities for the consolidated financial statements

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

## Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

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

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

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

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

**BDO Limited**
*Certified Public Accountants*
**Chan Wing Fai**
Practising Certificate Number P05443

Hong Kong, 28 March 2019

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000<br>(Re-presented) |
|---|---|---|---|
| Revenue | 7 | **519,403** | 357,563 |
| Cost of sales | | **(381,901)** | (289,475) |
| **Gross profit** | | **137,502** | 68,088 |
| Distribution expenses | | **(4,065)** | (3,324) |
| Administrative expenses | | **(44,860)** | (39,398) |
| Other income | 8 | **45,480** | 16,300 |
| Other gain/(loss) – net | 9 | **(1,293)** | 4,700 |
| **Operating income** | | **132,764** | 46,366 |
| Finance income | | **1,005** | 552 |
| Finance expenses | | **(4,426)** | (3,434) |
| Finance expenses – net | 10 | **(3,421)** | (2,882) |
| Share of results of an associate | 21 | **1,860** | – |
| **Profit before income tax expense** | 11 | **131,203** | 43,484 |
| Income tax expense | 15 | **(41,533)** | (18,388) |
| **Profit for the year** | | **89,670** | 25,096 |
| **Other comprehensive income for the year, net of tax** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | | **(2,466)** | – |
| Other comprehensive income, net of tax | | **(2,466)** | – |
| **Total comprehensive income for the year** | | **87,204** | 25,096 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | **2018** **RMB'000** | 2017 RMB'000 (Re-presented) |
|---|---|---|---|
| **Profit for the year attributable to:** | | | |
| – Owners of the Company | | **90,334** | 25,899 |
| – Non-controlling interests | | **(664)** | (803) |
| | | **89,670** | 25,096 |
| **Total comprehensive income for the year attributable to:** | | | |
| – Owners of the Company | | **87,868** | 25,899 |
| – Non-controlling interests | | **(664)** | (803) |
| | | **87,204** | 25,096 |
| **Earnings per share** | | | |
| – Basic and diluted (RMB per share) | *13* | **0.164** | 0.047 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000<br>(Re-presented) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *16* | **119,440** | 107,648 |
| Land use rights | *18* | **15,296** | 15,700 |
| Goodwill | *17* | **–** | 9,396 |
| Intangible assets | *19* | **403** | 5,630 |
| Deposit paid for acquisition of a subsidiary | *24* | **–** | 4,066 |
| Deposit paid for acquisition of a property | *24* | **20,500** | – |
| Loan and other receivables | *24* | **51,000** | 41,760 |
| Investment in an associate | *21* | **25,860** | 24,000 |
| Amounts due from grantor for contract work | *24* | **5,470** | 6,372 |
| Financial assets at fair value through other comprehensive income | *22* | **6,534** | – |
| Total non-current assets | | **244,503** | 214,572 |
| **Current assets** | | | |
| Inventories | *23* | **27,188** | 25,306 |
| Trade and other receivables | *24* | **357,248** | 326,985 |
| Short-term bank deposits | *26* | **44,400** | 2,240 |
| Cash and cash equivalents | *27* | **35,726** | 28,597 |
| Total current assets | | **464,562** | 383,128 |
| **Current liabilities** | | | |
| Trade and other payables | *28* | **101,194** | 93,930 |
| Income tax payables | | **21,884** | 14,983 |
| Borrowings | *29* | **71,553** | 64,910 |
| Total current liabilities | | **194,631** | 173,823 |
| **Net current assets** | | **269,931** | 209,305 |
| **Total assets less current liabilities** | | **514,434** | 423,877 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000<br>(Re-presented) |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred tax liabilities | *30* | **17,018** | 10,749 |
| Total non-current liabilities | | **17,018** | 10,749 |
| **Net assets** | | **497,416** | 413,128 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *31* | **4,490** | 4,490 |
| Reserves | | **479,264** | 394,312 |
| | | **483,754** | 398,802 |
| **Non-controlling interests** | | **13,662** | 14,326 |
| **Total equity** | | **497,416** | 413,128 |

On behalf of the Board

**Xie Yingxia**
*Director*

**Ling Chao**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Notes | Equity attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Share capital** | **Other reserves** | **Fair value through other comprehensive income reserve** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| | *Notes* | *RMB'000* | *RMB'000 (Note 32)* | *RMB'000 (Note 32(d))* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | | 4,490 | 323,009 | – | 45,404 | 372,903 | 15,129 | 388,032 |
| Profit/(loss) and total comprehensive income for the year | | – | – | – | 25,899 | 25,899 | (803) | 25,096 |
| Appropriations to statutory reserves | *32(a)* | – | 4,465 | – | (4,465) | – | – | – |
| Balance at 31 December 2017 as originally presented | | 4,490 | 327,474 | – | 66,838 | 398,802 | 14,326 | 413,128 |
| Initial application of HKFRS 9 | *2* | – | – | – | (2,916) | (2,916) | – | (2,916) |
| Restated balance as at 1 January 2018 | | 4,490 | 327,474 | – | 63,922 | 395,886 | 14,326 | 410,212 |
| Profit/(loss) for the year | | – | – | – | 90,334 | 90,334 | (664) | 89,670 |
| Other comprehensive income | | | | | | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | *22(a)* | – | – | (2,466) | – | (2,466) | – | (2,466) |
| Total comprehensive income | | – | – | (2,466) | 90,334 | 87,868 | (664) | 87,204 |
| Appropriations to statutory reserves | *32(a)* | – | 9,497 | – | (9,497) | – | – | – |
| At 31 December 2018 | | 4,490 | 336,971 | (2,466) | 144,759 | 483,754 | 13,662 | 497,416 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 2018 RMB'000 | 2017 RMB'000 (Re-presented) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax expense | | **131,203** | 43,484 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | *16* | **15,099** | 14,187 |
| Amortisation of land use rights | *18* | **404** | 404 |
| Amortisation of intangibles assets | *19* | **1,969** | 1,667 |
| (Reversal of)/provision for impairment for trade receivables, net | *24* | **(1,468)** | 3,162 |
| Provision for impairment for amounts due from customers for construction work, net | *24* | **1,338** | – |
| (Reversal of)/provision for impairment for other receivables, net | *24* | **(39)** | 70 |
| (Gains)/losses on disposal of property, plant and equipment | *9* | **(55)** | 402 |
| Finance income | *10* | **(1,005)** | (552) |
| Finance expenses | *10* | **4,426** | 3,434 |
| Share of results of an associate | *21* | **(1,860)** | – |
| Loss on forfeiture of non-refundable deposit | *9* | **1,348** | – |
| Gain on disposal of available-for-sale financial asset | *9* | **–** | (5,102) |
| Guaranteed profit from Biofit Group's former shareholder | *8* | **(24,679)** | – |
| Interest income from loan receivables | *8* | **(9,247)** | (8,045) |
| Impairment loss on goodwill | *17* | **9,396** | – |
| Impairment loss on intangible assets | *19* | **3,258** | – |
| Impairment loss on amounts due from grantor for contract work | *24* | **902** | – |
| Operating profit before working capital changes | | **130,990** | 53,111 |
| Increase in inventories | | **(1,882)** | (2,603) |
| Decrease/(increase) in trade and other receivables | | **41,704** | (60,855) |
| Increase in trade and other payables | | **6,659** | 27,248 |
| **Cash generated from operating activities** | | **177,471** | 16,901 |
| Interest paid | | **(3,367)** | (3,084) |
| Income tax paid | | **(27,391)** | (2,558) |
| Net cash generated from operating activities | | **146,713** | 11,259 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 2018 RMB'000 | 2017 RMB'000 (Re-presented) |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Interest received | | **1,005** | 552 |
| Interest received from loans to Dongtong | | **–** | 19,470 |
| Investment in an associate | | **–** | (24,000) |
| Investment in financial asset at fair value through other comprehensive income | | **(9,000)** | – |
| Purchases of property, plant and equipment | *16* | **(26,948)** | (10,557) |
| Purchases of intangible assets | *19* | **–** | (403) |
| Proceeds from disposal of property, plant and equipment | | **112** | 107 |
| Proceeds from disposal of available-for-sale financial asset | *22* | **–** | 8,000 |
| Loans to third parties | *24* | **(51,000)** | (40,000) |
| (Addition)/withdrawal of short-term bank deposits | *26* | **(42,160)** | 28,760 |
| Deposit refunded/(paid) for acquisition of a subsidiary | *24* | **2,718** | (4,066) |
| Deposit paid for acquisition of a property | *24* | **(20,500)** | – |
| Deposit received for disposal of subsidiaries | *34(i)* | **3,541** | – |
| Net cash used in investing activities | | **(142,232)** | (22,137) |
| **Cash flows from financing activities** | *41* | | |
| Proceeds from borrowings | | **62,528** | 64,910 |
| Repayments of borrowings | | **(55,885)** | (54,000) |
| (Repayment to)/advance from a non-controlling shareholder of a subsidiary | | **(3,995)** | 7,929 |
| Advance from a director of a subsidiary | | **–** | 1,687 |
| Net cash generated from financing activities | | **2,648** | 20,526 |
| **Net increase in cash and cash equivalents** | | **7,129** | 9,648 |
| Cash and cash equivalents at beginning of the year | | **28,597** | 18,949 |
| **Cash and cash equivalents at end of the year** | | **35,726** | 28,597 |
| **Represented by:** | | | |
| Cash and bank balances | | **35,726** | 28,597 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General Information

Dongwu Cement International Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 29 November 2011. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 June 2012. The Company's registered office is at the office of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. In the directors' opinion, the immediate and ultimate holding company of the Company is Goldview Development Limited, a company incorporated in British Virgin Islands (the "BVI").

The Company is an investing holding company. The Company and its subsidiaries as mentioned in Note 20 are collectively referred to as the "Group". The Group is principally engaged in the production and sales of cement, and provision of sewage and sludge treatment operation and construction services. The principal place of the Group's business is Fenhu Economic Development Zone, Wujiang, Jiangsu Province, People's Republic of China (the "PRC").

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

### *(a) Adoption of amendments to HKFRSs – first effective on 1 January 2018*

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKAS 28, Investments in Associates and Joint Ventures |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15) |
| Amendments to HKAS 40 | Transfers of Investment Property |
| HK (IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |

#### A. HKFRS 9 – Financial Instruments

*(i) Classification and measurement of financial instruments*

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### *(a) Adoption of amendments to HKFRSs – first effective on 1 January 2018* *(Continued)*

#### A. HKFRS 9 – Financial Instruments *(Continued)*

*(i) Classification and measurement of financial instruments (Continued)*

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained earnings as of 1 January 2018 as follows:

| **Retained earnings** | *RMB'000* |
|---|---|
| **Retained earnings as at 31 December 2017** | 66,838 |
| Increase in expected credit losses ("ECLs") in other receivables (note 2(a) A(ii) below), net of tax | (2,916) |
| Restated retained earnings as at 1 January 2018 | 63,922 |

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss ("FVTPL"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loan and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) financial assets at FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### *(a) Adoption of amendments to HKFRSs – first effective on 1 January 2018* (Continued)

#### A. HKFRS 9 – Financial Instruments *(Continued)*

*(i) Classification and measurement of financial instruments (Continued)*

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### *(a) Adoption of amendments to HKFRSs – first effective on 1 January 2018* *(Continued)*

#### A. HKFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

The following accounting policies would be applied to the Group's financial assets as follows:

| | |
|---|---|
| Financial assets at FVTPL | Financial assets at FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss. |
| Financial assets at amortised cost | Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss. |
| Financial assets at FVOCI (debt instruments) | Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss. |
| Financial assets at FVOCI (equity instruments) | Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. |

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### (a) Adoption of amendments to HKFRSs – first effective on 1 January 2018 *(Continued)*

#### A. HKFRS 9 – Financial Instruments *(Continued)*

*(i) Classification and measurement of financial instruments (Continued)*

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

| Financial assets | Original classification under HKAS 39 | New classification under HKFRS 9 | Carrying amount as at 1 January 2018 under HKAS 39 *RMB'000* | Carrying amount as at 1 January 2018 under HKFRS 9 *RMB'000* |
|---|---|---|---|---|
| Loan receivables | Loans and receivables | Financial assets at amortised cost | 106,400 | 102,512 |
| Trade and other receivables | Loans and receivables | Financial assets at amortised cost | 258,045 | 258,045 |
| Short-term bank deposits | Loans and receivables | Financial assets at amortised cost | 2,240 | 2,240 |
| Cash and cash equivalents | Loans and receivables | Financial assets at amortised cost | 28,597 | 28,597 |

*(ii) Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECL for loan receivables, trade and other receivables, financial assets at amortised costs and contract assets earlier than HKAS 39. Short-term bank deposits and cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current year.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### *(a) Adoption of amendments to HKFRSs – first effective on 1 January 2018* *(Continued)*

#### A. HKFRS 9 – Financial Instruments *(Continued)*

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

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

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

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables and contract assets

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables and contract asset. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets have substantially the same risk as the trade receivables.

No additional impairment for trade receivables as at 1 January 2018 is recognised under HKFRS 9 as the amount of additional impairment measured under ECLs model is immaterial.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### *(a) Adoption of amendments to HKFRSs – first effective on 1 January 2018* *(Continued)*

#### A. HKFRS 9 – Financial Instruments *(Continued)*

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

Impact of the ECL model *(Continued)*

(b) Impairment of other receivables

Other financial assets at amortised cost of the Group includes loan and other receivables. Applying the ECL model, additional impairment for loan and other receivables of approximately RMB3,888,000 upon the transition to HKFRS 9 as of 1 January 2018 is recognised. There was no change of loss allowances for loan and other receivables during the year ended 31 December 2018.

*(iii) Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;

- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and

- The designation of certain investments in equity investments not held for trading as at FVOCI.

#### B. HKFRS 15 – Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue" and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Directors consider that the application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognised for contracts from (i) production and sale of cement; and (ii) provision of sewage and sludge treatment operation and construction services upon its initial adoption because the Directors are of the view that the Group's inputs are expected to be proportionate, in material aspect, to the progress in satisfying the performance obligation in rendering the services with reference to the Group's typical contracts.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### *(a) Adoption of amendments to HKFRSs – first effective on 1 January 2018* *(Continued)*

#### B. HKFRS 15 – Revenue from Contracts with Customers ("HKFRS 15") *(Continued)*

The Group has elected to use the cumulative effect transition method. Based on the assessment of the Group, no adjustments to the opening balance of equity at 1 January 2018 have been made on the initial application of HKFRS 15. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

| Note | Product/service | Nature of the goods or services, satisfaction of performance obligations and payment terms | Nature of change in accounting policy and impact on 1 January 2018 |
|---|---|---|---|
| (a) | Cement products | Customers obtain control of the cement products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the cement products. There is generally only one performance obligation. Invoices are generally payable within 90 days. | Impact<br>HKFRS 15 did not result in significant impact on the Group's accounting policies. |

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### (a) Adoption of amendments to HKFRSs – first effective on 1 January 2018 *(Continued)*

#### B. HKFRS 15 – Revenue from Contracts with Customers ("HKFRS 15") *(Continued)*

| Note | Product/service | Nature of the goods or services, satisfaction of performance obligations and payment terms | Nature of change in accounting policy and impact on 1 January 2018 |
|---|---|---|---|
| (b) | Sewage and sludge treatment construction services | The Group has determined that for contracts with customers under construction, there may be one or more than one performance obligation, which include the provision of service and the construction. For the provision of service, the Group has determined that the customers simultaneously receive and consume the benefits of the Group's performance and thus the Group concludes that the service should be recognised overtime. For the performance obligation related to the construction, the Group determines that the customers control all the work in progress as the infrastructure is being constructed, in the course of the construction, the work in progress is being enhanced during the terms of the contracts. Therefore, revenue from these contracts are recognised over time. Invoices are issued according to contractual terms and are usually payable within 30-90 days. Uninvoiced amounts are presented as amounts due from customers for construction work. | Impact<br><br>HKFRS 15 did not result in significant impact on the Group's accounting policies. |
| (c) | Sewage and sludge treatment operation services | Revenue is recognised over time as those services are provided. Invoices for sewage and sludge treatment operation services are issued on a monthly basis and are usually payable within 90 days. | Impact<br><br>HKFRS 15 did not result in significant impact on the Group's accounting policies. |

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### *(a) Adoption of amendments to HKFRSs – first effective on 1 January 2018* *(Continued)*

#### C. Others

*Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

*Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions*

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

*Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)*

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### (a) *Adoption of amendments to HKFRSs – first effective on 1 January 2018* *(Continued)*

#### C. Others *(Continued)*

*Amendments to HKAS 40 – Transfers of Investment Property*

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

*HK(IFRIC)–Int 22 – Foreign Currency Transactions and Advance Consideration*

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on the Group's financial statements.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

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

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

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 3, Business Combinations[1] |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKAS 12, Income Taxes[1] |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKAS 23, Borrowing Costs[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |

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

[2] The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

**HKFRS 16 – Leases**

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

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

**HKFRS 16 – Leases** *(Continued)*

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB3,117,000 as disclosed in Note 38. A preliminary assessment indicated that these arrangement will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-to-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short –term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

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

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

**Amendments to HKFRS 9 – Prepayment Features with Negative Compensation**

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

**Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures**

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

## 2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

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

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

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

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

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

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

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

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

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Except for HKFRS 16, the Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

## 3. Basis of Preparation

### *(a) Statement of compliance*

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the rules governing the listing on the Stock Exchange ("Listing Rules").

### *(b) Basis of measurement*

The consolidated financial statements have been prepared under historical cost basis except for the financial assets at fair value through other comprehensive income which are measured at fair value as explained in the accounting policies set out below.

### *(c) 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"), and all values are rounded to the nearest thousand except when otherwise indicated. The consolidated financial statements are presented in Renminbi ("RMB") since majority of the Group's operation are carried out in RMB. The Company's functional currency is Hong Kong Dollars ("HK$") since majority of the activities of the Company are conducted in HK$.

## 4. Significant Accounting Policies

### *(a) Business combination and basis of consolidation*

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

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

## 4. Significant Accounting Policies *(Continued)*

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

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

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

### *(b)* ***Subsidiary***

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (1) power over the investee, (2) exposure, or rights, to variable returns from the investee, and (3) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position (Note 33), investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

### *(c)* ***Associate***

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

## 4. Significant Accounting Policies *(Continued)*

### *(c)* ***Associate*** *(Continued)*

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

In the Company's statement of financial position, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

### *(d)* ***Goodwill***

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually by comparing its carrying amount with its recoverable amount (see Note 4(o)), and whenever there is an indication that the unit may be impaired.

## 4. Significant Accounting Policies *(Continued)*

### *(d) Goodwill (Continued)*

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value-in-use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

### *(e) Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

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

| | |
|---|---|
| Property and plant | 20 years |
| Machinery | 10 years |
| Motor vehicles | 5 years |
| Furniture, fittings and equipment | 5 years |

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(f) Land use rights*

Land use rights represent prepaid operating lease payments. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on straight-line method over the lease period of 50 years.

### *(g) Intangible assets*

Acquired intangible assets are recognised initially at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Patent | 5 years |
| Software | 5 years |
| Sewage treatment concession right | 8 years |
| Money lenders licence | indefinite |

The Group's intangible assets on sewage treatment concession right represent the unconditional rights to operate sewage treatment plant and right to charge users in the PRC. These intangible assets are amortised on straight-line basis over the terms of operation. Both period and method of amortisation are reviewed annually. Intangible assets are tested for impairment as described in Note 4(o).

## 4. Significant Accounting Policies *(Continued)*

### *(h) Leasing*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentive received from the lessor are charged to profit or loss on straight-line method over the lease terms.

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

### *(i) Financial instruments*

#### A. Financial instruments (accounting policies applied from 1 January 2018)

*(i) Financial assets*

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

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

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

Debt instruments

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(i)* ***Financial instruments*** *(Continued)*

#### A. Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

*(i) Financial assets (Continued)*

Debt instruments *(Continued)*

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

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

Equity instruments

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

## 4. Significant Accounting Policies *(Continued)*

### *(i)* ***Financial instruments*** *(Continued)*

#### A. Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

*(ii) Impairment loss on financial assets*

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

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

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

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

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(i) Financial instruments (Continued)*

#### A. Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

*(ii) Impairment loss on financial assets (Continued)*

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

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

*(iii) Financial liabilities*

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

Financial liabilities at amortised cost

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

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

*(iv) Effective interest method*

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

*(v) Equity instruments*

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

## 4. Significant Accounting Policies *(Continued)*

### *(i) Financial instruments* *(Continued)*

#### A. Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

*(vi) Derecognition*

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

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(i)* ***Financial instruments*** *(Continued)*

#### B. Financial Instruments (accounting policies applied until 31 December 2017)

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

*(i) Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

## 4. Significant Accounting Policies *(Continued)*

### *(i) Financial instruments (Continued)*

#### B. Financial Instruments (accounting policies applied until 31 December 2017) *(Continued)*

*(ii) Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Loans and receivables

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Available-for-sale financial assets

Available-for-sale equity investment is carried at cost. Impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

## 4. Significant Accounting Policies *(Continued)*

### *(i)* ***Financial instruments*** *(Continued)*

#### B. Financial Instruments (accounting policies applied until 31 December 2017) *(Continued)*

*(iii) Financial liabilities*

Financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred, and are subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

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

*(iv) Effective interest method*

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

*(v) Equity instruments*

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

*(vi) Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

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

### *(j)* ***Inventories***

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

## 4. Significant Accounting Policies *(Continued)*

### *(k) Revenue recognition*

**Revenue recognition (accounting policies applied from 1 January 2018)**

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

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

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(k) Revenue recognition* *(Continued)*

**Revenue recognition (accounting policies applied from 1 January 2018)** *(Continued)*

*(i) Sales of cement products*

Customers obtain control of the cement products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the cement products. There is generally only one performance obligation. Invoices are generally payable within 90 days. In the comparative period, revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer. The Group's contracts with customers from the sale of cement products generally do not provide customers a right of return and volume rebate.

*(ii) Sewage and sludge treatment construction services*

The Group has determined that for contracts with customers under construction, there may be one or more than one performance obligation, which include the provision of service and the construction. For the provision of service, the Group has determined that the customers simultaneously receive and consume the benefits of the Group's performance and thus the Group concludes that the service should be recognised overtime. For the performance obligation related to the construction, the Group determines that the customers control all the work in progress as the infrastructure is being constructed, in the course of the construction, the work in progress is being enhanced during the terms of the contracts. Therefore, revenue from these contracts are recognised over time. Invoices are issued according to contractual terms and are usually payable within 30-90 days. Uninvoiced amounts are presented as amounts due from customers for construction work.

In the comparative period, the Group applied the accounting policy detailed as per Note 4(s) below. HKFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of HKFRS 15, the Group has to make reclassification from trade and other receivables to contract assets since under HKFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise a contract asset.

*(iii) Sewage and sludge treatment operation services*

Revenue is recognised over time as those services are provided. Invoices for sewage and sludge treatment operation services are generally issued on a monthly basis and are usually payable within 90 days. HKFRS 15 did not result in significant impact on the Group's accounting policies. Same as above, upon the adoption of HKFRS 15, the Group has to make reclassification from trade and other receivables to contract assets since under HKFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise a contract asset.

## 4. Significant Accounting Policies *(Continued)*

### *(k) Revenue recognition (Continued)*

**Revenue recognition (accounting policies applied from 1 January 2018)** *(Continued)*

*(iv) Solid waste processing income*

Revenue is recognised over time as those services are provided. Invoices for solid waste processing income are generally issued on a monthly basis and are usually payable within 90 days. HKFRS 15 did not result in significant impact on the Group's accounting policies.

*(v) Other income*

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income from bank deposits is recognised on a time proportion basis using the effective interest method.

**Contract assets and liabilities**

Contract asset is recognised when (i) the Group completes the construction works under such services contracts but yet certified by architects, surveyors or other representatives appointed by customers, or (ii) the customers retain retention money to secure the due performance of the contracts. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the output method then the Group recognises a contract liability for the difference.

**Contract costs**

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

## 4. Significant Accounting Policies *(Continued)*

### *(k) Revenue recognition* *(Continued)*

**Revenue recognition (accounting policies applied until 31 December 2017)**

Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Revenue from provision of sewage and sludge treatment is recognised when services are rendered.

Revenue from sewage and sludge treatment construction service is recognised by reference to the percentage of completion of the contracts at the reporting date. The stage of completion is measured by reference to the contract cost incurred as a percentage of total actual or estimated project cost (Note 4(s)).

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

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term.

### *(l) Income taxes*

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

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(l)* ***Income taxes*** *(Continued)*

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

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

### *(m)* ***Foreign currency***

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

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

## 4. Significant Accounting Policies *(Continued)*

### *(m) Foreign currency* *(Continued)*

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

### *(n) Employee benefits*

#### (i) Pension schemes

The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the local government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

#### (ii) Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

### *(o) Impairment of non-financial assets*

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment, land use rights, investments in subsidiaries and joint venture and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. Significant Accounting Policies *(Continued)*

### *(o) Impairment of non-financial assets (Continued)*

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

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

Value-in-use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see Note 4(d)), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

### *(p) Capitalisation of borrowing costs*

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

### *(q) Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### *(r) Government grants*

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

## 4. Significant Accounting Policies *(Continued)*

### *(s) Construction contracts (accounting policies applied until 31 December 2017)*

The balances of construction contracts represent the net amount of construction costs incurred to date and recognised profits (less recognised losses), less progress billings and provision for foreseeable contract losses. Construction contract costs are valued at actual cost, and comprise direct materials, direct labour costs, construction machinery costs, other direct costs and construction overheads. For an individual contract whose costs incurred to date plus recognised profits (less recognised losses) exceed progress billings, the gross amount is presented as amounts due from customers for construction work. For an individual contract whose progress billings exceed costs incurred to date plus recognised profits (less recognised losses), the gross amounts due to customers for contract work in advance from customers is presented as advances from customers.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### *(t) Segment reporting*

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business component and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its HKFRSs financial statements, except that administrative expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets exclude cash and bank balances, and corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude current liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

## 4. Significant Accounting Policies *(Continued)*

### *(u) Related parties*

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(u) Related parties (Continued)*

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

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

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

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

### *(v) Build-Operate-Transfer ("BOT") arrangements*

BOT arrangements are accounted for as follows if:

(i) the grantor controls or regulates what services the operator must provide with the assets (i.e. sewage treatment plant), to whom it must provide them, and at what price; and

(ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the assets at the end of the term of the arrangement.

#### The Group's rights over the assets

Assets constructed by the Group under BOT arrangements are not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the assets to the Group. The operator has access to operate the assets to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

#### Considerations received or receivable by the Group for the construction services

Considerations received or receivable by the Group for the construction services rendered under BOT arrangement are recognised at fair value as financial assets or/and intangible assets.

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the assets to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for "Financial instruments" in Note 4(i).

## 4. Significant Accounting Policies *(Continued)*

### *(v) Build-Operate-Transfer ("BOT") arrangements (Continued)*

**Considerations received or receivable by the Group for the construction services** *(Continued)*

An intangible asset (concession right) is recognised to the extent that the Group receives a right to charge for the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent of the service used. The intangible asset (concession right) is accounted for in accordance with the policy set out for "Intangible assets" in Note 4(g).

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components are recognised initially at fair value of the consideration received or receivable.

**Construction or upgrade services**

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" in Note 4(s) and "Revenue recognition" in Note 4(k).

**Operating services**

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" in Note 4(k).

### *(w) Non-current assets held for sale and disposal groups*

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and

## 4. Significant Accounting Policies *(Continued)*

### *(w) Non-current assets held for sale and disposal groups (Continued)*

- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and

- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

If the Group has classified an asset or disposal group as held for sale, but the criteria for classified as held for sale are no longer met, the Group shall cease to classify the asset or disposal group as held for sale and measure them at the lower of:

(a) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and

(b) its recoverable amount at the date of the subsequent decision not to sell.

If the Group ceases to classify a component of the Group as held for sale, the results of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

## 5. Critical Accounting Estimates and Judgements

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

## 5. Critical Accounting Estimates and Judgements *(Continued)*

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

### *(a) Carrying value of property, plant and equipment*

Property, plant and equipment are carried at cost less accumulated depreciation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and value-in-use of an asset or the CGU to which an asset relates. In estimating the recoverable amounts of assets or CGUs, various assumptions, including fair value of CGU, estimated costs of disposal, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group's results of operations or financial position.

### *(b) Useful lives of machinery*

Management determines the estimated useful lives and related depreciation charges for its machinery. This estimate is based on the historical experience of the actual useful lives of machinery of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. Management will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

### *(c) Estimated impairment of trade, loan and other receivables*

The Group maintains a provision for impairment of trade, loan and other receivables arising from the inability of its customers and debtors to make the required repayments. The Group makes its estimates mainly based on the ageing of its trade receivable balances, debtors' creditworthiness, historical default experience and other forward-looking factors. If the financial condition of its debtors was to deteriorate so that expected impairment loss might be higher than the original estimate, the Group would revise the basis of making the impairment. As at 31 December 2018, provision for impairment on trade receivables, amounts due from customers for construction work, amounts due from grantor for contract work, loan receivables and other receivables amounted to RMB3,853,000 (2017: RMB5,380,000), RMB1,338,000 (2017: Nil), RMB902,000 (2017: Nil), RMB3,888,000 (2017: Nil) and RMB6,000 (2017: RMB628,000) respectively.

## 5. Critical Accounting Estimates and Judgements *(Continued)*

### *(d) Estimated write-down of inventories*

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the management's judgement and estimates. Where expectation is different from an original estimate, the difference will impact the carrying values of inventories and may result in write-downs of inventories in the period in which such estimates have been changed.

### *(e) Income taxes*

The Group is mainly subject to income taxes in the PRC. Judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax charges based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

### *(f) Estimated impairment of goodwill and intangible assets*

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amounts of the CGUs to which goodwill and intangible assets relate. The recoverable amount is the higher of the fair value less costs of disposal and value-in-use of a CGU. In estimating the recoverable amounts of CGUs, various assumptions, including future cash flows to be associated with non-current assets, growth rates and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group's results of operations or financial position.

### *(g) Classification between intangible asset or financial asset or property, plant and equipment under BOT arrangement*

The Group makes judgement in determining whether a BOT arrangement entered with a private entity is classified as an intangible asset or financial asset by analogy to HK(IFRIC) Interpretation 12, or as property, plant and equipment in accordance with the applicable accounting standards. For BOT arrangement where (a) the grantor controls or regulates what service the operator must provide with the infrastructure, to whom it must provide them, and at what price; (b) the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, no property, plant and equipment is recognised.

## 5. Critical Accounting Estimates and Judgements *(Continued)*

### *(g) Classification between intangible asset or financial asset or property, plant and equipment under BOT arrangement (Continued)*

The Group further determines whether a financial asset exists to the extent that (a) it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Grantor; (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group will otherwise recognise a BOT arrangement as an intangible asset if the above conditions are not fulfilled.

### *(h) Impairment of intangible assets with indefinite useful lives*

The Group determines whether the intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the fair value less costs of disposal. Estimating the fair value less costs of disposal requires the Group to make an estimate of the fair value and costs of disposal. Further details are included in Note 19 to the consolidated financial statements.

## 6. Segment Information

The chief operating decision-maker for application of HKFRS 8 is identified as the Board of Directors. The segments are managed separately as each business offers different products and services and requires different business strategies. The Group's product and service lines identified as reportable operating segments are as follows:

(i) Production and sale of cement;

(ii) Provision of sewage and sludge treatment operation and construction services; and

(iii) Money lending and financial services.

All of the revenue from external customers and most of the non-current assets of the Group are derived from activities located in the PRC. Accordingly, no geographical information is presented.

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

## 6. Segment Information *(Continued)*

**Year ended 31 December 2018**

| | Production and sale of cement *RMB'000* | Money lending and financial services *RMB'000* | Provision of sewage and sludge treatment operation and construction services *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **Timing of revenue recognition** | | | | |
| At a point in time | 514,963 | – | – | 514,963 |
| Transferred over time | 1,074 | – | 3,366 | 4,440 |
| Segment revenue | 516,037 | – | 3,366 | 519,403 |
| Segment results | 137,815 | (1,439) | 7,378 | 143,754 |
| Unallocated expenses | | | | (12,551) |
| Income tax expense | (39,245) | – | (2,288) | (41,533) |
| Profit for the year | | | | 89,670 |
| **As at 31 December 2018** | | | | |
| Segment assets | 627,311 | 428 | 78,727 | 706,466 |
| Unallocated assets | | | | 2,599 |
| Total assets | | | | 709,065 |
| Segment liabilities | 158,986 | – | 27,675 | 186,661 |
| Unallocated liabilities | | | | 24,988 |
| Total liabilities | | | | 211,649 |

## 6. Segment Information *(Continued)*

**Year ended 31 December 2017**

| | Production and sale of cement RMB'000 | Money lending and financial services RMB'000 | Provision of sewage and sludge treatment operation and construction services RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Timing of revenue recognition** | | | | |
| At a point in time | 356,982 | – | – | 356,982 |
| Transferred over time | – | – | 581 | 581 |
| Segment revenue | 356,982 | – | 581 | 357,563 |
| Segment results | 63,416 | – | (4,297) | 59,119 |
| Unallocated expenses | | | | (15,635) |
| Income tax (expense)/credit | (18,769) | – | 381 | (18,388) |
| Profit for the year | | | | 25,096 |
| **As at 31 December 2017** | | | | |
| Segment assets | 518,787 | 4,485 | 73,108 | 596,380 |
| Unallocated assets | | | | 1,320 |
| Total assets | | | | 597,700 |
| Segment liabilities | 142,520 | – | 27,144 | 169,664 |
| Unallocated liabilities | | | | 14,908 |
| Total liabilities | | | | 184,572 |

Segment revenue reported above represents revenue generated from external customers and revenue from contracts with customer within the scope of HKFRS 15. There were no inter-segment sales for both years. Revenue derived from the single largest external customer amounted to 10.0% of the Group's revenue for the year ended 31 December 2018 (2017: 7.9%).

*Note:* The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

## 7. Revenue

An analysis of revenue is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sale of Ordinary Portland cement strength class 42.5 | **310,846** | 204,429 |
| Sale of Composite Portland cement strength class 32.5R | **204,117** | 152,553 |
| Solid waste processing income | **1,074** | – |
| Provision of sewage and sludge treatment operation and construction services | **3,366** | 581 |
| | **519,403** | 357,563 |

All of the Group's revenue is derived from contracts with customers.

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

| | **31 December 2018** | **1 January 2018** |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Receivables | | |
| – Trade and bills receivables, net *(Note 24)* | **128,809** | 207,748 |
| Contract assets | | |
| – Amounts due from customers for construction work *(Note 25)* | **29,145** | 30,783 |
| – Amounts due from grantor for contract work *(Note 24)* | **6,974** | 7,876 |
| Contract liabilities | | |
| – Advances from customers *(Note 28)* | **(12,774)** | (11,631) |

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the provision of construction services. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

The contract liabilities mainly relate to the advance consideration received from customers. RMB11,485,000 of the contract liabilities as of 1 January 2018 has been recognised as revenue for the year ended 31 December 2018 from performance obligations satisfied in current year.

## 7. Revenue *(Continued)*

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts for provision of sewage and sludge treatment operation and construction services is RMB6,690,000. This amount represents revenue expected to be recognised in the future from long-term construction contracts. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur in the next 12 to 48 months.

The Group has applied the practical expedient to its sales contracts for sales of cement products and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of cement products that had an original expected duration of one year or less.

## 8. Other Income

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Re-presented) |
| Tax refund *(Note (a))* | **11,057** | 4,527 |
| Government grants *(Note (b))* | **706** | 1,160 |
| Interest income from loan receivables *(Note 24)* | **2,839** | 1,760 |
| Interest income from loans to Dongtong *(Note 24)* | **6,408** | 6,285 |
| Exchange (loss)/gain | **(1,067)** | 104 |
| Rental income | **19** | 1,458 |
| Interest income on amounts due from grantor for contract work | **–** | 445 |
| Guaranteed profit from Biofit Group's former shareholder *(Note 34 (iii))* | **24,679** | – |
| Others | **839** | 561 |
| | **45,480** | 16,300 |

*Note:*

(a) This is refund of value added tax ("VAT"). Pursuant to the notice regarding policies relating to VAT on Products Made through the List of Comprehensive Utilisation of Resources and Certain Other Services issued by the Ministry of Finance and the State Administration of Taxation (財政部、國家税務總局關於資源綜合利用產品和勞務增值税優惠目錄的通知) promulgated on 12 June 2015, the Group's PRC subsidiary, Dongwu Cement, is eligible for VAT refund for utilising recycled materials as raw materials for producing cement. VAT refund is recognised as other income upon the receipt of tax refund approval from the tax bureau.

(b) The amount represents government grants to the Group in respect of reduced air pollutant emissions and innovation.

## 9. Other Gain/(Loss) – Net

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Re-presented) |
| Gain on disposal of available-for-sales financial asset *(Note 22)* | **–** | 5,102 |
| Loss on forfeiture of non-refundable deposit *(Note 24(v))* | **(1,348)** | – |
| Gains/(losses) on disposals of property, plant and equipment | **55** | (402) |
| | **(1,293)** | 4,700 |

## 10. Finance Expenses – Net

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Re-presented) |
| **Finance expenses:** | | |
| – Borrowings wholly repayable within 5 years | **(4,200)** | (3,434) |
| – Bill discount | **(226)** | – |
| | **(4,426)** | (3,434) |
| **Finance income:** | | |
| – Bank deposits | **1,005** | 552 |
| Net finance expenses | **(3,421)** | (2,882) |

## 11. Profit before Income Tax Expense

The Group's profit before income tax expense is arrived at after charging/(crediting):

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of inventories sold | **374,801** | 288,031 |
| Depreciation of property, plant and equipment | **15,099** | 14,187 |
| Amortisation of land use rights | **404** | 404 |
| Amortisation of intangible assets | **1,969** | 1,667 |
| (Reversal of)/provision for impairment for trade receivables, net | **(1,468)** | 3,162 |
| Provision for impairment for amounts due from customers for construction work, net | **1,338** | – |
| (Reversal of)/provision for impairment for other receivables, net | **(39)** | 70 |
| Provision for impairment for goodwill | **9,396** | – |
| Provision for impairment for intangible assets | **3,258** | – |
| Provision for impairment for amounts due from grantor for contract work | **902** | – |
| Minimum lease payments under operating leases for buildings | **2,450** | 4,540 |
| Research and development expenses | **6** | 14 |
| Employee expenses (including directors' remuneration) | | |
| – wages and salaries | **21,366** | 19,474 |
| – pension scheme contribution | **3,665** | 3,165 |
| Auditors' remuneration | | |
| – audit services | **1,000** | 912 |
| – non-audit services | **130** | 337 |

## 12. Dividends

A final dividend in respect of the year ended 31 December 2018 of HK$0.0725 per share (tax exclusive) (2017: Nil) was proposed pursuant to a resolution passed by the Board of Directors on 28 March 2019 and subject to the approval of the shareholders at the annual general meetings of the Company to be held on 15 May 2019 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

## 13. Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of RMB90,334,000 (2017: RMB25,899,000) by the weighted average number of ordinary shares in issue during the year of 552,000,000 (2017: 552,000,000).

As there were no dilutive options and other dilutive potential shares in issue for the years ended 31 December 2018 and 2017, diluted earnings per share is the same as basic earnings per share.

## 14. Directors' and Senior Management's Emoluments and Five Highest Paid Individuals

### *(a) Directors' emoluments*

Directors' emolument for the year, disclosed pursuant to the Listing Rules and Section 383 of the Hong Kong Companies Ordinance, (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) is as follows:

| Name | Fees | Salary, allowance and other benefits | Employer's contribution to pension scheme and discretionary bonus | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2018** | | | | |
| *Executive directors* | | | | |
| Ms. Xie Yingxia | – | 202 | – | 202 |
| Mr. Ling Chao | – | 202 | – | 202 |
| Mr. Peng Cheng | – | 1,415 | 15 | 1,430 |
| Mr. Wang Jun | – | 590 | 15 | 605 |
| Mr. Chan Ka Wing | – | 1,314 | 15 | 1,329 |
| *Non-executive director* | | | | |
| Mr. Tseung Hok Ming ("Mr. Tseung") | 202 | – | – | 202 |
| *Independent non-executive directors* | | | | |
| Mr. Cao Guoqi | 152 | – | – | 152 |
| Mr. Cao Kuangyu | 152 | – | – | 152 |
| Mr. Lee Ho Yiu Thomas | 152 | – | – | 152 |
| | 658 | 3,723 | 45 | 4,426 |

## 14. Directors' and Senior Management's Emoluments and Five Highest Paid Individuals *(Continued)*

### (a) *Directors' emoluments* *(Continued)*

| Name | Fees | Salary, allowance and other benefits | Employer's contribution to pension scheme and discretionary bonus | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Year ended 31 December 2017 | | | | |
| *Executive directors* | | | | |
| Ms. Xie Yingxia | – | 208 | – | 208 |
| Mr. Ling Chao | – | 208 | – | 208 |
| Mr. Peng Cheng | – | 1,355 | 16 | 1,371 |
| Mr. Wong Hin Shek *(Note (i))* | – | 893 | 13 | 906 |
| Mr. Wang Jun | – | 564 | 18 | 582 |
| Mr. Chan Ka Wing *(Note (ii))* | – | 452 | 5 | 457 |
| *Non-executive director* | | | | |
| Mr. Tseung Hok Ming ("Mr. Tseung") | 208 | – | – | 208 |
| *Independent non-executive directors* | | | | |
| Mr. Cao Guoqi | 156 | – | – | 156 |
| Mr. Cao Kuangyu | 156 | – | – | 156 |
| Mr. Lee Ho Yiu Thomas | 156 | – | – | 156 |
| | 676 | 3,680 | 52 | 4,408 |

*Notes:*

(i): Resigned on 28 August 2017

(ii): Appointed on 1 September 2017

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2018 (2017: Nil).

## 14. Directors' and Senior Management's Emoluments and Five Highest Paid Individuals *(Continued)*

### *(b) Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 included three of the directors of the Company (2017: four).

Emoluments paid and payable to the remaining two (2017: one) individual for the year ended 31 December 2018 are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries and other benefits | **708** | 339 |
| Employer's contribution to pension scheme | **30** | 16 |
| | **738** | 355 |

Emolument paid to the above non-director highest paid individuals fell within the band of Nil – HK$1,000,000 (2017: Nil – HK$1,000,000).

During the year, no emolument was paid by the Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2017: Nil).

## 15. Income Tax Expense

Taxes on profits assessable in the PRC have been calculated at the applicable tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the relevant laws and regulations in the PRC, the PRC enterprise income tax rate of the PRC subsidiaries was 25% on their taxable profits for the years ended 31 December 2018 and 2017 except for Shanghai Biofit Environmental Technology Co. Ltd ("Biofit") charged at 15% as it successfully obtained the "National High Technology Enterprise" status and the applicable PRC enterprise income tax rate was 15% for the year ended 31 December 2018 (2017: 15%).

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and the BVI during the year ended 31 December 2018 (2017: Nil). No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil).

## 15. Income Tax Expense *(Continued)*

Income tax expense charged to the consolidated statement of comprehensive income represents:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Re-presented) |
| Current tax | | |
| – Current year | **34,292** | 14,153 |
| Deferred tax *(Note 30)* | **7,241** | 4,235 |
| Income tax expense | **41,533** | 18,388 |

Income tax expense for the year can be reconciled to the Group's profit before income tax expense in the consolidated statement of comprehensive income as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Re-presented) |
| Profit before income tax expense | **131,203** | 43,484 |
| Tax calculated at the PRC profits tax rate of 25% (2017: 25%) | **32,801** | 10,871 |
| Effect of different tax rates in other jurisdictions | **(1,463)** | 1,326 |
| Tax effect of share of results of an associate | **(465)** | – |
| Tax effect of expenses not deductible for tax purposes | **4,010** | 2,604 |
| Utilisation of tax losses previously not recognised | **(14)** | – |
| Tax effect of tax loss not recognised | **992** | 513 |
| Tax effect of income not assessable for tax purposes | **(2,764)** | (1,272) |
| Income tax on concession rates | **176** | 188 |
| Deferred taxation on withholding tax | **8,260** | 4,158 |
| Income tax expense | **41,533** | 18,388 |

## 16. Property, Plant and Equipment

| | Properties and plant *RMB'000* | Machinery *RMB'000* | Motor vehicles *RMB'000* | Furniture, fittings and equipment *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Year ended 31 December 2017 (Re-presented)** | | | | | |
| Opening net book amount | 68,886 | 39,343 | 1,188 | 2,024 | 111,441 |
| Additions | 7,676 | 2,746 | 250 | 231 | 10,903 |
| Disposals | – | (384) | (71) | (54) | (509) |
| Depreciation | (7,092) | (6,044) | (462) | (589) | (14,187) |
| Closing net book amount | 69,470 | 35,661 | 905 | 1,612 | 107,648 |
| **At 31 December 2017 (Re-presented)** | | | | | |
| Cost | 156,717 | 199,994 | 3,262 | 11,279 | 371,252 |
| Accumulated depreciation | (87,247) | (164,333) | (2,357) | (9,667) | (263,604) |
| Net book amount | 69,470 | 35,661 | 905 | 1,612 | 107,648 |
| **Year ended 31 December 2018** | | | | | |
| Opening net book amount | **69,470** | **35,661** | **905** | **1,612** | **107,648** |
| Additions | **11,344** | **14,255** | **557** | **792** | **26,948** |
| Disposals | **–** | **–** | **(54)** | **(3)** | **(57)** |
| Depreciation | **(7,464)** | **(6,627)** | **(370)** | **(638)** | **(15,099)** |
| Closing net book amount | **73,350** | **43,289** | **1,038** | **1,763** | **119,440** |
| **At 31 December 2018** | | | | | |
| Cost | **168,061** | **214,249** | **3,204** | **12,052** | **397,566** |
| Accumulated depreciation | **(94,711)** | **(170,960)** | **(2,166)** | **(10,289)** | **(278,126)** |
| Net book amount | **73,350** | **43,289** | **1,038** | **1,763** | **119,440** |

## 17. Goodwill

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| At 1 January | **9,396** | 9,396 |
| Impairment | **(9,396)** | – |
| At 31 December | **–** | 9,396 |

Goodwill arose from a business combination during the year ended 31 December 2015 and it was solely allocated to the CGU, namely the Biofit Group (as defined in Note 34), and together with the intangible assets comprising patent (Note 19) acquired in the same business combination and related to the same CGU, for the purpose of impairment testing.

At 31 December 2017, the recoverable amount of the CGU has been determined by its fair value less costs of disposal based on total consideration of HK$40,000,000 for disposal of the Biofit Group and estimated costs of disposal by reference to the Sale and Purchase Agreement entered by the Group on 5 January 2018 as mentioned in Note 34. The Company's directors are of opinion that the disposal consideration could be considered as fair value as the potential disposal was entered with an independent third party. However, the proposed disposal was terminated on 14 December 2018.

As at 31 December 2018, the management has determined that an impairment loss of RMB9,396,000 (2017: RMB Nil) in relation to goodwill allocated to the CGU of the Biofit Group as the business was not profitable during the year and the recoverable amount of the CGU is less than its carrying amount. The management does not expect Biofit Group to operate at a profit in the foreseeable future. The recoverable amount of the CGU was based on fair values less costs to disposal using cost approach by reference to the cost of producing the same or a substitute of assets with equal utility as the CGU. Other key estimation included the cost of disposal based on estimation by the management of the Group.

## 18. Land Use Rights

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| At 1 January | **15,700** | 16,104 |
| Amortisation | **(404)** | (404) |
| At 31 December | **15,296** | 15,700 |

The Group's land use rights represent prepaid operating lease payments in the PRC on the lease of between 10 to 50 years.

Amortisation of land use rights is included in administrative expenses in the consolidated statement of comprehensive income.

## 19. Intangible Assets

| | Patent | Sewage treatment concession right (Note a) | Money lenders licence (Note b) | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cost: | | | | |
| At 1 January 2017 | 8,879 | 1,025 | – | 9,904 |
| Additions | – | – | 403 | 403 |
| At 31 December 2017 and 1 January 2018 (Re-presented) | 8,879 | 1,025 | 403 | 10,307 |
| Impairment *(Note c)* | (8,879) | (1,025) | – | (9,904) |
| At 31 December 2018 | – | – | 403 | 403 |
| Accumulated amortisation: | | | | |
| At 1 January 2017 | 3,010 | – | – | 3,010 |
| Amortisation | 1,667 | – | – | 1,667 |
| At 31 December 2017 and 1 January 2018 (Re-presented) | 4,677 | – | – | 4,677 |
| Amortisation | 1,969 | – | – | 1,969 |
| Impairment *(Note c)* | (6,646) | – | – | (6,646) |
| At 31 December 2018 | – | – | – | – |
| Net book value: | | | | |
| At 31 December 2018 | – | – | 403 | 403 |
| At 31 December 2017 (Re-presented) | 4,202 | 1,025 | 403 | 5,630 |

*Note a:* This represents the rights to operate sewage treatment plant in the PRC obtained in respect of its BOT arrangement described in Note 24(ii) below. The balance represents the portion of consideration receivable by the Group for the construction service rendered of which the Group has no unconditional right to receive cash from the user based on usage.

*Note b:* This represents a money lenders licence granted in Hong Kong arising from acquisition of entire interest of issued share capital of Golden Stars Assets Management Limited ("Golden Stars") on 8 December 2017 at consideration of HK$450,000 (equivalent to approximately RMB392,000).

## 19. Intangible Assets *(Continued)*

Under Hong Kong Financial Reporting Standard 3 (Revised) "Business Combination", a business consists of inputs and processes applied to those inputs that have the ability to create outputs. As Golden Stars did not meet these criteria, the acquisition is accounted for an acquisition of assets. In such case, the Group identified and recognised the individual identifiable assets acquired and liabilities assumed. The investment cost was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of the acquisition. Thus, approximately RMB403,000 was allocated to the money lenders licence.

The money lenders licence is considered by the directors of the Company as having indefinite useful lives because it is expected that the money lenders licence can be renewed continuously at minimal cost and it will contribute net cash inflows for the Group in the foreseeable future. The money lenders licence will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purpose of impairment testing, the recoverable amount of the money lenders licence has been determined based on fair value less costs of disposal estimated by the management.

*Note c:* During the year ended 31 December 2018, as a result of disappointing results of the Biofit Group during the year and its negative business outlook, the recoverable amount of the Biofit Group as at 31 December 2018 was calculated to be lower than its carrying amount and accordingly, impairment loss on the intangible assets of approximately RMB3,258,000 (2017: RMB nil) was recognised during the year. The recoverable amount of the Biofit Group was determined based on fair value less costs of disposal with reference to a valuation performed by an independent professional valuer, Jiangsu Guoheng Land, Real Estate Property and Asset Valuation Consulting Company Limited（江蘇國衡土地房地產資產評估諮詢有限公司）. The fair value less costs of disposal calculation based on cost approach by reference to the cost of producing the same or a substitute of assets with equal utility as the CGU.

## 20. Particulars of Subsidiaries

The particulars of the Company's subsidiaries as at 31 December 2018 are as follows:

| Name | Place and date of incorporation | Place of operation, principal activities and type of entity | Particulars of issued and paid-in capital/ registered capital | Equity interest held | |
|---|---|---|---|---|---|
| | | | | Direct | Indirect |
| Dongwu International Investment Limited ("Dongwu Investment") | BVI, 29 November 2011 | Investment holding in Hong Kong, a limited liability company | USD50,000 | 100% (2017: 100%) | – |
| Asia Jumbo Limited ("Asia Jumbo") | BVI, 6 January 2016 | Investment holding in Hong Kong, a limited liability company | USD100 | 100% (2017: 100%) | – |
| Jumbo Marvel International Limited ("Jumbo Marvel") | BVI, 15 February 2017 | Investment holding in Hong Kong, a limited liability company | USD1 | 100% (2017: 100%) | – |
| Perfection Point Limited ("Perfection Point") | BVI, 13 April 2017 | Investment holding in Hong Kong, a limited liability company | USD1 | 100% (2017: 100%) | – |
| Times Premium International Limited ("Times Premium") | BVI, 23 October 2017 | Investment holding in Hong Kong, a limited liability company | USD1 | 100% (2017: 100%) | – |
| Extra Prime International Limited ("Extra Prime") | BVI, 22 March 2018 | Investment holding in Hong Kong, a limited liability company | USD1 | 100% | – |
| Dongwu Cement (Hong Kong) Limited ("Dongwu HK") | Hong Kong, 16 December 2011 | Investment holding in Hong Kong, a limited liability company | HK$1 | – | 100% (2017: 100%) |
| Glory Metro Limited ("Glory Metro") | Hong Kong, 15 November 2016 | Investment holding in Hong Kong, a limited liability company | HK$100 | – | 100% (2017: 100%) |

## 20. Particulars of Subsidiaries *(Continued)*

| Name | Place and date of incorporation | Place of operation, principal activities and type of entity | Particulars of issued and paid-in capital/ registered capital | Equity interest held | |
|---|---|---|---|---|---|
| | | | | Direct | Indirect |
| Golden Stars Assets Management Limited ("Golden Stars") | Hong Kong, 8 June 2017 | Money lending in Hong Kong, a limited liability company | HK$10,000 | – | 100% (2017: 100%) |
| Wide Main Limited ("Wide Main") | Hong Kong, 8 January 2018 | Investment holding in Hong Kong, a limited liability company | HK$100 | – | 100% |
| 蘇州東吳水泥有限公司 (Suzhou Cement Co., Ltd.*,"Dongwu Cement") | PRC, 5 June 2003 | Production and sales of cement in the PRC, a limited liability company | USD29,000,000 | – | 100% (2017: 100%) |
| Dongwu Science & Technology Investment Company Limited ("Dongwu Technology") | Hong Kong, 2 October 2013 | Science and technology investment in Hong Kong, a limited liability company | HK$1 | – | 100% (2017: 100%) |
| 熙華(上海)投資管理有限公司 (Xihua Shanghai Investment Management Co., Ltd.*, "Xihua Investment") | PRC, 19 November 2014 | Investment management and consultation in the PRC, a limited liability company | USD10,000,000 | – | 100% (2017: 100%) |
| 上海百菲特環保科技有限公司 (Shanghai Biofit Environmental Technology Co., Ltd.*, "Biofit") | PRC, 5 July 2011 | Provision of sewage treatment operation and construction services in the PRC, a limited liability company | RMB19,468,680 | – | 62.26% (2017: 62.26%) |
| 濟寧百菲特環保科技有限公司 (Jining Biofit Environmental Technology Co., Ltd.*, "Jining Biofit") | PRC, 11 January 2013 | Provision of sewage treatment operation and construction services in the PRC, a limited liability company | RMB10,000,000 | – | 62.26% (2017: 62.26%) |

## 20. Particulars of Subsidiaries *(Continued)*

| Name | Place and date of incorporation | Place of operation, principal activities and type of entity | Particulars of issued and paid-in capital/ registered capital | Equity interest held | |
|---|---|---|---|---|---|
| | | | | Direct | Indirect |
| 紹興祥禹環保科技有限公司 (Shao Xing Xiang Yu Environmental Technology Co., Ltd.*, "Shao Xing Xiang Yu") | PRC, 30 April 2014 | Provision of sewage treatment operation and construction services in the PRC, a limited liability company | RMB3,000,000 | – | 62.26% (2017: 62.26%) |
| 蘇州熙華環保科技有限公司 (Suzhou Xihua Environmental Technology Co., Ltd.*, "Suzhou Xihua") | PRC, 6 April 2016 | Research and development on sewage treatment technology and construction services in the PRC, a limited liability company | RMB10,000,000 | – | 62.26% (2017: 62.26%) |

* The English translation of the entities names are for reference only. The official names of these entities are in Chinese.

## 21. Investment in an Associate

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Unlisted equity investment: | | |
| Cost of investment | **24,000** | 24,000 |
| Share of results of an associate | **1,860** | – |
| | **25,860** | 24,000 |

The Group has a 43.2% (31 December 2017: 48%) interest in an associate, Suzhou Dongtong Environment and Technology Company Limited (蘇州東通環保科技有限公司, "Dongtong Environment and Technology"), which was incorporated in the PRC. The principal activity of Dongtong Environment and Technology is research and development on environmental technology and provision of related services.

## 22. Financial Assets at Fair Value through Other Comprehensive Income/ Available-For-Sale Financial Assets

### (a) *Financial assets at fair value through other comprehensive income*

On 4 April 2018, the Group entered into an equity transfer agreement with Orient Hengxin Capital Holdings Limited* (the "Vendor") which was owned as to 70% by Mr. Tseung, the non-executive director and controlling shareholder of the Company, to acquire 18% equity interests in Suzhou Dongfang Kangtan New Energy Technology Company Limited ("Dongfang Kangtan") at a cash consideration of RMB9,000,000. Dongfang Kangtan, a limited liability company incorporated in the PRC, is principally engaged in the solar power and electric heating, application of grapheme and carbon fiber for heating generation and transmission; the manufacture of floor, under-floor heating and far infrared products; technology transfer and cooperation on intellectual property as well as other operations.

The investment is classified as fair value through other comprehensive income. Fair value loss of this investment of approximately RMB2,466,000 for the year ended 31 December 2018 is recognised with reference to a valuation performed by an independent professional valuer, Jiangsu Guoheng Land, Real Estate Property and Asset Valuation Consulting Company Limited（江蘇國衡土地房地產資產評估諮詢有限公司）.

* The English translation of the entity name is for reference only. Its official name is in Chinese.

### (b) *Available-for-sale financial assets*

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **–** | 2,898 |
| – Disposals *(Note)* | **–** | (2,898) |
| At 31 December | **–** | – |

*Note:* On 26 January 2017, the Group entered into an agreement with an independent third party and disposed of its 5.887% unlisted equity interest in GinkgoPharma Co. Ltd, which is engaged in manufacturing and trading of pharmaceutical products in the PRC, at a consideration RMB8,000,000. A disposal gain of RMB5,102,000 was thus recognised as other gain (Note 9) in 2017.

## 23. Inventories

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **14,010** | 10,264 |
| Work-in-progress | **7,093** | 10,085 |
| Finished goods | **6,085** | 4,957 |
| | **27,188** | 25,306 |

## 24. Trade and Other Receivables

| | 2018<br>*RMB'000* | 2017<br>*RMB'000*<br>*(Re-presented)* |
|---|---|---|
| Trade and bills receivables from third parties | **132,662** | 213,128 |
| Less: provision for impairment *(Note (iv))* | **(3,853)** | (5,380) |
| **Trade and bills receivables, net *(Note (i))*** | **128,809** | 207,748 |
| Amounts due from customers for construction work other than that under the BOT arrangement *(Note 25)* | **30,483** | 30,783 |
| Less: provision for impairment *(Note (iv))* | **(1,338)** | – |
| **Amounts due from customers for other construction work, net *(Note 25)*** | **29,145** | 30,783 |
| **Amounts due from grantor for contract work *(Note (ii))*** | **6,974** | 7,876 |
| Prepayments | **55,424** | 14,738 |
| Loans to 蘇州東通建設發展有限公司 (Suzhou Dongtong Construction and Development Co., Ltd.*,"Dongtong") *(Note (iii))* | **66,400** | 66,400 |
| Loan receivables *(Note (vi))* | **91,000** | 40,000 |
| Advances to suppliers | **2,000** | 2,000 |
| Other receivables | **37,860** | 10,266 |
| Deposit paid for acquisition of a property *(Note (vii))* | **20,500** | – |
| Less: provision for impairment of other receivables *(Note (iv))* | **(6)** | (628) |
| Less: provision for impairment of loans to Dongtong *(Note (iv))* | **(3,888)** | – |
| **Prepayments, deposits and other receivables** | **269,290** | 132,776 |
| **Total trade and other receivables** | **434,218** | 379,183 |
| Less: non-current portion | | |
| – Amounts due from grantor for contract work *(Note (ii))* | **(5,470)** | (6,372) |
| – Deposit paid for acquisition of a subsidiary *(Note (v))* | **–** | (4,066) |
| – Deposit paid for acquisition of a property *(Note (vii))* | **(20,500)** | – |
| – Loan receivables *(Note (vi))* | **(51,000)** | (40,000) |
| – Other receivables | **–** | (1,760) |
| | **(76,970)** | (52,198) |
| **Trade and other receivables – current portion** | **357,248** | 326,985 |

* The English translation of the entity name is for reference only. Its official name is in Chinese.

## 24. Trade and Other Receivables *(Continued)*

As at 31 December 2018 and 2017, no trade and bills receivable were pledged for the borrowings. All non-current receivables are due within five years from the end of the reporting date.

### *(i) Trade and bills receivables*

Credit terms given to its customers in cement segment and sewage and sludge treatment segment generally range from 30 to 90 days (2017: 30 to 90 days). For major customers, depending on their business relationships with the Group and their creditworthiness, the Group may grant them the following credit terms: (i) a revolving credit limit of between RMB1,000,000 and RMB50,000,000 with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days.

Bills receivable represent bills received from customers for settlement of trade receivables. Bills receivable are normally due within 180 days.

The trade and bills receivables are inclusive of value-added tax. Ageing analysis of trade and bills receivables (net of impairment losses) by invoice date and issuance date of bills are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 90 days | **86,320** | 106,743 |
| From 91 days to 180 days | **16,874** | 59,733 |
| From 181 days to 1 year | **22,076** | 35,407 |
| From 1 year to 2 years | **2,206** | 3,473 |
| Over 2 years | **1,333** | 2,392 |
| | **128,809** | 207,748 |

As at 31 December 2018, trade receivables of RMB3,853,000 (2017: RMB5,380,000) had been impaired. The amount of reversal of provision for impaired trade receivables was RMB1,468,000 (2017: provision of RMB3,162,000). The impaired receivables mainly related to the management's lifetime ECL measurement as described in Note 36(c).

## 24. Trade and Other Receivables *(Continued)*

### *(i)* ***Trade and bills receivables*** *(Continued)*

Ageing analysis of the Group's trade and bills receivables that were past due but not impaired is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired *(Note (a))* | **95,072** | 134,253 |
| 1 to 90 days past due *(Note (b))* | **27,941** | 61,101 |
| 91 to 180 days past due *(Note (b))* | **2,257** | 6,529 |
| 181 to 1 year past due *(Note (b))* | **2,206** | 3,473 |
| More than 1 year past due *(Note (b))* | **1,333** | 2,392 |
| | **128,809** | 207,748 |

*Notes:*

(a) The balances that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

(b) These are past due but not impaired and related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Other than trade receivables amounting to approximately RMB1,456,000 as at 31 December 2018 (2017: RMB1,456,000) that are indemnified by the former owners of the Biofit Group for any loss due to non-settlement, the Group does not hold any collateral or other credit enhancements over these balances.

### *(ii)* ***Amounts due from grantor for contract work***

The Group recognised a financial asset – amounts due from grantor for contract work in respect of a BOT arrangement with a private sector entity (the "Grantor"). Under the BOT arrangement, the Group carries out construction work of the sewage treatment plant for the Grantor and receives in return a right to operate such plant for a period of eight years (the "Operation Period") and is entitled to a guaranteed minimum sewage treatment service income over the Operation Period. The plant will be transferred to the Grantor at nil consideration at the end of the Operation Period.

Amounts due from grantor for contract work represents revenue from construction service under the BOT arrangement to the extent that the Group has an unconditional right to receive cash and bear interest at effective interest rate of 6% per annum. The amount is not yet due for payment and will be settled by revenue to be generated during the Operation Period of the BOT arrangement.

## 24. Trade and Other Receivables *(Continued)*

### *(ii) Amounts due from grantor for contract work (Continued)*

Provision for impairment loss of approximately RMB902,000 was recognised during the year ended 31 December 2018 (2017:Nil).

### *(iii) Loans to Dongtong*

On 22 December 2014, in order to stabilise the annual return to the Group, after approval by the board of directors of Dongtong, the Group agreed to receive a fixed annual payment for the period from 23 December 2014 up to 31 December 2017 under the guarantees of two other shareholders of Dongtong. The fixed annual income (which is interest income at a fixed rate of 10.68% per annum) is receivable on 31 December each year and the loan principal of RMB60,000,000 is to be repaid on 31 December 2017. In return, the Group agreed to terminate all its shareholder's rights associated to the investments and the assigned director from the Group to the board of Dongtong has resigned from the directorship. Loans due from Dongtong amounting to RMB66,400,000 are thus initially recognised at fair value and subsequently carried at amortised cost using effective interest method.

Pursuant to an agreement with Dongtong entered into by the Group in December 2017, the maturity date of the loans were deferred to 31 December 2018 with the annual interest rate and other terms unchanged.

Pursuant to an agreement with Dongtong entered into by the Group in December 2018, the maturity date of the loans were further deferred to 31 December 2019 with the annual interest rate and other terms unchanged.

The management has made bad debt provision of the loan and accrued interest receivable from Dongtong of RMB3,888,000 as at 1 January 2018 and 31 December 2018 respectively as Dongtong has further deferred the maturity date of the loan to 31 December 2019.

### *(iv) Movements of the provision for impairment of trade and other receivables are as follows:*

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables: | | |
| Beginning of year | **5,380** | 2,218 |
| Provision for the year | **241** | 3,162 |
| Balance recovered for the year | **(1,709)** | – |
| Write off | **(59)** | – |
| End of year | **3,853** | 5,380 |

## 24. Trade and Other Receivables *(Continued)*

### *(iv) Movements of the provision for impairment of trade and other receivables are as follows: (Continued)*

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Amounts due from customers for construction work: | | |
| Beginning of year | – | – |
| Provision for the year | 1,338 | – |
| End of year | 1,338 | – |

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Other receivables: | | |
| Beginning of year | 628 | 558 |
| Provision for the year | 92 | 70 |
| Balance recovered for the year | (131) | – |
| Write off | (583) | – |
| End of year | 6 | 628 |

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Loan receivables: | | |
| Beginning of year | – | – |
| Initial application of HKFRS 9 | 3,888 | – |
| End of year | 3,888 | – |

The origination and release of provision for impairment of trade receivables, other receivables and loan receivables have been included in administrative expenses in the consolidated statement of comprehensive income. Amounts charged to impairment account are generally written off, when there is no expectation of recovering additional cash. The Group recognised impairment loss in accordance with the accounting policy stated in Note 4(i).

## 24. Trade and Other Receivables *(Continued)*

### *(v) Deposit paid for acquisition of a subsidiary*

On 2 August 2017, the Company entered into a conditional sale and purchase agreement for a proposed acquisition of the entire issued share capital of a company which is licensed to carry out Type 1 (Dealing in securities) regulated activity under the Securities and Futures Ordinance at a total cash consideration of HK$16,000,000 subject to consideration adjustments determined by the net asset value of the target company as at the date of completion of the sale and purchase agreement.

As at 31 December 2017, an amount of approximately RMB4,066,000 has been paid as a deposit. The details of this acquisition are set out in the Company's announcement dated 2 August 2017.

On 25 May 2018, as the requirements stipulated in the sales and purchase agreement could not be fulfilled upon the expiry of the long stop period, the sales and purchase agreement was terminated. As the result of termination of the sales and purchase agreement, the first deposit amounting to approximately RMB1,348,000 as defined in the sales and purchase agreement paid by the Company is non-refundable and the remaining deposits has been refunded to the Company.

### *(vi) Loan receivables*

In 2017, the Group entered into loan agreements to lend to an independent third party an aggregate principal amount of RMB40,000,000 for a period of two years at a fixed interest rate of 6% per annum. The loan principal of RMB30,000,000 and RMB10,000,000 together with interest thereon are repayable on 24 January 2019 and 13 November 2019 respectively. The loan receivables were secured by corporate guarantees given by independent third parties.

In 2018, the Group entered into new loan agreements to lend to independent third parties an aggregate principal amount of RMB51,000,000 for a period of two years at a fixed interest rate from 7% to 12% per annum. The loan principal of RMB22,000,000, RMB9,000,000 and RMB20,000,000 together with interest thereon are repayable on 1 August 2020, 1 December 2020 and 21 December 2020 respectively.

### *(vii) Deposit paid for acquisition of a property*

On 29 June 2018, the Group, as purchaser, entered into a property sale and purchase agreement with Suzhou Tailong Real Estate Development Company Limited* (the "Property Vendor"), pursuant to which the Group agreed to acquire a property at a total consideration of RMB23,000,000. The Group has paid RMB20,500,000 in 2018 and the remaining RMB2,500,000 is payable upon the completion of the transfer of title of the property. Mr. Tseung, the non-executive director and controlling shareholder of the Company, indirectly held 71% equity interests in Dongfang Hengxin Assets Holdings Company Limited which held 100% equity interests in the Property Vendor.

* The English translation of the entity name is for reference only. Its official name is in Chinese.

## 25. Amounts Due from Customers for Other Construction Work

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contracts in progress at the end of year: | | |
| Contract costs incurred | **49,477** | 49,477 |
| Recognised profits less recognised losses | **17,497** | 17,497 |
| | **66,974** | 66,974 |
| Progress billings | **(36,491)** | (36,191) |
| Provision for impairment | **(1,338)** | – |
| | **29,145** | 30,783 |
| Represented by: | | |
| Due from customers included in current assets | **29,145** | 30,783 |

## 26. Short-Term Bank Deposits

The balances as at 31 December 2018 and 2017 are all short-term bank deposits with original maturities exceeding three months. These deposits are all denominated in RMB, with an interest rate from 1.21% to 4.1% (2017: 1.21%) per annum.

## 27. Cash and Cash Equivalents

RMB33,946,000 of the Group's cash and cash equivalents was denominated in RMB as at 31 December 2018 (2017: RMB27,902,000). RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 28. Trade and Other Payables

| | 2018<br>RMB'000 | 2017<br>RMB'000<br>(Re-presented) |
|---|---|---|
| Trade payables | **62,284** | 52,645 |
| Advances from customers *(Note (c))* | **12,774** | 11,631 |
| Salary and bonus payables | **4,190** | 3,983 |
| VAT payables *(Note (a))* | **7,441** | 7,713 |
| Other payables *(Note (b))* | **14,505** | 17,958 |
| | **101,194** | 93,930 |

The credit period granted by the Group's principal suppliers in cement segment is ranged from 30 to 90 days (2017: 30 to 90 days), while those granted in the sewage and sludge treatment segment is ranged from 30 to 90 days (2017: 30 to 90 days).

Ageing analysis of trade payables by invoice date is as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within 30 days | **40,973** | 30,490 |
| From 31 to 90 days | **9,410** | 11,105 |
| From 91 days to 180 days | **3,487** | 1,674 |
| From 181 days to 1 year | **679** | 1,493 |
| From 1 year to 2 years | **7,343** | 5,264 |
| Over 2 years | **392** | 2,619 |
| | **62,284** | 52,645 |

## 28. Trade and Other Payables *(Continued)*

*Notes:*

(a) Domestic sales of self-manufactured products made by the PRC subsidiary are subject to VAT at 17% (2017: 17%). Input VAT on purchases of raw materials, fuel, utilities, other production materials and certain purchased equipment can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

(b) As at 31 December 2018, other payables includes interest of approximately RMB18,000 payable to Mr. Tseung, the non-executive director and controlling shareholder of the Company, accrued on borrowings drawn down under the facility granted Mr. Tseung as disclosed in Note 29. It also includes amount due to a non-controlling shareholder of a subsidiary of approximately RMB4,005,000 (2017: RMB8,000,000).

(c)

| | **31 December 2018** *RMB'000* | **1 January 2018** *RMB'000* | **31 December 2017** *RMB'000* |
|---|---|---|---|
| Advance from customers arising from: | | | |
| – Sales of cement products | 6,084 | 9,621 | – |
| – Provision of sewage and sludge treatment operation and construction services | 6,690 | 2,010 | – |
| | 12,774 | 11,631 | – |

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

**Sales of cement products**

The Group required receipt in advance from some customers before delivery of cement products.

**Provision of sewage and sludge treatment operation and construction services**

Where discrepancies arise between the milestone payments and the Group's assessment of the stage of completion, contract liabilities can arise.

**Movements in advance from customers**

| | **Sales of cement products** *RMB'000* | **Provision of sewage and sludge treatment operation and construction services** *RMB'000* | **2018** *RMB'000* |
|---|---|---|---|
| Balance as at 1 January | 9,621 | 2,010 | 11,631 |
| – Decrease as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (9,475) | (2,010) | (11,485) |
| – Increase as a result of receipt in advance | 5,938 | 6,690 | 12,628 |
| | 6,084 | 6,690 | 12,774 |

## 29. Borrowings

The balances at 31 December 2018 and 2017 are borrowed from banks, independent third parties and Mr. Tseung (Note 40) and repayable within one year. Interest is charged on the outstanding balances of these borrowings at rates ranged between 5.66% and 13% (2017: 5.66% to 9%) per annum. As at 31 December 2018, bank borrowings of approximately RMB5,000,000 (2017: RMB5,000,000) were secured by personal guarantees from a director of the Company, Mr. Ling Chao and his close family members and borrowings of approximately RMB2,656,000 was secured by corporate guarantees from the Company (2017: Nil).

## 30. Deferred Tax Liabilities

Movements in deferred tax assets and liabilities during the year are as follows:

| **Deferred tax assets** | **Provisions** | **Tax losses** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | 548 | 1,248 | 1,796 |
| Credited/(charged) to profit or loss | 800 | (1,248) | (448) |
| At 31 December 2017 as originally presented | 1,348 | – | 1,348 |
| Initial application of HKFRS 9 | 972 | – | 972 |
| Restated balance as at 1 January 2018 | 2,320 | – | 2,320 |
| Charged to profit or loss | (394) | – | (394) |
| At 31 December 2018 | 1,926 | – | 1,926 |

## 30. Deferred Tax Liabilities *(Continued)*

| Deferred tax liabilities | Withholding tax for attributable profit relating to equity holders | Revaluation of intangible assets | Assets in relation to BOT arrangement | Total |
|---|---|---|---|---|
| | *(Note (a))* | | | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | 6,526 | 1,496 | 288 | 8,310 |
| Charged/(credited) to profit or loss | 4,158 | (438) | 67 | 3,787 |
| At 31 December 2017 and 1 January 2018 (Re-presented) | 10,684 | 1,058 | 355 | 12,097 |
| Charged/(credited) to profit or loss | 8,260 | (1,058) | (355) | 6,847 |
| At 31 December 2018 | 18,944 | – | – | 18,944 |

(a) Pursuant to the PRC Corporate Income Tax Law, effective from 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% upon the PRC tax bureau's approval at the time of dividend claim. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in the PRC in respect of their earnings generated from 1 January 2008.

(b) Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets in respect of losses amounting to RMB6,103,000 (2017: RMB3,083,000).

## 30. Deferred Tax Liabilities *(Continued)*

For the purpose of presentation in consolidated statement of financial position, deferred tax assets and liabilities have been offset.

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Re-presented) |
| Deferred tax liabilities, net | **17,018** | 10,749 |

Movements in deferred tax liabilities are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Re-presented) |
| At 1 January as originally stated | **10,749** | 6,514 |
| Initial application of HKFRS 9 | **(972)** | – |
| Restated balance | **9,777** | 6,514 |
| Charged to profit or loss *(Note 15)* | **7,241** | 4,235 |
| At 31 December | **17,018** | 10,749 |

## 31. Share Capital

| | **Number of ordinary shares** | **Nominal value of ordinary shares** | **Equivalent nominal value of ordinary shares** |
|---|---|---|---|
| | | *HK$'000* | *RMB'000* |
| Authorised: | | | |
| Ordinary shares of HK$0.01 each as at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 10,000,000,000 | 100,000 | 81,520 |
| Issued: | | | |
| As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 552,000,000 | 5,520 | 4,490 |

## 32. Other Reserves

| The Group | Share premium | Statutory reserve | Merger reserve | Total |
|---|---|---|---|---|
| | | *(Note (a))* | *(Note (b))* | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | 108,090 | 22,908 | 192,011 | 323,009 |
| Appropriation from retained earnings | – | 4,465 | – | 4,465 |
| At 31 December 2017 and 1 January 2018 | 108,090 | 27,373 | 192,011 | 327,474 |
| Appropriation from retained earnings | – | 9,497 | – | 9,497 |
| At 31 December 2018 | 108,090 | 36,870 | 192,011 | 336,971 |

| The Company | Share premium | Capital reserve | Total |
|---|---|---|---|
| | | *(Note (c))* | |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 108,090 | 207,930 | 316,020 |

### *(a) Statutory reserves*

The Company's subsidiaries in the PRC are required to appropriate 10% of their profit after income tax calculated in accordance with the PRC accounting standards to the statutory reserve until the balance reaches 50% of its registered capital, where further transfers will be at their directors' discretion. The statutory reserve can be used to offset prior years' losses, if any and may be converted into paid-in capital of the PRC subsidiaries in proportion to their existing shareholding after approval from the appropriate authorities, provided that the remaining balance of the statutory reserve after such issue is no less than 25% of paid-in capital for the PRC subsidiaries. For the year ended 31 December 2018, except one of the Company's subsidiaries in the PRC has appropriated RMB9,497,000 (2017: RMB4,465,000), others have reported loss and no appropriation to the statutory reserve (2017: Nil).

## 32. Other Reserves *(Continued)*

### *(b) Merger reserve*

The Company was incorporated on 29 November 2011 and the Group's reorganisation was completed prior to 31 December 2011. This reserve as at 31 December 2018 and 2017 primarily represented the aggregate amount of share capital of the companies now comprising the Group, after elimination of investments in subsidiaries.

### *(c) Capital reserve*

In 2011, Dongwu HK acquired the entire equity interest in Dongwu Cement from Far East International Investment Company Limited ("Far East International", a limited liability company incorporated on 29 September 2003 in Samoa, wholly-owned by the same ultimate shareholder), at a consideration of US$33,000,000 (equivalent to RMB207,930,000). The consideration payable to Far East International was regarded as a deemed distribution to equity holders of the Company. The consideration payable was novated to Goldview Development Limited ("Goldview", a limited liability company incorporated in the British Virgin Islands ("BVI") on 16 March 2004, wholly-owned by the same ultimate shareholder) and Concord Ocean Limited ("Concord", a limited liability company incorporated in the BVI on 25 October 2000, wholly-owned by the then shareholder) in proportion to their then respective shareholdings in the Company and subsequently Goldview and Concord gave written confirmations in relation to their unconditional and irrevocable waiver as to the Company's repayment obligation of US$33,000,000 (equivalent to RMB207,930,000). As such, the waived payable was regarded as deemed contribution from shareholders.

### *(d) FVOCI reserve*

Balance represents the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that are held at the end of the reporting period.

## 33. Statement of Financial Position of the Company

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | | **208,246** | 208,246 |
| Deposit paid for acquisition of a subsidiary | 24 | **–** | 4,066 |
| | | **208,246** | 212,312 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **60,724** | 56,654 |
| Prepayment | | **10** | 9 |
| Cash and cash equivalents | | **300** | 137 |
| Total current assets | | **61,034** | 56,800 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | | **8,358** | 6,625 |
| Other payables | | **3,494** | 4,142 |
| Borrowings | | **3,098** | – |
| Total current liabilities | | **14,950** | 10,767 |
| Net current assets | | **46,084** | 46,033 |
| Total assets less current liabilities | | **254,330** | 258,345 |
| **EQUITY** | | | |
| Share capital | 31 | **4,490** | 4,490 |
| Other reserves | 32 | **316,020** | 316,020 |
| Accumulated losses | | **(66,180)** | (62,165) |
| **Total equity** | | **254,330** | 258,345 |

On behalf of the Board

**Xie Yingxia**
*Director*

**Ling Chao**
*Director*

## 34. Assets and Liabilities of a Discontinued Operation Classified as Held for Sale in 2017

(i) In November 2017, the Board resolved to dispose of Biofit and its subsidiaries (together the "Biofit Group") by disposal of the investment holding company of the Biofit Group (together the "2017 Disposal Group"). The Biofit Group is principally engaged in business of organic wastewater treatment, sludge treatment and disposal, comprehensive treatment of urban organic waste and other integrated environment services. As of 31 December 2017, the Board has received expression of interest and anticipated that the sale would complete within 2018. The major classes of assets and liabilities relating to the 2017 Disposal Group have been classified as held for sale in 2017 financial statements.

The 2017 Disposal Group constitutes a discontinued operation following the classification as held for sale. As the expected disposal proceeds are to exceed its carrying amount, no impairment loss has been recognised immediately before the classification of the non-current assets held for sale.

On 5 January 2018, a wholly-owned subsidiary of the Company (the "Seller"), entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Great Future Development (HK) Limited (the "Purchaser"), pursuant to which the Seller agreed to sell, and the Purchaser agreed to purchase the entire issued share capital of Dongwu Science & Technology Investment Company Limited, being the holding company of the Biofit Group, at a total consideration of HK$40,000,000. The details of this transaction are set out in the Company's announcement dated 5 January 2018. The 2017 Disposal Group was classified as a discontinued operation in 2017's financial statements. In January 2018, the Group has received approximately RMB3,541,000 from the Purchaser in respect of the disposal.

(ii) On 14 December 2018, the Seller and the Purchaser entered into a termination deed (the "Termination Deed"), pursuant to which each of the parties thereto agreed to terminate the Sale and Purchase Agreement with effect from the date of the Termination Deed and release and discharge each other from its respective duties, obligations and liabilities under the Sale and Purchase Agreement.

As a result, the Group ceased to classify the 2017 Disposal Group as held for sale in December 2018, the results of operations of the 2017 Disposal Group previously presented as a discontinued operation as held for sale is reclassified and included in income from continuing operations for all periods presented. The comparative amounts for prior year has been re-represented in accordance with the accounting policy stated in Note 4(w).

## 34. Assets and Liabilities of a Discontinued Operation Classified as Held for Sale in 2017 *(Continued)*

(iii) On 30 April 2015, the Group acquired the entire equity interest in the Biofit Group at a consideration of approximately RMB30,254,000. Shanghai Dongxi Investment Development Company Limited ("Shanghai Dongxi"), one of the vendors, is a company controlled by Mr. Ling Chao, who has been appointed as the Company's executive director after the acquisition.

Pursuant to the sales and purchases agreement, the vendors undertake that the profit after tax of the Biofit Group as shown in its audited financial statements for the period from the cut-off date in 2014 as defined in the agreement (the "Cut-off Date") to 31 December 2014 and for each of the financial years ending 31 December 2015, 2016 and 2017 shall not be less than RMB2,000,000, RMB10,000,000, RMB10,000,000, RMB10,000,000, respectively (each of which referred to as the "Guaranteed Profit"). If there is any shortfall in the Guaranteed Profit in each of the above periods, cash compensation of the shortfall has to be paid by the vendors to the Group within 30 days from the respective dates of the audited financial statements.

On the other hand, pursuant to the sale and purchase agreement, in consideration of the above profit guarantee given by the vendors, the Group agreed to issue share options in respect of a total of 12,800,000 of the Company's shares at an exercise price of HK$1.3 to the vendors, detailed terms of which have to be further agreed between the Group and the vendors. Up to the date of approval of these financial statements, no share option has been issued by the Company to the vendors.

Based on its audited financial statements, the Guaranteed Profits for the years ended 31 December 2015, 2016 and 2017 could not be met by the Biofit Group. Based on a legal opinion given by a PRC lawyer, the Company's directors are of the opinion that, taking into consideration the fact that no share option has been issued by the Company to the vendors since the completion of acquisition of the Biofit Group, it was uncertain whether the Group could enforce its right to recover from the vendors the shortfalls in Guaranteed Profits. Accordingly, the directors considered that the fair value, if any, of the profit guarantee as described above, was not material, and accordingly it has not been recognised in these consolidated financial statements since the completion of acquisition of the Biofit Group.

On 14 December 2018, the Group entered into a supplementary agreement of the sales and purchase agreements with Shanghai Dongxi, pursuant to which (i) the obligation of the Group, if any, for share option issuance is cancelled; (ii) shortfall in the Guaranteed Profit for the period from the Cut-off Date to 31 December 2014 and for each of the financial years ended 31 December 2015, 2016 and 2017 were RMB nil, RMB11,600,000, RMB9,232,000 and RMB13,916,000 respectively; and (iii) payment of the shortfalls in the Guaranteed Profit was revised to be no later than 31 December 2020.

## 34. Assets and Liabilities of a Discontinued Operation Classified as Held for Sale in 2017 *(Continued)*

As a result, the Group has recognised other receivables as at 31 December 2018 and other income of approximately RMB24,679,000 on the shortfall of Guaranteed Profits for the year ended 31 December 2018 by reference to the fair value of receivables in respect of shortfall in the Guaranteed Profit calculated by an independent valuer.

In February 2019, the Group received RMB20,000,000 in cash from Shanghai Dongxi, in respect of shortfall of Guaranteed Profits.

## 35. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting periods are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Financial assets:** | | |
| Financial assets at fair value through other comprehensive income | | |
| – Unlisted equity investments | **6,534** | – |
| Financial assets at amortised cost/loan and receivables | | |
| – Trade and other receivables excluding prepayments | **378,794** | 364,445 |
| – Short-term bank deposits | **44,400** | 2,240 |
| – Cash and cash equivalents | **35,726** | 28,597 |
| **Total** | **465,454** | 395,282 |
| **Financial liabilities:** | | |
| **Financial liabilities at amortised cost** | | |
| Borrowings | **71,553** | 64,910 |
| Trade and other payables excluding non-financial liabilities | **80,979** | 74,586 |
| **Total** | **152,532** | 139,496 |

## 36. Financial Risk Management and Fair Value

The Group has various financial assets and liabilities such as cash and cash equivalents, short-term bank deposits, trade and other receivables, financial assets at fair value through other comprehensive income, borrowings, trade and other payables and balances with related companies and directors.

The main risks arising from the Group's financial instruments are foreign currency risk, cash flow interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### *(a) Foreign currency risk*

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk is limited to its financial instruments denominated in Hong Kong Dollars ("HKD") as majority of the Group's transactions, monetary assets and liabilities are denominated in RMB.

The carrying amounts of the Group's monetary assets and liabilities that are not denominated in RMB at the end of reporting periods are as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Original currency in HKD** | **Original currency in USD** | Original currency in HKD | Original currency in USD |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Trade and other receivables | **843** | **–** | 4,668 | – |
| Cash and cash equivalents | **1,412** | **368** | 325 | 371 |
| Trade and other payables | **(8,435)** | **–** | (4,993) | – |
| Borrowings | **(16,553)** | **–** | (9,910) | – |
| Overall net exposure | **(22,733)** | **368** | (9,910) | 371 |

#### Sensitivity analysis

The following table indicates the approximate change in the Group's profit before income tax expense for the year in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. A positive number below indicates an increase in profit or decrease in loss.

## 36. Financial Risk Management and Fair Value *(Continued)*

### (a) *Foreign currency risk (Continued)*

**Sensitivity analysis** *(Continued)*

| | Effect on profit for the year | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| HKD to RMB | | |
| Appreciated by 3% | **(682)** | (297) |
| Depreciated by 3% | **682** | 297 |
| USD to RMB | | |
| Appreciated by 3% | **11** | 11 |
| Depreciated by 3% | **(11)** | (11) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rate had occurred at the end of reporting period and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date.

### (b) *Cash flow and fair value interest rate risk*

Other than deposits held in banks, the Group have significant interest-bearing assets. Fluctuation of deposit interest rates to financial assets does not have a significant impact to the Group's performance.

The Group's fair value interest rate risk arises primarily from short-term borrowings as disclosed in Note 29. Borrowings were issued at fixed rates which expose the Group to fair value interest rate risk. The Group has no cash flow interest rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

## 36. Financial Risk Management and Fair Value *(Continued)*

### (b) *Cash flow and fair value interest rate risk (Continued)*

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Effective interest rate *(% per annum)* | Amount *RMB'000* | Effective interest rate *(% per annum)* | Amount *RMB'000* |
| **Financial assets** | | | | |
| **Fixed rate receivables** | | | | |
| – Short-term bank deposits | 1.21%-4.1% | 44,400 | 1.21% | 2,240 |
| – Loan receivables | 5.82%-11.95% | 157,400 | 5.82%-10.45% | 106,400 |
| **Financial liabilities** | | | | |
| **Fixed rate borrowing** | | | | |
| – Borrowings | 6.73% | 71,553 | 6.20% | 64,910 |

### (c) *Credit risk*

The carrying amounts of the bank deposits and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2018, the Group's bank deposits were placed in the commercial banks with high credit ratings.

The Group has adopted a policy of only dealing with creditworthy counterparties. The credit risk on trade receivable is low. Based on past experience, the customer payment default rate is low. The Group has a certain concentration of credit risk in trade and bills receivables as 13.2% (2017: 41.8%) of the total trade and bills receivables was due from the Group's largest trade debtor and the amounts due from the Group's top five customers is as follows:

| | As at 31 December | |
|---|---|---|
| | 2018 *RMB'000* | 2017 *RMB'000* |
| Balance of trade and bills receivables from top five customers | 42,067 | 113,009 |
| Balance of trade and bills receivables *(Note 24)* | 128,809 | 207,748 |
| Percentage | 32.70% | 54.40% |

## 36. Financial Risk Management and Fair Value *(Continued)*

### (c) Credit risk *(Continued)*

It is the Group's policy to receive settlement from customers in the form of cash, cheques or endorsed bank accepted bills. Credit sales are made generally to selected customers with long-term business trading history. The issuing banks of these bank acceptance bills are either state-owned banks with investment grade ratings or local banks with good reputation. The Group considered the default risk from these bank acceptance bills is low. Therefore, the directors consider the Group's bank acceptance bills and trade receivables have no significant exposure to credit risk.

Management reviews the recoverability of loans to Dongtong and loan receivables at end of reporting period. The management is of the opinion that there is no change of significant risk on such balance as the repayment date is further deferred and the principal amount of the loan receivables and accrued interest receivables on loans to Dongtong were not overdue as at the year end date.

As at 31 December 2018, there was financial guarantee provided by the Company to a lender in respect of outstanding borrowings drawn done by one of its subsidiary (2017: Nil).

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

| | **Expected loss rate** *(%)* | **Gross carrying amount** *(RMB'000)* | **Loss allowance** *(RMB'000)* |
|---|---|---|---|
| Current (not past due) | 0.00 | 95,072 | – |
| 1-90 days past due | 0.00 | 27,947 | – |
| 91-180 days past due | 0.04 | 2,261 | 1 |
| 181 days –1 year past due | 2.55 | 2,352 | 60 |
| Over 1 year past due | 75.39 | 5,030 | 3,792 |
| | | 132,662 | 3,853 |

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(c)* ***Credit risk*** *(Continued)*

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 4(i)B(ii)). At 31 December 2017, trade receivables of RMB5,380,000 was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

| | 2017<br>*RMB'000* |
|---|---|
| Neither past due nor impaired | 134,253 |
| 1-90 days past due | 61,101 |
| 90-180 days past due | 6,529 |
| 181-365 days past due | 3,473 |
| Over 1 year past due | 2,392 |
| | 207,748 |

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

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

### *(d)* ***Liquidity risk***

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash flows from operations. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, was less than one year.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(e) Fair value*

The fair value measurement of the Group's financial and non-financial assets and liabilities utilised market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "Fair Value Hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

#### (i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, loan receivables, short-term bank deposits, trade and other payables and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, short-term bank deposits, trade and other receivables, trade and other payables and borrowings approximate fair value.

#### (ii) Financial instruments measured at fair value

Financial assets at FVOCI included in the consolidated financial statements require measurement at, and disclosure of, fair value.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(e)* ***Fair value*** *(Continued)*

#### (ii) Financial instruments measured at fair value *(Continued)*

*Information about level 3 fair value measurements*

The fair value of the unlisted equity investment in Dongfang Kangtan was determined by the Directors with reference to the valuation performed by Jiangsu Guoheng Land, Real Estate Property and Asset Valuation Consulting Company Limited（江蘇國衡土地房地產資產評估諮詢有限公司）. The valuer used market approach in assessing the fair value of Dongfang Kangtan's equity as at 31 December 2018 and concluded that the fair value of Dongfang Kangtan as at 31 December 2018 is approximately RMB6,534,000.

Significant unobservable input:

Discount for lack of marketability of 54.3%

If the lack of marketability discount rate was 5% higher/lower while all other variables were held constant, the fair value of Dongfang Kangtan would decrease/increase by approximately RMB90,000.

The unlisted equity investment in Dongfang Kangtan is measured at level 3 recurring fair value hierarchy.

There was no transfer under the fair value hierarchy classification during the year ended 31 December 2018.

There were no changes in valuation techniques during the year.

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

*Unlisted equity investment*

| | **Financial assets at FVOCI 2018** *RMB'000* |
|---|---|
| At 1 January | – |
| Purchase | 9,000 |
| Total gains or losses: | |
| – in other comprehensive income (included in changes in fair value of financial assets at FVOCI) | (2,466) |
| At 31 December | 6,534 |

## 37. Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the year.

Management regards total equity attributable to owners of the Company as capital. The amount of capital as at 31 December 2018 amounted to approximately RMB483,754,000 (2017: RMB398,802,000) which management considers as optimal having considered the projected capital expenditures and the strategic opportunities.

## 38. Lease Commitments

At the end of the reporting periods, the Group had commitments for future minimum lease payments under operating leases which fall due as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year | **3,054** | 3,269 |
| In the second to fifth year, inclusive | **63** | 2,201 |
| | **3,117** | 5,470 |

Operating lease payment represented rental payable by the Group for certain of its offices and staff quarter. Leases are negotiated for lease terms of one to three years.

## 39. Capital Commitments

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Commitments for the acquisition of property, plant and equipment | **640** | – |
| Commitments for the acquisition of a property | **2,500** | – |
| | **3,140** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 40. Related Party Transactions

### *Key management compensation*

Key management includes Directors (executive and non-executive). The compensation paid or payable to key management service is shown below:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Basic salaries and benefits in kind | **4,426** | 4,408 |

As disclosed in Note 22, acquisition of 18% equity interest in Dongfang Kangtan by the Group for a cash consideration of RMB9,000,000 was a related party transaction as the Vendor was owned as to 70% by Mr. Tseung, the non-executive director and controlling shareholder of the Company.

As disclosed in Note 24, acquisition of the property by the Group for a consideration of RMB23,000,000 was a related party transaction as 100% equity interests in the Property Vendor was owned by Dongfang Hengxin Assets Holdings Company Limited of which 71% equity interests are indirectly held by Mr. Tseung.

As disclosed in Note 29, on 1 November 2018, Mr. Tseung (as the lender) has entered into a loan facility agreement with the Group (as borrower) to grant a loan facility up to HK$1,500,000 to a subsidiary of the Group at an interest rate of 8% per annum and repayable within one year together with accrued interest and subject to the lender's overriding right of repayment on demand. As at 31 December 2018, borrowing of approximately RMB1,328,000 and interest payable of RMB18,000 was due to Mr. Tseung and interest expense of approximately RMB18,000 was recognised.

As disclosed in Note 34 (iii), guaranteed profit of RMB24,679,000 from Biofit Group's former shareholder, Shanghai Dongxi, was a related party transaction as Mr. Ling Chao, the executive director of the Company, is also a director and controlling shareholder of Shanghai Dongxi.

Other than the above disclosed, there are no transactions among the Group and its related parties for the year ended 31 December 2018 (2017: Nil).

## 41. Note Supporting Consolidated Statement of Cash Flows

Reconciliation of liabilities arising from financing activities:

| | Borrowings (Note 29) RMB'000 | Advance from a non-controlling shareholder of a subsidiary (Note 28) RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2017** | 54,000 | 71 | 54,071 |
| Changes from cash flows: | | | |
| Proceeds from new loans | 64,910 | – | 64,910 |
| Repayment of loans | (54,000) | – | (54,000) |
| Advance from a non-controlling shareholder of a subsidiary | – | 7,929 | 7,929 |
| Total changes from financing cash flows: | 10,910 | 7,929 | 18,839 |
| At 31 December 2017 and 1 January 2018 | 64,910 | 8,000 | 72,910 |
| Changes from cash flows: | | | |
| Proceeds from new loans | 62,528 | – | 62,528 |
| Repayment of loans | (55,885) | – | (55,885) |
| Repayment to a non-controlling shareholder of a subsidiary | – | (3,995) | (3,995) |
| Total changes from financing cash flows: | 6,643 | (3,995) | 2,648 |
| At 31 December 2018 | 71,553 | 4,005 | 75,558 |

## 42. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2019.