東化

DONGGUANG CHEMICAL LIMITED
東光化工有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1702

2018 ANNUAL REPORT

CONTENTS

CORPORATE PROFILE

Dongguang Chemical Limited (the "Company") and its subsidiaries (the "Group") are one of the major coal-based urea producers with annualised designed production capacity of approximately 1.1 million tonnes of urea in the People's Republic of China (the "PRC") and with headquarters in Hebei Province.

The Group has an operating history of over 40 years in Hebei Province. Its predecessor, Hebei Dongguang Huafei Factory* (河北省東光縣化肥廠) ("Dongguang Huafei"), was originally established in 1970 as a local state-owned enterprise and was later privatised and reorganised in July 1998. The Group has been operating in the urea industry since 2001 and is an experienced player in the region with long-term and established relationships with customers in the industry.

The Group has developed the production know-how and management which by its long operating history enhances the production efficiency by maximising the quantity and quality of the products while minimising costs. The Group's management team has extensive experience and an in-depth understanding of the history and future trends of the urea industry in the PRC.

Urea is the Group's major product and application of urea can be broadly categorised into agricultural and industrial uses. It is widely used as a source of nitrogen in fertilisers and it has wide industrial application, such as production of adhesives, coatings, plastics, and cosmetics. The Group also produce and sell by-products of urea, including methanol, liquid carbon dioxide and liquefied natural gas.

The Group has two active production plants with advanced production technologies located at Dongguang County of Cangzhou City, Hebei Province. The production processes are also designed to ensure compliance with PRC environmental laws and regulations and to enhance production efficiency by maximising the quantity and quality of the products and minimising costs.

The Group's production facilities are strategically located in close proximity to Beijing and Tianjin, as well as the Bohai Economic Rim (環渤海經濟圈) and it has access to major national highways, railways, and major ports of North China including Tianjin international port and Huanghua domestic port. The proximity of these transportations has enabled the Group to obtain the supply of coal timely, and to deliver products to the customers based in Beijing, Tianjin, Hebei Province and the nearby regions, including Heilongjiang Province, Inner Mongolia Autonomous Region, Jilin Province and Liaoning Province in a timely and cost-efficient manner.

For more information, please visit **www.dg-chemical.com**.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Zhihe *(Chairman)*
Mr. Sun Yi
Mr. Sun Zushan
Mr. Xu Xijiang

Non-executive Director

Ms. Chen Jimin
(appointed on 6 April 2018)

Independent non-executive Directors

Ms. Lin Xiuxiang
Mr. Liu Jincheng
Mr. Ng Sai Leung

BOARD COMMITTEES

Audit Committee

Mr. Ng Sai Leung *(Chairman)*
Ms. Lin Xiuxiang
Mr. Liu Jincheng

Remuneration Committee

Ms. Lin Xiuxiang *(Chairlady)*
Mr. Liu Jincheng
Mr. Sun Yi

Nomination Committee

Mr. Wang Zhihe *(Chairman)*
Ms. Lin Xiuxiang
Mr. Liu Jincheng

Corporate Governance Committee

Mr. Ng Sai Leung *(Chairman)*
Mr. Sun Yi
Ms. Lin Xiuxiang

COMPANY SECRETARY

Mr. Cheng Shing Hay, HKICPA
(non-practising), CAANZ

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Wang Zhihe
Mr. Cheng Shing Hay

COMPLIANCE ADVISER

Elstone Capital Limited (formerly known as Everstone Capital Limited)

Suite 1612, 16/F.,
West Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners

AUDITOR

BDO Limited

Certified Public Accountants

REGISTERED OFFICE

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

HEADQUARTERS IN THE PRC

Chengdong Industrial Zone
Dongguang County
Hebei Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1201-5, China Resources Building
No. 26 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office in the Cayman Islands

Conyers Trust Company
(Cayman) Limited
Cricket Square
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Dongguang Branch
Industrial and Commercial Bank of China Limited
Dongguang Branch
Agricultural Bank of China
Dongguang County Branch
Bank of Cangzhou Dongguang Branch

STOCK CODE

1702

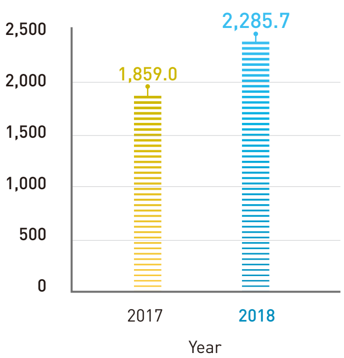
COMPANY WEBSITE

www.dg-chemical.com

	FY2018	FY2017
Revenue (RMB' million)	2,285.7	1,859.0
Gross Profit (RMB' million)	292.6	190.2
Profit for the Year (RMB' million)	99.7	46.9
Earnings per Share – Basic (RMB cents)	16.1	8.7
Net Asset Value per Share – Basic (RMB)	1.6	1.5

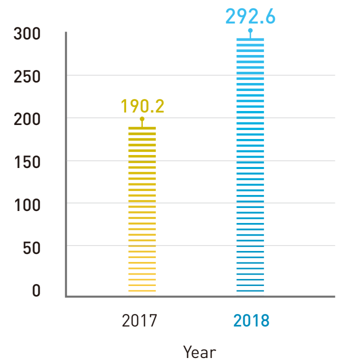
REVENUE INCREASE: 23%

RMB' million



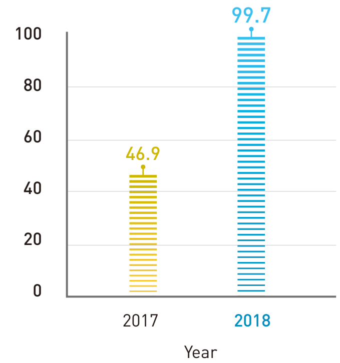
GROSS PROFIT INCREASE: 54%

RMB' million



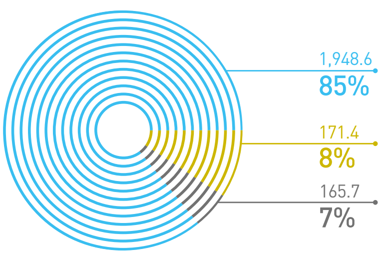
PROFIT FOR THE YEAR INCREASE: 113%

RMB' million

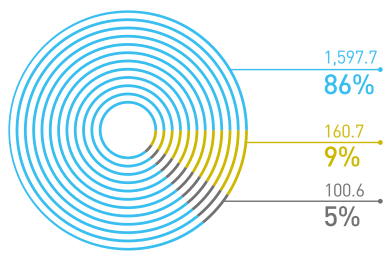


REVENUE BY PRODUCTS

RMB' million



2018



2017

Urea Methanol Other by-products

CHAIRMAN'S STATEMENT

Wang Zhihe

Chairman

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the audited annual results of the Group for the year ended 31 December 2018.

BUSINESS REVIEW

China's urea industry showed signs of recovery in 2018. Over the past two years, China has implemented a series of favorable policies and increased its effort in environmental governance while the supply-side structural reform in agriculture has been accelerated. Benefitting from the improved micro-economic environment in China, excess supply of urea over recent years has been reduced with the demand and supply of the industry moving towards balance. Owing to the rise of urea price globally, China's coal-based urea is regaining its cost advantage. This trend has boosted China's urea price, leading to a gradual improvement in profitability. It is expected that the demand for urea from the agricultural market of the PRC will continue to grow steadily.

With the change of the overall domestic and international economic environment, the entire chemical fertilizer industry has gradually taken a path of green development. As one of the major coal-based urea producers in China, the Group seized business opportunities in the market and industry timely and complied with the national environmental protection policy proactively. The Group successfully installed new environmentally-friendly facilities in the first half of 2018 as its commitment to reduce emission, save energy and promote green development.

The Group's results showed notable growth with revenue hitting RMB2,285.7 million in 2018, an increase of 23% over the same period of previous year; gross profit of RMB292.6, an increase of 54%; gross profit margin rising from 10% to 13%; among which, the Group, benefitted from the industrial recovery and rise of urea selling prices, among other favorable factors, and with urea as one of its major products, attained a net profit from RMB46.9 million in last year to RMB99.7 million in 2018, or an increase of 113%. In addition, China Chemical Engineering Information Association, China National Chemical Information Center Co., Ltd. and National New Fertilizer Industry Technology Innovation Strategic Alliance released the rankings of China's fertilizer and nitrogen fertilizer enterprises at the end of 2018. The Group was ranked among the "Top 50 China Nitrogen Fertilizer Enterprises By Sales in 2018" and "Top 100 China Fertilizer Enterprises in 2018".

OUTLOOK

Looking into 2019, given the chemical fertilizer industry's continual focus on the supply-side reform and overcapacity cutting and the increasingly stringent environmental protection policy, it is anticipated that the overall urea industry will see further improvement.

The Group is confident that the constant upgrade of the existing facilities or investment in new technology with enhanced environmental protection management can elevate its market competitiveness and profitability as well as reinforce its leading market position as the primary coal-based urea producer in China. With respect to business development, the Group will sustain its effort to expand urea product offering, promote product diversification and improve product quality and production system, so as to strengthen the relationship with key customers and diversify the client base. The Group will expand its scope of business and market share through target-oriented acquisitions, joint ventures and partnerships.

I would like to take this opportunity to extend my heartfelt gratitude to the Board members, senior management and staff for their contribution to the Group and to all shareholders and business partners for their support. The wide recognition earned from the industry and capital market for its outstanding performance will continue to motivate and encourage the Group to forge ahead, make concerted effort and embrace opportunities and challenges for another year of excellence.

Wang Zhihe
Chairman of the Board

25 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2018 (the "**Reporting Period**"), we experienced an increase in revenue by approximately RMB426.7 million, or 23.0%, from approximately RMB1,859.0 million for the year ended 31 December 2017 to approximately RMB2,285.7 million for the Reporting Period, mainly due to the increases in the average retail prices of urea, methanol and other by-products such as carbon dioxide and liquefied natural gas for the Reporting Period. The average selling price of our urea products was approximately RMB1,734 per tonne during the Reporting Period, representing an increase of approximately 24.2% from RMB1,396 per tonne during the year ended 31 December 2017. The average selling price of our methanol products was approximately RMB2,020 per tonne during the Reporting Period, representing an increase of approximately 9.6% from RMB1,843 per tonne during the year ended 31 December 2017. Our gross profit increased by approximately RMB102.4 million, or 53.8%, from approximately RMB190.2 million for the year ended 31 December 2017 to approximately RMB292.6 million for the Reporting Period. As a result, our gross profit and gross profit margin also increased as the percentage increase of revenue was higher than the percentage increase of cost of sales during the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	% Change +/(-)
Urea	**1,948,553**	1,597,696	22.0%
Methanol	**171,377**	160,671	6.7%
Other by-products	**165,689**	100,588	64.7%
Total	**2,285,619**	1,858,955	23.0%

Urea

Revenue from urea increased by approximately RMB350.9 million, or 22.0%, from approximately RMB1,597.7 million for the year ended 31 December 2017 to approximately RMB1,948.6 million during the Reporting Period, as the average selling price of our urea increased by approximately RMB338 per tonne, or 24.2%, from approximately RMB1,396 per tonne for the year ended 31 December 2017 to approximately RMB1,734 per tonne for the Reporting Period.

Methanol

Revenue from methanol increased by approximately RMB10.7 million, or 6.7%, from approximately RMB160.7 million for the year ended 31 December 2017 to approximately RMB171.4 million during the Reporting Period, as the average selling price of our methanol increased by approximately RMB177 per tonne, or 9.6%, from approximately RMB1,843 per tonne for the year ended 31 December 2017 to approximately RMB2,020 per tonne for the Reporting Period.

Cost of sales

Our cost of sales increased by approximately RMB324.3 million, or 19.4%, from approximately RMB1,668.7 million for the year ended 31 December 2017 to approximately RMB1,993.0 million for the Reporting Period, primarily due to the increase in our average purchase price of coal, which resulted in an increase in our costs of raw materials. The increase of our costs of sales has also taken into account the impact of the provision for utilisation of the prepaid value added tax of approximately RMB53.6 million, principally as a result of the output value added tax rate being lower than the input value added tax rate, which led to some input value added tax cannot be fully deductible and the prudent approach for the cost treatment of certain input value added tax attributable to certain suppliers which may not be tax deductible.

Gross Profit and Gross Profit Margin

	Year ended 31 December 2018		Year ended 31 December 2017			
	Gross Profit RMB'000	Margin %	Gross Profit RMB'000	Margin %	Gross Profit Change RMB'000	%
Urea	226,298	11.6	131,148	8.2	95,150	72.6
Methanol	6,954	4.1	21,687	13.5	(14,733)	(67.9)
Other by-products	59,384	35.8	37,376	37.2	22,008	58.9
Total	292,636	12.8	190,211	10.2	102,425	53.8

Our gross profit increased by approximately RMB102.4 million, or 53.8%, from approximately RMB190.2 million for the year ended 31 December 2017 to approximately RMB292.6 million for the Reporting Period, primarily due to our increase in revenue resulting from the increase in our selling price of urea, methanol and other by-products. As a result, our gross profit margin increased from approximately 10.2% for the year ended 31 December 2017 to approximately 12.8% for the Reporting Period.

Other income

Other income increased by approximately RMB3.1 million, or 37.7%, from approximately RMB8.3 million for the year ended 31 December 2017 to approximately RMB11.4 million for the Reporting Period, primarily due to an increase in our bank interest income generated in the Reporting Period.

Other gains and losses, net

Other losses (net) of approximately RMB3.8 million recorded during the Reporting Period was mainly due to RMB depreciated against HKD, and thus more HKD loan would be repaid in monetary terms of RMB. While for the year ended 31 December 2017, other gains (net) of approximately RMB5.0 million recorded, it was mainly due to RMB appreciated against HKD, and thus less HKD loan would be repaid in monetary terms of RMB.

Administrative expenses

Administrative expenses increased by approximately RMB11.1 million, or 16.6%, from approximately RMB67.2 million for the year ended 31 December 2017 to approximately RMB78.3 million for the Reporting Period, primarily due to the increase of director remuneration, consultancy fee and impairment loss of other receivables which was partially offset by the decrease in listing expenses.

Distribution expenses

Distribution expenses decreased by approximately RMB1.8 million, or 42.6%, from approximately RMB4.1 million for the year ended 31 December 2017 to approximately RMB2.3 million for the Reporting Period, primarily due to the decrease of transportation cost.

Finance costs

Finance costs decreased by approximately RMB7.0 million, or 11.5%, from approximately RMB60.8 million for the year ended 31 December 2017 to approximately RMB53.8 million for the Reporting Period, primarily due to general decrease in the level of borrowings and capitalisation of finance costs to expenditure on qualifying assets.

Taxation

Income tax expenses increased by approximately RMB41.6 million, or 169.4%, from approximately RMB24.5 million for the year ended 31 December 2017 to approximately RMB66.1 million for the Reporting Period, primarily due to an increase in profit before income tax.

Profit for the year

Profit for the year increased by approximately RMB52.8 million or 112.6% from approximately RMB46.9 million for the year ended 31 December 2017 to approximately RMB99.7 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB102.4 million, increase in other income of approximately RMB3.1 million, decrease in distribution expenses of approximately RMB1.8 million and decrease in finance costs of approximately RMB7.0 million during the Reporting Period. The increase in profit for the Reporting Period was partially offset by the increase in administrative expenses of approximately RMB11.1 million and income tax expenses of approximately RMB41.6 million, and the decrease in other gains or losses (net) of approximately RMB8.8 million.

CAPITAL STRUCTURE

As at 31 December 2018, the Group had net assets of approximately RMB998.2 million (as at 31 December 2017: approximately RMB910.8 million), comprising of non-current assets of approximately RMB1,319.1 million (as at 31 December 2017: approximately RMB1,365.8 million), and current assets of approximately RMB508.6 million (as at 31 December 2017: approximately RMB601.8 million), which primarily consist of cash and bank balances amounted to approximately RMB215.5 million (as at 31 December 2017: approximately RMB177.2 million). Moreover, inventories amounted to approximately RMB93.0 million (as at 31 December 2017: approximately RMB76.6 million) and prepayments, deposit and other receivables amounted to approximately RMB106.9 million (as at 31 December 2017: approximately RMB244.9 million) are also major current assets. The Group recorded a net current liability position of approximately RMB196.8 million as at 31 December 2018 (as at 31 December 2017: approximately RMB339.1 million). Major current liabilities include trade payables amounted to approximately RMB56.5 million (as at 31 December 2017: approximately RMB40.5 million), deposits received, other payables and accruals amounted to approximately RMB62.8 million (as at 31 December 2017: approximately RMB76.3 million) and interest-bearing bank and other borrowings amounted to approximately RMB532.9 million (as at 31 December 2017: approximately RMB813.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had cash and bank balances of approximately RMB215.5 million (as at 31 December 2017: approximately RMB177.2 million) and had total interest-bearing bank borrowings of approximately RMB601.7 million (as at 31 December 2017: approximately RMB915.2 million). The Group's interest-bearing bank borrowings bear interests ranging from 3.30% to 9.00% (as at 31 December 2017: 3.30% to 11.28%) per annum.

As at 31 December 2018, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB532.9 million and RMB68.8 million respectively (as at 31 December 2017: approximately RMB813.1 million and RMB102.2 million respectively).

As at 31 December 2018, the gearing ratio for the Group was 0.43 (as at 31 December 2017: 0.81), based on net debt of approximately RMB431.0 million (as at 31 December 2017: approximately RMB738.1 million) and equity attributable to owners of approximately RMB998.2 million (as at 31 December 2017: approximately RMB910.8 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The management is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

PROSPECTS

Looking into 2019, given the chemical fertilizer industry's continual focus on the supply-side reform, the elimination of obsolete and inefficient urea production and the increasingly stringent environmental protection policy, it is anticipated that the overall urea industry will see further improvement.

The Group is confident that the constant upgrade of the existing facilities or investment in new technology with enhanced environmental protection management can elevate its market competitiveness and profitability as well as reinforce its leading market position as the primary coal-based urea producer in China. With respect to business development, the Group will sustain its effort to expand urea product offering, promote product diversification and improve product quality and production system, so as to strengthen the relationship with key customers and diversify the client base. The Group will expand its scope of business and market share through target-oriented acquisitions, joint ventures and partnerships.

The Company would like to take this opportunity to extend our heartfelt gratitude to the Board members, senior management and staff for their contribution to the Group and to all shareholders and business partners for their support. The wide recognition earned from the industry and capital market for its outstanding performance will continue to motivate and encourage the Group to forge ahead, make concerted effort and embrace opportunities and challenges for another year of excellence.

FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign exchange risk during the Reporting Period arising from various currency exposures mainly to the extent of its borrowings in currencies denominated in Hong Kong dollars.

The Group does not have a formal foreign currency hedging policy or conducts hedging exercise to reduce its foreign currency exposure. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should it be necessary.

CAPITAL COMMITMENTS

As at 31 December 2018, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB22.0 million (as at 31 December 2017: approximately RMB28.5 million).

CHARGE ON ASSETS

As at 31 December 2018, the Group's secured short-term bank loans, short-term other loans and long-term bank and other loans were secured by certain of the Group's property, plant and equipment, leasehold land, inventories and bank deposits. As at 31 December 2017, the investment property was secured to the borrowings and the pledge was released during the year ended 31 December 2018. Short-term secured other loans were granted from financial leasing companies in the PRC.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (as at 31 December 2017: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2018, the Group employed a total of 1,269 employees (as at 31 December 2017: 1,298 employees). The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the Reporting Period, the total staff costs (including directors' emoluments) amounted to approximately RMB101.4 million (year ended 31 December 2017: RMB97.0 million). The Company has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, for their contribution to the Group.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries or associated companies of the Company during the Reporting Period.

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

During the Reporting Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

USE OF PROCEEDS

As announced by the Company on 24 August 2018, the Board resolved to change the proposed use of the unutilised net proceeds from the global offering of the shares of the Company which was intended to be used for the purchase of production equipment and the expansion of the additional production facility in the PRC for the manufacturing of large granular urea products to the purchase of new equipment and the construction of the new energy saving power generating facility. This new facility utilises and transforms the steam and heat generated during the Group's production process for energy saving and power generation purposes. Please refer to the announcement of the Company dated 24 August 2018 for details.

As at 31 December 2018, the net proceeds had been applied for as follows:

	Actual net proceeds HK$' million	Amount utilised as at 31 December 2018 HK$' million	Unutilised net proceeds as at 31 December 2018 HK$' million
Purchase of new equipment and the construction of new energy saving power generating facility	69.3	43.5	25.8
Purchase, construct and install new environmental protection facility	52.7	52.7	-
Repay part of two outstanding term loans to two independent third parties	14.8	14.8	-
Working capital and general corporate purposes	10.9	10.9	-
	147.7	121.9	25.8

As at the date of this report, save as disclosed above, the Company did not anticipate any further change to the proposed use of proceeds. The remaining outstanding net proceeds as at 31 December 2018 are expected to be fully utilised on or before 31 December 2019.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK4 cents per ordinary share, absorbing a total amount of about HK$24.8 million, in respect of the year ended 31 December 2018 (the "Proposed Final Dividend") (2017: HK2 cents), which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Friday, 24 May 2019 (the "2019 AGM"). The proposed final dividend is expected to be paid on Monday, 17 June 2019 to all shareholders whose names to be appeared on the register of members of the Company on Friday, 31 May 2019.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Wang Zhihe (王治河), aged 61

Executive Director and chairman of the Board

Mr. Wang is an executive Director and the chairman of the Board, and is responsible for overall strategic development, and leading the business development of the Group. He was appointed as a Director on 12 June 2014 and re-designated as executive Director on 20 June 2017. Mr. Wang is one of the founders of the Group and a controlling shareholder of the Company. He has over 39 years of experience in operation, and over 25 years of experience in managing the business of manufacturing coal-based fertiliser. Mr. Wang joined the Group in July 1998. He has been the chairman of Hebei Dongguang Chemical Co., Ltd* (河北省東光化工有限責任公司) ("Dongguang Chemical") since July 1998. Mr. Wang was the general manager of Dongguang Chemical from July 1998 to February 2012, the factory director of Dongguang Huafei from November 1992 to June 1998, the deputy factory director of Dongguang Huafei from January 1992 to October 1992, the office director of Dongguang Huafei from June 1986 to December 1991, the chief of sales division of Dongguang Huafei from January 1984 to May 1986 and the statistician of Dongguang Huafei from January 1978 to December 1983. He completed a semi-sabbatical study junior college professional certificate course in industrial management organised by Hebei Faculty of Technology* (河北工學院) (currently known as Hebei University of Technology (河北工業大學)) in June 1990. Mr. Wang is also a director of certain subsidiaries of the Group. Besides, Mr. Wang is a director of Sino-Coal Chemical Holding Group Limited ("Sino-Coal Holding") and Bloom Ocean Investments Limited ("Bloom Ocean") respectively. Each of Sino-Coal Holding and Bloom Ocean was the beneficial owner of 279,680,000 and 180,320,000 shares of US$0.0001 each in the share capital of the Company ("Shares") as at 31 December 2018 respectively. Mr. Wang's interest in the Shares as at 31 December 2018 is disclosed under the paragraph headed "Directors' Report — Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation" in this Annual Report.

Mr. Sun Yi (孫毅), aged 64

Executive Director and vice chairman of the Board

Mr. Sun is an executive Director and the vice chairman of the Board, and is responsible for overall financial management and internal control of the Group. He was appointed as a Director on 12 June 2014 and re-designated as executive Director on 20 June 2017. Mr. Sun is one of the founders of the Group. He has over 41 years of experience in accounting and financial management and over 24 years of experience in operation and managing the business of manufacturing coal-based fertiliser. Mr. Sun joined the Group in July 1998. He has been the deputy general manager of Dongguang Chemical since July 1998. Mr. Sun was the deputy factory director and a director of Dongguang Huafei from April 1997 to June 1998, the assistant factory director of Dongguang Huafei from December 1992 to April 1997, the chief of finance division of Dongguang Huafei from August 1987 to November 1987, the cashier and chief accountant of finance division of Dongguang Huafei from January 1976 to July 1987, the statistician of the mechanical workshop of Dongguang Huafei from February 1974 to December 1975 and the fitter of the mechanical workshop of Dongguang Huafei from September 1970 to January 1974. He completed a professional study course in economic management organised by Beijing Economic Correspondence University* (北京經濟函授大學) (currently known as Beijing Economic Management Correspondence College* (北京經濟管理函授學院)) in December 1989. Mr. Sun is also a director of certain subsidiaries of the Group. Besides, Mr. Sun is a director of Sino-Coal Holding and Bloom Ocean respectively. Sino-Coal Holding is owned as to approximately 18.75% by Plenty Sun Limited, a company wholly owned by Mr. Sun. Mr. Sun's interest in the Shares as at 31 December 2018 is disclosed under the paragraph headed "Directors' Report — Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation" in this Annual Report.

Mr. Sun Zushan (孫祖善), aged 66

Executive Director and chief operating officer of our Group

Mr. Sun is an executive Director and the chief operating officer of the Group, and is responsible for overall operational management of the Group. He was appointed as a Director on 12 June 2014 and re-designated as executive Director on 20 June 2017. Mr. Sun is one of the founders of the Group. He has over 47 years of experience in operation, and over 19 years of experience in managing the business of manufacturing coal-based fertiliser. Mr. Sun joined the Group in July 1998. He was the general manager of Dongguang Chemical from March 2012 to December 2017. Mr. Sun was the deputy general manager of Dongguang Chemical from July 1998 to February 2012, the deputy factory director and director of Dongguang Huafei from May 1998 to June 1998, assistant factory director of Dongguang Huafei from March 1997 to April 1998, chief of sales division of Dongguang Huafei from April 1994 to February 1997, the director of the technology transformation office of Dongguang Huafei from April 1991 to April 1994, the chief of production division of Dongguang Huafei from June 1989 to April 1991, the chief of supply division of Dongguang Huafei from January 1989 to June 1989, the deputy branch chemical factory director of Dongguang Huafei from September 1986 to January 1989, the deputy chief of equipment division of Dongguang Huafei from July 1984 to August 1986, the deputy director of chemical workshop of Dongguang Huafei from September 1978 to June 1984, the repairman of repair workshop of Dongguang Huafei from May 1974 to August 1978 and the operator of transform workshop of Dongguang Huafei from June 1970 to May 1974. He is also a director of certain subsidiaries of the Group. Besides, Mr. Sun is a director of Sino-Coal Holding. Sino-Coal Holding is owned as to approximately 6.908% by Power Moon Limited, a company wholly owned by Mr. Sun.

Mr. Xu Xijiang (徐希江), aged 57

Executive Director and chief technology officer of the Group

Mr. Xu is an executive Director and the chief technology officer of the Group, and is responsible for overall management of technology and production of the Group. He was appointed as a Director on 12 June 2014 and re-designated as executive Director on 20 June 2017. Mr. Xu is one of the founders of the Group. He has over 36 years of experience in operation, and over 19 years of experience in managing the business of manufacturing coal-based fertiliser. Mr. Xu joined the Group in July 1998. He has been the deputy general manager of Dongguang Chemical since July 1998. Mr. Xu was the assistant factory director of Dongguang Huafei from December 1992 to June 1998, the chief of production division of Dongguang Huafei from October 1990 to December 1992, the director of chrysophenine workshop (凍黃車間) of Dongguang Huafei from May 1989 to October 1990 and the workman of Dongguang Huafei from September 1981 to May 1989. He is also a director of certain subsidiaries of the Group. Besides, Mr. Xu is a director of Sino-Coal Holding. Sino-Coal Holding is owned as to approximately 6.908% by Decent Magic Limited, a company wholly owned by Mr. Xu.

NON-EXECUTIVE DIRECTOR

Ms. Chen Jimin (陳繼敏), aged 44

Non-executive Director

Ms. Chen is a non-executive Director of the Board. She was appointed as a non-executive Director on 6 April 2018. Ms. Chen has over 16 years of experience in finance, management and investment. Ms. Chen had worked for Hebei Guofu Agricultural Investment Group Limited (河北省國富農業投資集團有限公司) from July 1996 to May 2006. Since then, she has been working for its subsidiary, Guofu (Hong Kong) Holdings Limited (國富(香港)控股有限公司), and currently as a member of the board of directors as well as the general manager who is in charge of the company operation, management and team formation. She had worked for Longyaozhongwang Food Limited (隆堯中旺食品有限公司) as its chief financial officer from October 2008 to October 2010. From June 2009 to October 2010, she had also worked for Great Desire International Limited (宏望國際有限公司) as its chief financial officer and had been primarily responsible for financial management and operations. Besides, she had worked as the vice general manager of China U-Ton Holdings Limited (中國優通控股有限公司), a company then listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8232), and was in charge of investment, finance and external relationships from November 2010 to July 2012. Ms. Chen was awarded the designation of a Fellow Chartered Financial Practitioner by the Asia Pacific Financial Services Association in February 2008 and obtained the qualification of an Accredited Financial Planner from the American Association for the Certification of Training Program in April 2008. Ms. Chen obtained a diploma in computerised accounting and statistics in June 1996 from Northwest Normal University (西北師範大學), a diploma from the Advanced Course for Financial Planners (財務策劃師高級研修班) organised by the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in August 2008 and a certificate from Asset Management Association of China(中國證券投資基金業協會) in April 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Lin Xiuxiang (林秀香), aged 56

Independent non-executive Director

Ms. Lin is an independent non-executive Director. She was appointed as an independent non-executive Director on 20 June 2017. Ms. Lin has over 29 years of experience in the education field in financial management and accounting. She has been the director of the department of financial management of the school of accountancy of the Central University of Finance and Economics (中央財經大學) ("CUFE") since October 2003 and a professor in the faculty of accounting and financial management of the school of accountancy of CUFE since September 2006. She has also been an independent director and a director of the audit committee of Minsheng Securities (民生證券股份有限公司) since August 2012 to August 2018. She has also been an associate professor in the faculty of financial management of the school of accountancy of CUFE from October 2003 to August 2006, an associate professor in the faculty of finance of CUFE from September 1999 to September 2003, a lecturer in financial management of the faculty of finance of CUFE from May 1996 to August 1999, a lecturer in finance and accounting of the faculty of finance of Central School of Finance* (中央財政金融學院) (currently known as CUFE) from November 1992 to April 1996 and a teaching assistant in finance and accounting of the faculty of finance of Central School of Finance from August 1988 to October 1992. Ms. Lin obtained a doctoral degree in economics from CUFE in June 2006. She also obtained a master's degree in economics from the Central School of Finance in July 1988.

Mr. Liu Jincheng (劉金成), aged 54

Independent non-executive Director

Mr. Liu is an independent non-executive Director. He was appointed as an independent non-executive Director on 20 June 2017. Mr. Liu has over 25 years of experience in operation and management in chemical industry. He has been the vice chairman of the board of Hebei Yangmei Zhengyuan Chemical Group Co., Ltd* (河北陽煤正元化工集團有限公司), which principally engages in the manufacture of fertiliser and the research and development of equipment for the production of fertiliser, since January 2010 and the general manager of Cangzhou Zhengyuan Fertiliser Co., Ltd* (滄州正元化肥有限公司), which is principally engaged in the manufacture of fertiliser, from October 2013 to September 2017. He has also been the president of Hebei Zhengyuan Chemical Group Joint Stock Co., Ltd* (河北正元化工集團股份有限公司) (formerly known as Hebei Zhengyuan Chemical Group Co., Ltd* (河北正元化工集團有限公司)), which principally engages in the manufacture of fertiliser and the research and development of equipment for the production of chemical, from April 2006 to January 2010, the president of Hebei Zhengyuan Investment Co., Ltd* (河北正元投資有限責任公司), which principally engages in the operation and investment in fertiliser businesses, from April 2005 to April 2006, and the technology manager of Shijiazhuang Zhengyuan Gaoxiao Tower Development Company* (石家莊正元高效塔器開發公司), which principally engages in the manufacture of equipment for the production of chemical, from October 1992 to April 2005. Mr. Liu obtained a master's degree in chemical engineering from the Hebei Faculty of Technology* (河北工學院) (currently known as Hebei University of Technology (河北工業大學)) in July 1988.

Mr. Ng Sai Leung (吳世良), aged 46

Independent non-executive Director

Mr. Ng is an independent non-executive Director. He was appointed as an independent non-executive Director on 20 June 2017. Mr. Ng has over 20 years of experience in investment banking and business assurance industries. He is the independent non-executive Director who has the qualifications and experience to meet the requirements under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Mr. Ng has been the managing director of Baron Global Financial Services Limited (currently known as VBG Capital Limited), a licensed corporation under the SFO which principally engages in the provision of investment banking services, since January 2015. He has been appointed as an independent non-executive director of MEIGU Technology Holding Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8349) with effect on 16 December 2016. He was also a director of the investment banking department of CMB International Capital Corporation Limited, which principally engages in the provision of investment banking services to global, local institutional and corporate clients as well as individual investors, from August 2010 to January 2015, a vice president and senior vice president of the corporate finance division of CIMB Securities (HK) Ltd., a company which principally engages in the provision of a full range of services from cash equities, equity sales and research and debt capital markets through to financial/corporate advisory and merger and acquisitions, from June 2006 to August 2010, a senior manager and an associate director of MasterLink Securities (HK) Corp., Ltd., a company which principally engages in the provision of corporate finance advisory services, from May 2004 to May 2006, an assistant manager, manager and senior manager of the corporate finance department of Tai Fook Capital Limited (currently known as Haitong International Capital Limited), a company which principally engages in the provision of corporate finance advisory services, from September 1999 to April 2004, an officer of the compliance department of Hong Kong Futures Exchange Limited from March 1998 to September 1999, and a junior internal officer of the private banking division of Swiss Bank Corporation, an investment bank which then principally engaged in the provision of financial services, from March 1997 to February 1998. He also worked as an accountant of Ernst & Young from August 1995 to March 1997. Mr. Ng was certified as a certified public accountant from the Board of Public Accountants of the State of Montana, the US in September 1997. He is also a member of the Chartered Financial Analyst Institute. Mr. Ng obtained a bachelor's degree in business administration from The University of Hong Kong in November 1995. He also obtained a master's degree in business administration from The Chinese University of Hong Kong in December 2002.

SENIOR MANAGEMENT

Mr. Cheng Shing Hay (鄭承熙), aged 40

Chief financial officer and company secretary of the Company

Mr. Cheng, is the chief financial officer and company secretary of the Company. He was appointed as the chief financial officer on 11 February 2015 and the company secretary on 31 March 2015. Mr. Cheng is responsible for overseeing the Group's financial and company secretarial functions. He has over 15 years of experience in finance, accounting and auditing field. Prior to joining the Group, Mr. Cheng was the chief financial officer and company secretary of China New City Commercial Development Limited (stock code: 1321), a company which shares are listed on the Main Board of the Stock Exchange, from January 2014 to January 2015, the financial controller and later the joint chief financial officer of Xiangyu Dredging Holdings Limited (stock code: 871), a company which shares are listed on the Main Board of the Stock Exchange, from December 2012 to November 2013, and chief financial officer of a PRC based internet company from October 2011 to November 2012. Prior to that, between September 2001 and October 2011, Mr. Cheng had worked in various positions of the audit department in Deloitte Touche Tohmatsu and Grant Thornton. Mr. Cheng is a non-practicing member of the Hong Kong Institute of Certified Public Accountants and chartered accountant of the Chartered Accountants Australia and New Zealand (formerly known as Institute of Chartered Accountants of New Zealand). He was appointed as an independent non-executive director of Ascent International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 264) from 15 September 2017 to 7 September 2018. Mr. Cheng obtained a graduate diploma in commerce from the University of Auckland in May 2001 and a bachelor degree in commerce from the University of Auckland in May 2000.

Mr. Guo Jianming (郭建明), aged 45

General manager of the Group

Mr. Guo is the general manager of the Group, and is responsible for the overall production and operation management of the Group. He has been with the Group since July 1998. He has been the general manager of Dongguang Chemical since December 2017. He was the deputy general manager of Dongguang Chemical from August 2003 to December 2017. Mr. Guo was the assistant general manager of Dongguang Chemical from March 2001 to August 2003, the director of plastic woven workshop of Dongguang Chemical from June 1999 to March 2001 and the operator of transform workshop of Dongguang Chemical from July 1998 to June 1999 and the operator of transform workshop of Dongguang Huafei from April 1997 to June 1998. He completed junior college study course in industrial analysis organised by Hebei Institute of Technology* (河北理工學院) (currently known as Hebei United University (河北聯合大學)) in July 1996.

(I) STATEMENT OF COMPLIANCE

It is the policy of the Company to manage the affairs of the Group in accordance with the appropriate standards for good corporate governance. Summarised below is a statement on how the Company during the year ended 31 December 2018 has applied the principles and complied with the code provisions as set out in the Corporate Governance Code in effect during the year ended 31 December 2018 (the "CG Code") as contained in Appendix 14 of the Listing Rules.

A. Directors

A.1 The Board

Principle

An issuer should be headed by an effective Board which should assume responsibility for its leadership and control and be collectively responsible for promoting its success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the issuer.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the issuer, and whether he is spending sufficient time performing them.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.1.1	At least 4 Board meetings should be held each year.	No	The Board has overall responsibility for the proper conduct of the Company's business. Regular Board meetings are held on a quarterly basis and ad hoc Board meetings will be held as and when required.
A.1.2	All Directors should be given an opportunity to include matters in the agenda for regular Board meetings.	No	Draft notice and agenda for regular Board meetings are provided to all Directors for comments and consideration and inclusion of any matters for deliberation at the meetings.
A.1.3	Notice of at least 14 days should be given of a regular Board meeting. For all other Board meetings, reasonable notice should be given.	No	Reasonable notice will be given for all other Board meetings.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.1 The Board (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.1.4	Minutes of Board and Board Committees meetings should be kept by a duly appointed secretary of the meeting and should be open for inspection on reasonable notice by any Director.	No	Minutes of the meetings of the Board, the Audit Committee, the Nomination Committee, Remuneration Committee and Corporate Governance Committee are kept by the Company Secretary. Such minutes are available for inspection on reasonable notice by any Director.
A.1.5	Draft and final versions of minutes of Board meetings should be sent to all Directors for their comments and records within a reasonable time after the Board meeting is held.	No	Draft and final versions of minutes of Board meetings are sent to all Directors for their comments and records within a reasonable time.
A.1.6	There should be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense.	No	The Board has agreed on a procedure to enable the Directors to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to perform their duties.
A.1.7	If a substantial shareholder or a Director has a conflict of interest in a material matter to be considered by the Board, the matter should be dealt with by a physical Board meeting rather than a written resolution.	No	Material transactions with connected persons will be considered at Board meetings whereat the Directors may consider, if appropriate, granting approval in-principle for the proposed transactions and authorising the final forms thereof be further approved by way of circulation of written resolution or by a Board committee set up for that purpose. The Company's Articles of Association and the Cayman Islands laws allow the attendance of the Company's Directors by means of, inter alia, telephone or electronic facilities and such attendance shall be counted as attendance at a physical Board meeting.
A.1.8	Issuer should arrange appropriate insurance cover in respect of legal action against its Directors.	No	All Directors are provided with appropriate insurance cover in respect of legal action against them.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.2 Chairman and Chief Executive

Principle

There are two key aspects of the management of every issuer – the management of the Board and the day-to-day management of business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.2.1	Roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.	No	Mr. Wang Zhihe is the Group's Chairman but no Chief Executive Officer has been appointed.
A.2.2	The Chairman should ensure that all Directors are properly briefed on issues arising at Board meetings.	No	All Directors are properly briefed on issues arising at Board meetings.
A.2.3	The Chairman should ensure that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable.	No	Adequate business documents and information about the Group are provided to all Directors in a timely manner.
A.2.4	The Chairman provides leadership for the Board and should ensure that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner.	No	The Board, under the leadership of the Chairman, works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. Comments on the draft notice and agenda of regular Board meetings and matters proposed to be included in such drafts by any Director will be duly considered before finalisation.
A.2.5	The Chairman should ensure that good corporate governance practices and procedures are established.	No	The Board establishes and maintains good governance practices and procedures.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.2 Chairman and Chief Executive (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.2.6	The Chairman should encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the issuer.	No	All Directors are encouraged to make a full and active contribution to the Board's affairs and to voice their concerns if they have different views. Directors are given sufficient time for discussion at Board meetings. All Directors endeavour to act in the best interests of the Company.
A.2.7	The Chairman should at least annually hold meetings with the independent non-executive Directors ("INED(s)") without the presence of other Directors.	No	During the year ended 31 December 2018, the Chairman of the Board had held a meeting with the INEDs of the Company.
A.2.8	The Chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.	No	Shareholders' Communication Policy has been established by the Board to ensure that an effective system of communication with shareholders is in place. Shareholders are encouraged to participate in general meetings whereat members of the Board and Board Committees are available to answer their questions.
A.2.9	The Chairman should promote a culture of openness and debate by facilitating the effective contribution of non-executive Directors and ensuring constructive relations between executive and non-executive Directors.	No	All Directors are encouraged to openly share their views on the Company's affairs and issues and they are entitled to have access to the management who will respond to queries raised by the Directors as promptly and fully as possible. The Board has agreed on a procedure to enable the Directors to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to perform their duties.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.3 Board composition

Principle

The Board should have a balance of skills and experience and diversity of perspectives appropriate to the requirements of the issuer's business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of executive and non-executive Directors (including INEDs) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Non-executive Directors should be of sufficient calibre and number for their views to carry weight.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.3.1	INEDs should be identified in all corporate communications that disclose the names of Directors.	No	Composition of the Board at the prevailing time throughout the year, by category of Directors, including names of executive Director(s), non-executive Director and INEDs, has been disclosed in all corporate communication.
A.3.2	Issuer should maintain on the websites of its own and the Exchange an updated list of its Directors identifying their roles and functions and whether they are INEDs.	No	An updated list of the Company's Directors identifying their roles and functions and whether they are INEDs is available on the Company's website and the website of the Exchange.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.4 Appointments, re-election and removal

Principle

There should be a formal, considered and transparent procedure for the appointment of new Directors. There should be plans in place for orderly succession for appointments. All Directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any Director.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.4.1	Non-executive Directors should be appointed for a specific term, subject to re-election.	No	The INEDs and the non-executive Director were each appointed for an initial term of three years which may be terminated by either party giving not less than three months written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other.
A.4.2	All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every Director should be subject to retirement by rotation at least once every three years.	No	The Company's Articles of Association conform with this code provision whereby every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and Directors appointed by the Board to fill casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.
A.4.3	Re-appointment of any INED who has served more than 9 years should be subject to a separate resolution to be approved by shareholders and the papers to shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected.	No	There is no INED who has served more than 9 years.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.5 Nomination Committee

Principle

In carrying out its responsibilities, the Nomination Committee should give adequate consideration to the Principles under A.3 and A.4 above.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.5.1	A Nomination Committee should be established and be chaired by the Chairman of the Board or an INED and comprises a majority of INEDs.	No	The Board has established a Nomination Committee which is chaired by the Chairman of the Board. A majority of the members of the Nomination Committee are INEDs.
A.5.2	The Nomination Committee should have specific written terms of reference to include the prescribed specific duties.	No	The Nomination Committee has specific written terms of reference which contain all the specific duties as prescribed by the CG Code. Please refer to section (III)(C)(2) of this Corporate Governance Report for the principal duties of the Nomination Committee.
A.5.3	The Nomination Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	Terms of reference of the Nomination Committee (including its role and functions) are available on the websites of the Exchange and the Company.
A.5.4	The Nomination Committee should be provided with sufficient resources to perform its duties.	No	The Nomination Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.5 Nomination Committee (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.5.5	Where the Board proposes a resolution to elect an individual as an INED at the general meeting, it should set out in the circular to shareholders and/or explanatory statements accompanying the notice of the relevant general meeting: (a) the process used for identifying the individual and why the Board believes the individual should be elected and the reasons why it considers the individual to be independent; (b) if the proposed INED will be holding their seventh (or more) listed company directorship, why the Board believes the individual would still be able to devote sufficient time to the Board; (c) the perspectives, skills and experience that the individual can bring to the Board; and (d) how the individual contributes to diversity of the Board.	No	When there is a proposed re-appointment of a retiring INED, the Company will include in the circular to shareholders accompanying the notice of the relevant general meeting the required information.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.6 Responsibilities of Directors

Principle

Every Director must always know his responsibilities as a Director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the Board, Non-executive Directors have the same duties of care and skill and fiduciary duties as executive Directors.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.6.1	Every newly appointed Director should receive a comprehensive, formal and tailored induction on appointment. Subsequently, he should receive such briefing and professional development as is necessary.	No	Every newly appointed Directors are given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. The Directors are updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to Directors will be arranged whenever necessary.
A.6.2	Functions of non-executive Directors should include the following: (a) participating in Board meetings to bring an independent judgement; (b) taking the lead where potential conflicts of interest arise; (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.	No	All INEDs and the non-executive Director of the Company in office during the year ended 31 December 2018 have duly performed these functions.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.6 Responsibilities of Directors (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.6.3	Every Director should give sufficient time and attention to the issuer's affairs.	No	The Directors continue to give appropriate time and attention to the affairs of the Company.
A.6.4	Written guidelines should be established for relevant employees' dealings in the securities of the issuer, which shall be on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. "Relevant Employee" includes any employee or a Director or employee of a subsidiary or holding company who is likely to be in possession of unpublished price sensitive information in relation to the issuer or its securities.	No	The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules in force during the year ended 31 December 2018 as its code of conduct regarding securities transactions by its Directors. The Model Code has been extended and has become equally applicable to dealings in the securities of the Company by members of senior management as included in the Company's latest annual report or as otherwise resolved by the Board from time to time.
A.6.5	All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.	No	All Directors are provided with continuous updates and briefings on the latest changes or material developments in statutes, the Listing Rules, corporate governance practices, etc. and are encouraged to participate in continuous professional development programmes, at the Company's expenses, to update and enhance their knowledge and skills for performing Directors' roles and responsibilities. The Company maintains a record of training received by the Directors. Please refer to sections (III)(A)(8) of this Corporate Governance Report for further details.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.6 Responsibilities of Directors (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.6.6	Each Director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. The identity of the public companies or organisations and an indication of the time involved should also be disclosed.	No	Each Director is required, on appointment, to disclose to the Board his directorships in public companies or organisations and other significant commitments, and provides continuous updates, on a regular basis, for any change therein, with an indication of the time involved.
A.6.7	INEDs and other non-executive Directors, as equal Board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. Generally they should also attend general meetings to gain and develop a balanced understanding of the views of shareholders.	No	During the year ended 31 December 2018, all INEDs and, where relevant, the non-executive Director of the Company have given the Board and any Board Committees on which they served the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation at meetings of the Board and relevant Board Committees (as the case may be). Most of the INEDs and the non-executive Director of the Company had attended the annual general meeting of the Company held on 24 May 2018.
A.6.8	INEDs and other non-executive Directors, should make a positive contribution to the development of the issuer's strategy policies through independent, constructive and informed comments.	No	Please refer to the section headed "Board of Directors" of this Annual Report for the skills and experience of each Director. Adequate business documents and information about the Group were provided to all Directors in a timely manner. The INEDs in office during the year ended 31 December 2018 were able to provide independent, constructive and informed comments and decisions on the development of the Company's strategy and policies.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.7 Supply of and access to information

Principle

Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.7.1	For regular Board meetings, and as far as practicable in all other cases, Board papers should be sent, in full, to all Directors at least 3 days (or other agreed period) before a Board or Board Committee meeting.	No	Board papers in respect of regular Board meetings, and as far as practicable in all other cases, are sent to all Directors or Board Committee members (as the case may be) at least 3 days (or other agreed period) before the relevant meetings.
A.7.2	Management has an obligation to supply the Board and its committees with adequate information in a timely manner. The Board and individual Directors should have separate and independent access to the issuer's Senior Management.	No	The Company continues to supply the Board and its committees with adequate information in a timely manner. There are formal and informal contacts between the Board and the management from time to time at Board meetings and other events.
A.7.3	All Directors are entitled to have access to Board papers and related materials. Queries raised by Directors should receive a prompt and full response, if possible.	No	Board papers, minutes and related corporate documentation are made available for inspection by all Directors. All Directors are entitled to have access to the management who will respond to queries raised by the Directors as promptly and fully as possible.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

B. Remuneration of Directors and Senior Management and Board Evaluation

B.1 The level and make-up of remuneration and disclosure

Principle

An issuer should disclose its Directors' remuneration policy and other remuneration related matters. The procedure for setting policy on executive Directors' remuneration and all Directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain Directors to run the company successfully without paying more than necessary. No Director should be involved in deciding his own remuneration.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
B.1.1 The Remuneration Committee should consult the Chairman and/or Chief Executive about their remuneration proposals for other executive Directors and have access to independent professional advice if necessary.	No	The Remuneration Committee members will consult the Chairman when formulating proposals on the remuneration of other executive Directors, if any, prior to their due consideration by the Remuneration Committee. During the year ended 31 December 2018, the Remuneration Committee did not require the service of an independent professional advice.
B.1.2 The terms of reference of the Remuneration Committee should include, as a minimum, the prescribed specific duties.	No	Terms of reference of the Remuneration Committee contain all the specific duties as prescribed by the CG Code. Please refer to section (III)(B)(2) of this Corporate Governance Report for the principal duties of the Remuneration Committee.
B.1.3 The Remuneration Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	Terms of reference of the Remuneration Committee (including its role and functions) are available on the websites of the Exchange and the Company.
B.1.4 The Remuneration Committee should be provided with sufficient resources to perform its duties.	No	The Remuneration Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
B.1.5 Issuers should disclose details of any remuneration payable to members of the senior management by band in their annual reports.	No	Remuneration paid to members of the senior management has been disclosed by band in this Annual Report. Please refer to section (III)(B)(5) of this Corporate Governance Report for details of remuneration payable to members of the senior management by band.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit

C.1 Financial reporting

Principle

The Board should present a balanced, clear and comprehensible assessment of the issuer's performance, position and prospects.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.1.1	Management should provide sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval.	No	The Directors are regularly provided with relevant reports and updates on the Company's business and financial information.
C.1.2	Management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the Board and each Director to discharge their duties.	No	All Directors are provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects, where applicable, in sufficient details to keep the Directors abreast of the Group's affairs in order to perform their duties.
C.1.3	The Directors should acknowledge in this Corporate Governance Report their responsibility for preparing the accounts. There should be a statement by the auditor about their reporting responsibilities in the Auditor's Report on the financial statements.	No	The Directors are responsible for preparing accounts for each financial year which give a true and fair view of the financial position of the Group and of the financial performance and cash flows of the Group for the year then ended. In preparing accounts for the year ended 31 December 2018, the Directors have: (i) selected suitable accounting policies and applied them consistently; (ii) made judgements and estimates that are prudent and reasonable; and (iii) prepared accounts on the going concern basis. The Independent Auditor's Report states the auditor's reporting responsibilities.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit *(Continued)*

C.1 Financial reporting (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.1.4	The Directors should include in the separate statement containing a discussion and analysis of the issuer group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term and the strategy for delivering the issuer's objectives of the Group.	No	The Company's corporate strategy and long term business model are explained in the section headed "Management Discussion and Analysis" of this Annual Report.
C.1.5	The Board should present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required by the Listing Rules; and for reports to regulators and information disclosed under statutory requirements.	No	The Board endeavours to present a balanced, clear and understandable assessment of the Group's position in all corporate communications issued under statutory and/or regulatory requirements.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit *(Continued)*

C.2 Internal control

Principle

The Board should ensure that the issuer maintains sound and effective internal control to safeguard shareholders' investment and the issuer's assets.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.2.1	Directors shall at least annually conduct a review of the effectiveness of the issuer's and its subsidiaries' internal control systems and report to shareholders that they have done so in this Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	No	The Board through the Audit Committee, has conducted periodic reviews of the effectiveness of the Group's system of internal control, which include financial, operational, compliance controls and risk management functions. The Board is of the view that the Group maintains a reasonably sound and effective system of internal control relevant to its level of operations.
C.2.2	The Board's annual review should, in particular, consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting and financial reporting function.	No	The periodic reviews of the Board conducted through the Audit Committee as mentioned above have also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit *(Continued)*

C.2 Internal control (Continued)

Principle *(Continued)*

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.2.3 The Board's annual review should consider: (a) the changes, since the last annual review, in the nature and extent of significant risks; and the issuer's ability to respond to changes in its business and external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control system; (c) the extent and frequency of communication of monitoring results to the board which enables it to assess control of the issuer and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period; and (e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.	No	The Company's review has generally covered the aspects as referred to in C.2.3 of the CG Code.
C.2.4 The issuer should disclose a narrative statement on how they have complied with risk management and internal control code provisions.	No	Please refer to section (III)(J) of this Corporate Governance Report.
C.2.5 Issuers should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function.	No	The Company has an internal audit function.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit *(Continued)*

C.3 Audit Committee

Principle

The Board should establish formal and transparent arrangements to consider how it will apply financial reporting and internal control principles and maintain an appropriate relationship with the issuer's Auditors. The Audit Committee established under the Listing Rules should have clear terms of reference.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.3.1	Minutes of Audit Committee meetings should be kept a duly appointed secretary of the meeting. Draft and final versions of minutes of the meetings should be sent to all committee members for their comments and records within a reasonable time after the meeting.	No	Minutes of the Audit Committee meetings are kept by the Company Secretary as Secretary of the Audit Committee. Draft and final versions of minutes of Audit Committee meetings are sent to all committee members for their comments and records within a reasonable time.
C.3.2	A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of its Audit Committee for a period of two years from the date of the person ceasing: (a) to be partner of the firm; or (b) to have any financial interest in the firm, whichever is later.	No	None of the Directors who served on the Audit Committee during the year ended 31 December 2018 were former partners of the external auditor.
C.3.3	The Audit Committee's terms of reference should include at least the prescribed specific duties.	No	The terms of reference of the Audit Committee contain at least the specific duties as prescribed by the CG Code in force during the year ended 31 December 2018. Please refer to section (III)(D)(2) of this Corporate Governance Report for the principal duties of the Audit Committee.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit *(Continued)*

C.3 Audit Committee (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.3.4	The Audit Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	The terms of reference of the Audit Committee (including its role and functions) are available on the websites of the Exchange and the Company.
C.3.5	Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer shall include in this Corporate Governance Report a statement from the Audit Committee explaining its recommendation and the reasons why the Board has taken a different view.	No	The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, BDO Limited be re-appointed as the external auditor. The Board endorsed the Audit Committee's recommendation on the re-appointment of the external auditor.
C.3.6	The Audit Committee should be provided with sufficient resources to perform its duties.	No	The Audit Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
C.3.7	The terms of reference of the Audit Committee should also require it to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and to act as the key representative body for overseeing the issuer's relations with the external auditor.	No	The terms of reference of the Audit Committee contain at least the specific duties as prescribed by the CG Code in force during the year ended 31 December 2018. Please refer to section (III)(D)(2) of this Corporate Governance Report for the principal duties of the Audit Committee.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. Delegation by the Board

D.1 Management functions

Principle

An issuer should have a formal schedule of matters specifically reserved for Board approval. The Board should give clear directions to the management on the matters that must be approved by it before decisions are made on the issuer's behalf.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
D.1.1	When the Board delegates aspects of its management and administration functions to the management, it must also give clear directions as to the management's powers.	No	The Board delegates management and administration functions to the management as it considers appropriate from time to time, with clear directions as to the management's powers including circumstances where the management shall report back and obtain prior Board approval.
D.1.2	The issuer should formalise the functions reserved to the Board and those delegated to senior management and review those arrangements periodically.	No	There is a formal schedule of matters reserved for the Board's decision, including: (i) Mergers and acquisitions; (ii) Investments and divestments; (iii) Acquisitions and disposals of assets; (iv) Major corporate policies on key area of operations; (v) Acceptances of bank facilities; (vi) Annual budget; (vii) Release of Group's interim and full year results; and (viii) Those matters which are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. Delegation by the Board *(Continued)*

D.1 Management functions (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
D.1.3	The issuer should disclose the respective responsibilities, accountabilities and contributions of the Board and the management.	No	Please refer to sections (III)(A)(1) and (2) of this Corporate Governance Report for the respective responsibilities, accountabilities and contributions of the Board and the management.
D.1.4	Issuers should have formal letters of appointment for Directors who should clearly understand delegation arrangements in place.	No	A formal letter of appointment setting out the key terms and conditions of appointment had been entered into between the Company and individual Directors. Each Director understands the delegation arrangements in place.

D.2 Board Committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
D.2.1	The Board should give sufficiently clear terms of reference to Board Committees.	No	Clear terms of reference have been adopted for the formal Board Committees of the Company, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee.
D.2.2	The terms of reference of Board Committees should require them to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restriction on their ability to do so.	No	This term has been included in the terms of reference of the relevant Board Committees.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. Delegation by the Board *(Continued)*

D.3 Corporate Governance Functions

Summary of Code Provisions		Any deviations?	Governance practices of the Company
D.3.1	The terms of reference of the Board (or a committee(s) performing the corporate governance functions) should include, as a minimum, the prescribed specific duties.	No	Terms of reference of the Corporate Governance Committee contain all the specific corporate governance duties as prescribed by the CG Code.
D.3.2	The Board should perform or delegate to a committee or committees to perform the prescribed corporate governance duties.	No	The Board has delegated the corporate governance functions to the Corporate Governance Committee.

E. Communication with Shareholders

E.1 Effective communication

Principle

The Board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
E.1.1	A separate resolution on each substantially separate issue should be proposed by the Chairman of a general meeting to avoid "bundling" resolutions unless they are interdependent and linked and in such case, the reasons and material implications should be explained in the notice of meeting.	No	A separate resolution had been proposed on each substantially separate issue at the annual general meeting of the Company held on 24 May 2018.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

E. Communication with Shareholders *(Continued)*

E.1 Effective communication (Continued)

Principle *(Continued)*

Summary of Code Provisions		Any deviations?	Governance practices of the Company
E.1.2	Chairman of the Board should attend the annual general meeting and invite the Chairmen of the Audit, Remuneration, Nomination and any other Committees (as appropriate) to attend and in their absence, invite another member of the committee or failing this, his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. Management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.	No	The Chairman had attended the Company's annual general meeting held on 24 May 2018. The Chairman and/or other members of the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee and the external auditor of the Company were available to answer questions at the general meeting.
E.1.3	The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	No	At least 20 clear business days' notice period had been given for the Company's annual general meeting held on 24 May 2018.
E.1.4	The Board should establish a shareholders' communication policy and review it regularly to ensure its effectiveness.	No	Shareholders' Communication Policy has been established by the Board and will be reviewed regularly to ensure its effectiveness.
E.1.5	The issuer should have a policy on payment of dividends and should disclose it in the annual report.	No	The Company has adopted a dividend policy. A summary of the dividend policy is disclosed in section headed "Dividend Policy" in the Directors' Report.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

E. Communication with Shareholders *(Continued)*

E.2 Voting by poll

Principle

The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
E.2.1 The Chairman of a meeting should provide an explanation on the detailed procedures for conducting a poll and answer questions from shareholders on voting by poll.	No	Procedures for conducting a poll had been properly explained during the Company's annual general meeting held on 24 May 2018.

F. Company Secretary

Principle

The Company Secretary plays an important role in supporting the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Chairman and/or the Chief Executive on governance matters and should also facilitate induction and professional development of Directors.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
F.1.1 The Company Secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs.	No	The Company Secretary is an employee of the Company and has general knowledge of its affairs.
F.1.2 The Board should approve the selection, appointment or dismissal of the Company Secretary.	No	The selection, appointment or dismissal of the Company Secretary shall be approved by the Board as appropriate at Board meeting, as and when the occasion arises.
F.1.3 The Company Secretary should report to the Board Chairman and/or the Chief Executive.	No	The Company Secretary reports to the Board of Directors on Board matters.
F.1.4 All Directors should have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable law, rules regulations, are followed.	No	All Directors have access to the advice and services of the Company Secretary on Board procedures and corporate governance matters as and when required.

(II) STATE OF INTERNAL CONTROL

(A) Board responsibilities

The Board, in addition to its statutory responsibilities to protect and enhance long-term shareholders' values, is responsible for the overall performance of the Group. It provides effective leadership, sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.

(B) Internal controls

The Board recognises that it is responsible for the overall internal controls framework, but accepts that no cost effective internal control system will preclude all errors and irregularities, as the system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company does not have a risk management committee. However, the management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and highlights all significant matters to the Board and Audit Committee. During the year ended 31 December 2018, an external professional firm was engaged to review the Group's business and operational activities and identify the significant risk areas and to recommend the appropriate measures to mitigate these risks.

The Audit Committee also reviews the effectiveness of the actions taken by the management on the recommendations made by the external professional firm for internal control review and external auditors and ensures that there are follow-up actions on the implementation. The effectiveness of the internal financial control systems and procedures is monitored by the management.

The Company has engaged an external professional firm to review the internal controls and risk management functions of the Group. Internal control weaknesses noted during the internal control review and their recommendations thereof are reported to the Audit Committee including the management's responses. The Audit Committee will review these findings and ensure that the recommendations are implemented.

The Audit Committee is of the view that the external professional firm have adequate resources to perform the internal control review and have, to the best of their ability, maintained their independence from the audit activities. The Audit Committee reviews the adequacy and effectiveness of the internal control review performed annually to ensure that the competency for performing internal control review and that the internal controls are performed effectively.

Based on the internal controls established and maintained by the Group, reviews conducted by the external professional firm, the Board, with the concurrence of the Audit Committee, is of the opinion that the internal controls and risk management system addressing the Group's financial, operational, and compliance risks are sound and effective as at 31 December 2018. The management will continue to focus on improving the standard of internal controls and corporate governance.

The Group's financial risk management is disclosed under Note 36 of the Notes to the Consolidated Financial Statements on pages 137 to 141 of this Annual Report.

(III) OTHER INFORMATION

In addition to the information disclosed above, set out below is other information required to be disclosed pursuant to the rules on Corporate Governance Report contained in Appendix 14 to the Listing Rules in force during the year ended 31 December 2018.

(A) Board of Directors

(1) The Board is responsible for the overall performance of the Group. It provides effective leadership, sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.

(2) The Board delegates management and administration functions to the management as it considers appropriate from time to time, with clear directions as to the management's powers including circumstances where the management shall report back and obtain prior Board approval. There is a formal schedule of matters reserved for the Board's decision, including:

- (a) Mergers and acquisitions;
- (b) Investments and divestments;
- (c) Acquisitions and disposals of assets;
- (d) Major corporate policies on key area of operations;
- (e) Acceptances of bank facilities;
- (f) Annual budget;
- (g) Release of Group's interim and full year results; and
- (h) Those matters which are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business.

(3) The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules in force during the year ended 31 December 2018 as its code of conduct regarding securities transactions by its Directors. Each of the Directors has confirmed, following specific enquiry by the Company, that during the year ended 31 December 2018, he has complied with the required standard set out in the Model Code as contained in Appendix 10 of the Listing Rules in force during the said period.

(III) OTHER INFORMATION *(CONTINUED)*

(A) Board of Directors *(Continued)*

(4) Details of Directors' attendance at the Board. Board Committees and the annual general meeting, held for the year ended 31 December 2018 are set out in the table below:

Meetings of	Board	AC	NC	RC	CGC	Annual General Meeting
Total held in 2018	5	3	1	1	1	1
			Attendance Record			
Executive Director						
Mr. Wang Zhihe	5	N/A	1	N/A	N/A	1
Mr. Sun Yi	2	N/A	N/A	–	–	1
Mr. Sun Zushan	5	N/A	N/A	N/A	N/A	–
Mr. Xu Xijiang	5	N/A	N/A	N/A	N/A	1
Non-executive Director						
Ms. Chen Jimin	3	N/A	N/A	N/A	N/A	1
Independent Non-executive Directors						
Mr. Ng Sai Leung	5	3	N/A	N/A	1	1
Ms. Lin Xiuxiang	5	3	1	1	1	1
Mr. Liu Jincheng	5	3	1	1	N/A	–

(5) During the year ended 31 December 2018, in accordance with the CG Code, the Board has, inter alia:

(a) considered and adopted the risk management framework and program, policy and manual; and

(b) considered and reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report, taking into account the related reports and views of the Board Committees in their respective areas.

(6) All Directors are committed to participate in continuous professional development programmes to update and enhance their knowledge and skills for performing Directors' roles and responsibilities, and would update and confirm to the Company, on a regular basis, the related programmes attended and training received by them. The Company maintains a record of training received by each Director accordingly.

(III) OTHER INFORMATION *(CONTINUED)*

(A) Board of Directors *(Continued)*

(7) New Directors, on appointment, will be given a comprehensive formal induction covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. All Directors are also furnished with continuous updates and briefings on the latest changes or material developments in statutes, the Listing Rules, and corporate governance practices, etc. The updates and briefings covered a broad range of topics including, inter alia, directors' duties, dealing in securities by directors, disclosure obligation of inside information, financial information and general information, and rules and regulations relating to notifiable transactions, connected transactions and corporate governance. During the year ended 31 December 2018, all Directors are provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects, where applicable, in sufficient details to keep the Directors abreast of the Group's affairs in order to perform their duties.

(8) Pursuant to the code provision A.6.5 of the Code for the year ended 31 December 2018, all Directors had participated in continuous professional development in relation to regulatory update, corporate governance and professional skills update in the following manner:

	Attended seminars or briefing/ Read materials
Mr. Wang Zhihe	✓
Mr. Sun Yi	✓
Mr. Sun Zushan	✓
Mr. Xu Xijiang	✓
Ms. Chen Jimin	✓
Mr. Ng Sai Leung	✓
Ms. Lin Xiuxiang	✓
Mr. Liu Jincheng	✓

(III) OTHER INFORMATION *(CONTINUED)*

(B) Remuneration Committee

(1) The Remuneration Committee, regulated by a set of written terms of reference, comprises the following Directors:

Independent non-executive Directors

Ms. Lin Xiuxiang *(Chairlady)*

Mr. Liu Jincheng

Executive Director

Mr. Sun Yi

(2) The principal duties of the Remuneration Committee include the following:

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

(b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management, this should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to make recommendations to the Board on the remuneration of non-executive Directors;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

(f) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

(III) OTHER INFORMATION *(CONTINUED)*

(B) Remuneration Committee *(Continued)*

(3) The executive Directors are entitled to a salary and a performance bonus to be determined at the discretion of the Board.

The annual review of the remuneration packages of all Directors and key management personnel was carried out by the Remuneration Committee to ensure that their remuneration commensurate with their duties and responsibilities, performance, qualifications and experience as well as the Company's performance. For the year ended 31 December 2018, the Remuneration Committee is satisfied with the remuneration packages of the Directors and key management personnel and recommended the same for Board's approval. The Board had approved the Remuneration Committee's recommendation accordingly.

The objective of the remuneration policies is to ensure that the Directors would be provided with the appropriate incentives to encourage enhanced performance and are, in a fair and reasonable manner, rewarded for their individual contributions to the success of the Group.

Each member of the Remuneration Committee had abstained from voting on any resolutions and making recommendations and/or participating in any deliberations of the Remuneration Committee in respect of his remuneration package or fees.

(4) No Director or any of his associates is involved in deciding his own remuneration.

(III) OTHER INFORMATION *(CONTINUED)*

(B) Remuneration Committee *(Continued)*

(5) The breakdown of each individual Director's remuneration, showing the level and mix for the year ended 31 December 2018, is as follows:

Name of Director	Directors' fees RMB'000	Salaries, allowances and benefit in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Mr. Wang Zhihe	2,173	263	–	–	2,436
Mr. Sun Yi	1,863	71	–	–	1,934
Mr. Sun Zushan	1,035	211	–	–	1,246
Mr. Xu Xijiang	1,035	88	–	–	1,123
Mr. Chen Jimin	–	–	–	–	–
Mr. Ng Sai Leung	155	–	–	–	155
Ms. Lin Xiuxiang	155	–	–	–	155
Mr. Liu Jincheng	155	–	–	–	155

The emoluments paid or payable to members of senior management under code provision B.1.5 of the CG Code were within the following bands:

	2018 No. of individuals
Nil to HK$1,000,000	1
HK$1,000,001 to HK$2,000,000	1
HK$2,000,001 to HK$3,000,000	–

(III) OTHER INFORMATION *(CONTINUED)*

(C) Nomination Committee

(1) The Nomination Committee is regulated by a set of written terms of reference. The majority of the members are independent non-executive Directors.

The members of the Nomination Committee are as follows:

Independent non-executive Directors

Ms. Lin Xiuxiang

Mr. Liu Jincheng

Executive Director

Mr. Wang Zhihe *(Chairman)*

(2) The principal duties of the Nomination Committee include the following:

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

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

(c) to assess the independence of the independent non-executive Directors;

(d) to make recommendations to the Board on:

(i) the role, responsibilities, capabilities, skills, knowledge, experience and diversity of perspectives required from members of the Board;

(ii) the policy on the terms of employment of non-executive Directors;

(iii) the composition of the audit committee, remuneration committee, corporate governance committee and other board committees of the Company;

(iv) proposed changes to the structure, size and composition of the Board;

(v) candidates suitably qualified to become members of the Board;

(vi) the selection of individuals nominated for directorship;

(vii) the re-election by shareholders of the Company of any Directors who are to retire by rotation having regard to their performance and ability to continue to contribute to the Board;

(viii) the continuation (or not) in service of any independent non-executive Director serving more than nine years and to provide recommendation to the shareholders of the Company as to how to vote in the resolution approving the re-election of such independent non-executive Director;

(ix) the appointment or re-appointment of Directors;

(x) succession planning for Directors in particular the chairman and the chief executive; and

(xi) the policy concerning diversity of Board members and the measurable objectives for implementing such policy;

(III) OTHER INFORMATION *(CONTINUED)*

(C) Nomination Committee *(Continued)*

(2) The principal duties of the Nomination Committee include the following: *(Continued)*

(e) to give adequate consideration to the following in the discharge of its duties as mentioned in its terms of reference:

(i) planning for orderly succession of appointment of Directors;

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

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

(iv) the balance of the skills, expertise and experience required from members of the Board for the requirement of the Group's business;

(v) the impact on the Group arising from any change of composition of the Board;

(vi) the balance composition of executive and non-executive Directors (including independent non-executive Directors) to ensure a strong independent element on the Board which can effectively exercise independent judgement;

(vii) non-executive Directors should be of sufficient calibre and number for their views to carry weight;

(viii) there should be a formal, considered and transparent procedure for the appointment of new Directors;

(ix) all Directors should be subject to re-election at regular intervals;

(x) the reasons for the resignation or removal of any Director;

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

(xii) the relevant requirements of the Listing Rules with regard to directors of a listed issuer;

(f) in respect of any proposed service contracts to be entered into by any members of the Group with its director or proposed director, which require the prior approval of the shareholders of the Company at general meeting under rule 13.68 of the Listing Rules, to review and provide recommendations to the shareholders of the Company (other than shareholders who are directors with a material interest in the relevant service contracts and their respective associates) as to whether the terms of the service contracts are fair and reasonable and whether such service contracts are in the interests of the Company and the shareholders as a whole, and to advise shareholders on how to vote;

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

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

(i) to review the policy on Board diversity and the measurable objectives for implementing such policy from time to time adopted by the Board, and to review the progress on achieving these objectives; and

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

(III) OTHER INFORMATION *(CONTINUED)*

(C) Nomination Committee *(Continued)*

(3) The Nomination Committee will review the performance of each of the Directors and will recommend to the Board if their term of office would be renewed for a further year. The Remuneration Committee will review and recommend to the Board if there were any changes to their existing remuneration packages.

In accordance with the Company's Articles of Association, each Director is required to retire at least once in every three years by rotation and all newly appointed Directors will have to retire at the next annual general meeting following their appointments. The retiring Directors are eligible to offer themselves for re-election.

Each member of the Nomination Committee shall abstain from voting on any resolutions and/or participating in deliberation in respect of his re-election as Director.

An evaluation of the Board performance is conducted annually by the Nomination Committee to assess the effectiveness of the Board as a whole which examines factors such as Board composition, information flow to the Board, Board procedures, Board accountability, and standards of conduct of the Board members.

For the year ended 31 December 2018, the Nomination Committee had conducted a Board review. The results of the Board review were collated and presented to the Nomination Committee for discussion. The Nomination Committee was generally satisfied with the results of the Board review for the year ended 31 December 2018, which no significant issues were identified. The Nomination Committee had presented the results to Board members.

The Nomination Committee was of the view that given the small Board size, the cohesiveness of the Board members and that the same independent non-executive Directors sit on the various Board Committees, there would not be any value added in having separate assessments of Board committees.

(4) The Board has adopted a board diversity policy which aims to set out the approach to achieve diversity on the Board. All Board appointments will be based on merit while taking into account diversity. The Company aims to build and maintain a Board with a diversity of Directors, in terms of skills, professional experience, educational background, knowledge, expertise, culture, independence, age and gender. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board and the business needs of the Company from time to time. The Nomination Committee will regularly review the measurable objectives to ensure its effectiveness to achieve diversity on the Board. At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

(III) OTHER INFORMATION *(CONTINUED)*

(C) Nomination Committee *(Continued)*

(5) The Company has adopted a Director Nomination Policy which sets out the selection criteria and process in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the criteria for evaluating and selecting any proposed candidate for directorship, including but not limited to the following:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

The Director Nomination Policy also sets out the procedures and process for the selection and appointment of new Directors and re-election of Directors at general meetings. During the Reporting Period, the Nomination Committee adhered to the following nomination procedures and the process set out in the Director Nomination Policy to select and recommend candidates for directorship:

(a) Appointment of new Director

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

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

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

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

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

(III) OTHER INFORMATION *(CONTINUED)*

(C) Nomination Committee *(Continued)*

(5) *(Continued)*

(b) Re-election of Director at General Meeting

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

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

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

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

(D) Audit Committee

(1) The Audit Committee, regulated by a set of written terms of reference, comprises three members, all of whom are independent non-executive Directors. The members of the Audit Committee are:

Independent non-executive Directors

Mr. Ng Sai Leung *(Chairman)*

Ms. Lin Xiuxiang

Mr. Liu Jincheng

(2) The Board is of the view that the members of the Audit Committee are appropriately qualified, having the necessary accounting or related financial management expertise or experience as the Board interprets such qualification to discharge their responsibilities.

The principal functions and duties of the Audit Committee include:

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(c) to discuss with the auditors the nature and scope of the audit and reporting obligations and ensure co-ordination where more than one audit firm is engaged before the audit commences;

(d) to develop and implement policy on engaging an external auditor to supply non-audit services;

(e) to monitor the integrity of the Company's financial statements and annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

(III) OTHER INFORMATION *(CONTINUED)*

(D) Audit Committee *(Continued)*

(2) *(Continued)*

(f) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

(g) to review the Company's financial controls, and unless expressly addressed by a separate risk committee of the Board, or by the Board itself, to review the Company's risk management and internal control systems;

(h) to discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective systems;

(i) 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;

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

(k) to review the Group's financial and accounting policies and practices; and

(l) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response.

The Audit Committee has the explicit powers to conduct or authorise investigation into any of the abovementioned matters.

During the year ended 31 December 2018, three meetings of the Audit Committee were held. The Audit Committee shall meet at least two times a year and when deemed appropriate to carry out its functions as sets out under its terms of reference. The Audit Committee has full access to and the co-operation of the management, has full discretion to invite any Directors to attend its meetings, and has reasonable adequate resources to enable it to discharge its functions.

(3) Three Audit Committee meetings were held in the year ended 31 December 2018 to:

(a) discuss and review the interim and annual financial statements of the Company before submission to the Board for adoption;

(b) discuss and review the audit plans and audit reports with the external professional firm for reviewing the internal controls and external auditors;

(c) discuss and review the adequacy and effectiveness of the internal controls system and made recommendations to the Board for improvement of internal controls and risk management;

(d) discuss and review the nomination and appointment or re-appointment of external professional firm for reviewing the internal controls and external auditors;

(e) meet with the external professional firm for reviewing the internal controls and external auditors without the presence of the management to discuss the results of their audit findings and their evaluation of the Group's system of accounting and internal controls, set out in their respective reports;

(III) OTHER INFORMATION *(CONTINUED)*

(D) Audit Committee *(Continued)*

(3) *(Continued)*

(f) ascertained that both the external professional firm for reviewing the internal controls and external auditors have had the full co-operation of the management in carrying out their work. No non-audit services were rendered by the external auditors in the year ended 31 December 2018;

(g) keep abreast of accounting standards and discuss and review issues that could potentially impact financial reporting through quarterly updates and advice from the external auditors;

The Audit Committee has recommended to the Board the nomination of BDO Limited, Certified Public Accountants, Hong Kong as auditor at the forthcoming annual general meeting.

The Board concurred with the Audit Committee's recommendation.

(E) Corporate Governance Committee

(1) To facilitate more effective implementation of corporate governance practices, the Corporate Governance Committee has been established with specific written terms of reference which deal clearly with the committee's authority and duties. The members of the Corporate Governance Committee are as follows:

Independent non-executive Directors

Mr. Ng Sai Leung *(Chairman)*

Ms. Lin Xiuxiang

Executive Director

Mr. Sun Yi

(2) The Corporate Governance Committee is responsible for performing the corporate governance duties, including, inter alia, developing, reviewing and monitoring compliance with the Company's policies and practices on corporate governance to ensure that they accord with the appropriate standards for good corporate governance. The principal functions and duties of the Corporate Governance Committee include the following:

(a) to develop and review the Group's policies and practices on corporate governance and to make recommendations to the Board;

(b) to review and approve the annual corporate governance report and related disclosures in the annual and interim reports of the Group and ensuring compliance with relevant requirements under the Listing Rules or the rules of any other stock exchange in respect of which the securities of the Company are listed or quoted, or other laws, regulations, rules and codes as may be applicable to the Group (the "Applicable Laws");

(c) to make sure that appropriate monitoring systems are in place to ensure compliance against the relevant internal controls systems, processes and policies, and in particular to monitor the implementation of the Group's plans to maintain high compliance with its own risk management standards;

(d) to monitor each of the Remuneration Committee and Nomination Committee has duly discharged their respective duties and obligations in accordance with their respective terms of reference, the Listing Rules and any Applicable Laws;

(III) OTHER INFORMATION *(CONTINUED)*

(E) Corporate Governance Committee *(Continued)*

(2) *(Continued)*

(e) to monitor proper segregation of duties between the chairman and the chief executive officer of the Group;

(f) to develop and formalise the functions reserved to the Board and those to be delegated by the Board to the management of the Group, and to review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group;

(g) to review and monitor the Group's process of disclosure, including assessing and verifying the accuracy and materiality of price-sensitive information and determine the form and content of any required disclosure;

(h) to review and monitor the Group's communication policy with its shareholders to ensure a high degree of transparency and that the shareholders are informed of relevant information on a regular basis thus allowing them to evaluate the Group's performance and prospects;

(i) to review and monitor the Group's policies and practices on compliance with any requirement, direction and regulation that may be prescribed by the Board or contained in any constitutional documents of the Group or imposed by the Listing Rules, the Applicable Laws and other applicable organisational governance standards;

(j) to review and monitor the training and continuous professional development of Directors and senior management of the Group;

(k) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group;

(l) to review the Group's compliance with the corporate governance code from time to time adopted by the Group and the disclosure in the corporate governance report to be contained in the Company's annual reports; and

(m) to review from time to time as appropriate these terms of reference and the effectiveness of the Committee and recommend to the Board any necessary changes.

(3) During the year ended 31 December 2018, the Corporate Governance Committee reviewed the policies and practices on corporate governance of the Company, the training and continuous professional development of the Directors, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

(III) OTHER INFORMATION *(CONTINUED)*

(F) Directors' and Auditors' Responsibility for the Consolidated Financial Statements

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. The Company's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments and estimates made are prudent and reasonable. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

The responsibilities of external auditors of the Company are disclosed in the Independent Auditor's Report.

(G) Auditor's Remuneration

The auditor of the Company, BDO Limited, have affirmed their independence in this respect. Audit services rendered by the external auditor amounted to RMB1,271,000.

(H) Shareholders' Rights

At the annual general meetings, the shareholders will be given an opportunity to voice their views and seek clarification from the Directors and members of the senior management.

To safeguard the shareholders' interests and rights, separate resolutions will be proposed at shareholders' meetings on each substantial issue, including the re-election of the retiring Directors.

All votes of the shareholders at the shareholders' meeting will be taken by poll. Poll results will be posted on the websites of the Company and the Stock Exchange after the meeting.

Procedures for shareholders to convene an extraordinary general meeting and putting forward proposals at general meetings

In accordance with the Company's Articles of Association, one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company having 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 Secretary of the Company, 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 2 months after the deposit of such requisition. If within 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.

(III) OTHER INFORMATION *(CONTINUED)*

(H) Shareholders' Rights *(Continued)*

Procedures for raising enquiries

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

(I) Changes in Constitutional Documents

The Group has no change in constitutional documents during the year ended 31 December 2018.

(J) Risk Management and Internal Control

The Board is overall responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group established and maintained appropriate and effective risk management and internal control systems.

The Audit Committee reviews the risk management and internal controls that are significant to the Group on an on-going basis. The Audit Committee would consider the adequacy of resource, qualifications and experience and training of staff and external advisor of the Group's accounting, internal audit and financial reporting function.

The management of the Group is responsible for designing, maintaining, implementing and monitoring of the risk management and internal control system to ensure adequate control in place to safeguard the Group's assets and stakeholder's interest.

The Group has established risk management procedures to address and handle all the significant risks associate with the business of the Group. The Board would perform annual review on any significant change of the business environment and establish procedures to response the risks result from significant change of business environment. The risk management and internal control systems are designed to mitigate the potential losses of the business.

(III) OTHER INFORMATION *(CONTINUED)*

(J) Risk Management and Internal Control *(Continued)*

The management would identify the risks associate with the business of the Group by considering both internal and external factors and events which include political, economic, technological, environmental, social and human resources aspects. Each of the risks has been assessed and prioritised based on their relevant impact and probability of occurrence. The relevant risk management strategy would be applied to each type of risks according to the assessment results, type of risk management strategy has been listed as follow:

– Risk retention and reduction: accept the impact of risk or undertake actions by the Group to reduce the impact of the risks;

– Risk avoidance: change business process or objective so as to avoid the risk;

– Risk sharing and diversification: diversify the effect of the risk or allocate to different location or product or market;

– Risk transfer: transfer ownership and liability to a third party.

The internal control systems are designed and implemented to reduce the risks associated with the business accepted by the Group and minimise the adverse impact results from the risks. The risk management and internal control system are design to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2018, the Group has engaged an external professional firm to perform the internal control review to ensure the effectiveness and efficiency of the risk management and internal control system of the Group. There is no significant deficiency and weakness on the internal control system has been identified by the external professional firm for the year ended 31 December 2018.

The Board considered that, for the year ended 31 December 2018, the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance controls and risk management functions were reasonably effective and adequate.

(K) Deed of Non-competition

In respect of the compliance with the provisions of the Deed of Non-competition by the Covenantors, please refer to the section headed "Deed of Non-competition" in the Directors' Report.

(L) Investor Relations

The Company has an internal investor relations function which focuses on facilitating communications with shareholders and analysts on a regular basis, attending to their queries or concerns and keeping them apprised of the Group's corporate developments and financial performance. During such interactions, the Company solicits and understands the views of shareholders and the investment community.

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

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 July 2013 under the Companies Law of the Cayman Islands. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 32 to the consolidated financial statements.

There was no significant change in the nature of the principal activities of the Group during the year ended 31 December 2018.

SHARE CAPITAL

As of 31 December 2018, the total issued share capital of the Company was approximately US$62,047, divided into 620,472,000 ordinary shares of nominal value of US$0.0001 each. Details of movements during the year ended 31 December 2018 in the share capital of the Company are set out in note 28 to the consolidated financial statements. Same as disclosed in the section headed "Equity-Linked Agreement", the Company has not issued any Shares during the year ended 31 December 2018.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2018.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" on page 5, pages 6 to 7 and pages 8 to 12 respectively of this Annual Report. The financial risk management of the Group are set out in note 36 to the consolidated financial statements. In addition, an analysis of the Group's performance during the year ended 31 December 2018 using key financial performance indicators is set out in the "Financial Highlights" of this Annual Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The total revenue of the Group is mainly generated from the sales of urea products and therefore profit margin and profitability are highly affected by average selling price of urea products and procurement costs of coal. The price of coal may fluctuate significantly as a result of numerous factors and uncertainties. In addition to the general economic conditions in the PRC and the fluctuations in coal prices in the international markets, the PRC Government also influences the coal prices in PRC through various policies.

It is the reason that the Group started broadening the product range of the Group aiming to diversify the risk of over reliance on any single product, and continuously enhancing production efficiency in order to minimise production cost per unit.

ENVIRONMENTAL POLICIES

The Group is committed to environmental protection and values corporate social responsibilities. The Group continues to update internal policies and programs for environmental risk prevention to ensure compliance with requirements of applicable national, industrial and local standards, laws, regulations and policies. The Group also continues to implement environmental protection, energy saving and emission reduction projects to improve environmental management, setting a solid foundation for better future development.

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

ACCOUNT OF THE GROUP'S KEY RELATIONSHIPS

(i) Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year ended 31 December 2018, the Group considered the relationship with employees was well and the turnover rate was acceptable.

(ii) Suppliers

The Group's suppliers mainly include raw material suppliers. During the year ended 31 December 2018, the Group considered the relationship with its suppliers was well and stable.

(iii) Customers

The Group sells products directly to customers. The Group maintains a good relationship with all the customers.

RESULTS AND APPROPRIATION

The financial performance of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 79 to 81.

DIVIDEND POLICY

The Company has adopted a Dividend Policy on payment of dividends. It is the policy of the Board, in considering the payment of dividends, to strike a balance between maintaining sufficient capital to grow the Group's business and rewarding the shareholders of the Company.

The Board shall consider the following factors before declaring or recommending dividends:

- the Company's results of operations and financial conditions;
- the Company's cash flow, working capital requirements, capital expenditure requirements and future expansion plans;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's liquidity position;
- general economic conditions, future prospects of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Cayman Islands and the Company's articles of association. The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK4 cents per ordinary share, absorbing a total amount of about HK$24.8 million in respect of the year ended 31 December 2018 (2017: HK2 cents), which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Friday, 24 May 2019, the proposed final dividend is expected to be paid on Monday, 17 June 2019 to all shareholders whose names to be appeared on the register of members of the Company on Friday, 31 May 2019.

None of the shareholders of the Company entered into any arrangement to waive or agree to waive any dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

INTEREST-BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2018 are set out in note 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Shares during the year ended 31 December 2018.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2018 are set out in the Consolidated Statement of Changes in Equity on page 82 of this Annual Report and note 29 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provision of laws of Cayman Islands, amounted to approximately RMB633 million (2017: approximately RMB658 million).

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

During the year ended 31 December 2018, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EQUITY-LINKED AGREEMENT

Pursuant to the letter of employment entered into between the Company and Mr. Cheng Shing Hay ("Mr. Cheng"), the Chief Financial Officer and Company Secretary of the Company, Mr. Cheng will be entitled to the contingent allotment and issue, credited as fully paid by the Company 944,000 Shares ("Remuneration Shares") in two equal installments. The first installment shall be 50% of the Remuneration Shares which shall be allotted and issued to Mr. Cheng on the first business day ("First Installment Date") after anniversary of the 12th month following the Listing Date; and the final installment shall be the balance of the Remuneration Shares and the same shall be allotted and issued to Mr. Cheng on the first business day after anniversary of the 12th month following the First Installment Date. The allotment and issue of the Remuneration Shares is conditional upon the continuance of his employment with the Company on the date of allotment of Shares. Further details of the Remuneration Shares are set out in the section headed "Directors and Senior Management – Senior Management" of the Prospectus and note 30 to the consolidated financial statements. 472,000 Remuneration Shares, being the first installment of the Remuneration Shares, had been allotted and issued on 12 July 2018.

Save as disclosed above and under the paragraph headed "Share Option Scheme" in this Director's Report, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year ended 31 December 2018.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 20 June 2017. The purpose of the Share Option Scheme is to provide incentives or rewards to selected participants who contribute to the success of the Group's operations. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years commencing on its adoption date.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date (the "General Scheme Limit"). As at the date of this Directors' Report, the total number of Shares available for issue under the Share Option Scheme was 62,000,000 Shares, representing approximately 10% of the issued share capital of the Company. The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the shareholders' approval.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

Unless approved by the shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of: (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer 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 sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

No share options have been granted, exercised or cancelled by the Company under the Scheme since its adoption and up to the date of this Directors' Report.

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2018, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

In the year ended 31 December 2018, purchases from the Group's five largest suppliers accounted for 60% of the total purchases for the year and purchases from the largest supplier included therein amounted to 29%. None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers.

DIRECTORS

The Directors of the Company during the year end 31 December 2018 and up to the date of this Directors' Report are as follows:

Executive Directors:

Mr. Wang Zhihe *(Chairman)*

Mr. Sun Yi

Mr. Sun Zushan

Mr. Xu Xijiang

Non-executive Director

Ms. Chen Jimin *(appointed on 6 April 2018)*

Independent non-executive Directors:

Mr. Ng Sai Leung

Ms. Lin Xiuxiang

Mr. Liu Jincheng

By virtue of Articles 105(A) and 105(B) of the Articles of Association of the Company, Mr. Xu Xijiang, Mr. Ng Sai Leung and Mr. Liu Jincheng will retire as Directors at the forthcoming annual general meeting, and they, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of its independent non-executive Directors and considers Mr. Ng Sai Leung, Ms. Lin Xiuxiang and Mr. Liu Jincheng to be independent under Rule 3.13 of the Listing Rules.

Biographical details of the Directors and the senior management of the Group are set out on pages 15 to 18 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 20 June 2017 which may be terminated by either party by giving not less than three months' written notice. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

During the term of the service contract, each of these executive Directors is entitled to their respective basic salary (subject to an annual increment after at the discretion of the Directors of not more than 10% of the average annual salary for the 12 months immediately prior to such increase).

In addition, during the term of the service contract, each of the executive Directors is also entitled to a discretionary management bonus in such sum as the Board may in its absolute discretion determine provided that the aggregate amount of bonuses payable to all the executive Directors for any financial year of the Company shall not exceed 10% of the audited consolidated or combined net profit attributable to the shareholders of the Company (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of management bonus payable to him.

Non-executive Director

The non-executive Director has been appointed for an initial term of three years commencing from 6 April 2018 which may be terminated by either party by giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other. The appointment is subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. The non-executive Director does not receive any directors' fee nor entitled to any other emoluments for her appointment as non-executive Director.

Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 20 June 2017 which may be terminated by either party by giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HK$180,000 per annum during the term of the appointment. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

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 by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as those disclosed in the sections headed "Directors' Service Contracts" above and "Related Party Transactions" below, and note 33 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2018 or at any time during the year ended 31 December 2018.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Directors' Service Contracts" and note 33 to the consolidated financial statements, no controlling shareholder of the Company or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2018.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During and at the end of the year ended 31 December 2018, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year ended 31 December 2018.

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

As at the date of this Directors' Report, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name of Director	The company in which the interest is held	Capacity/nature of interest	Number of shares involved *(Note 1)*	Approximate percentage* of shareholding
Mr. Wang Zhihe	The Company	Interest of controlled corporation	460,000,000 Shares (L) *(Note 2)*	74.14%
Mr. Sun Yi	The Company	Interest of controlled corporation	180,320,000 Shares (L) *(Note 3)*	29.06%

* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at the date of this Directors' Report.

Notes:

1. The letter "L" denotes the Director's long position in the shares of the Company.

2. Among these 460,000,000 Shares, 279,680,000 Shares are held by Sino-Coal Holding (which is owned as to approximately 33.059% by Timely Moon Limited ("Timely Moon")); and 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang Zhihe. By virtue of the SFO, each of Timely Moon and Mr. Wang Zhihe is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.

3. These 180,320,000 Shares are held by Bloom Ocean, the entire issued shares of which are owned as to approximately 44.01% by Plenty Sun Limited ("Plenty Sun"). Plenty Sun is wholly owned by Mr. Sun Yi. By virtue of the SFO, each of Plenty Sun and Mr. Sun Yi is taken to be interested in the Shares held by Bloom Ocean.

Save as disclosed above, as at the date of this Directors' Report, none of the Directors or chief executive of the Company had any interests and short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS UNDER THE SFO

As at the date of this Directors' Report, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executive of the Company) had an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholders	Capacity/ nature of interest	Number of shares involved *(Note 1)*	Approximate percentage* of shareholding
Timely Moon	Interest of controlled corporation	460,000,000 Shares (L) *(Note 2)*	74.14%
Ms. Sun Yukun	Interest of spouse	460,000,000 Shares (L) *(Note 3)*	74.14%
Sino-Coal Holding	Beneficial owner	279,680,000 Shares (L)	45.08%
Bloom Ocean	Beneficial owner	180,320,000 Shares (L)	29.06%
Plenty Sun	Interest of controlled corporation	180,320,000 Shares (L) *(Note 4)*	29.06%
Ms. Yao Juan	Interest of spouse	180,320,000 Shares (L) *(Note 5)*	29.06%
Guofu (Hong Kong) Holdings Limited	Beneficial owner	31,132,000 Shares (L) *(Note 6)*	5.02%
Hebei Guofu Agricultural Investment Group Co., Ltd** (河北省國富農業投資集團有限公司)	Interest of controlled corporation	31,132,000 Shares (L) *(Note 6 & 7)*	5.02%

* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at the date of this Directors' Report.

** Denotes English translation of the name of a Chinese company, and is provided for identification purposes only.

Notes:

1. The letter "L" denotes the shareholder's long position in the Shares.

2. Among these 460,000,000 Shares, 279,680,000 Shares are held by Sino-Coal Holding (which is owned as to approximately 33.059% by Timely Moon); and 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang Zhihe. By virtue of the SFO, each of Timely Moon and Mr. Wang Zhihe is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.

3. Ms. Sun Yukun is the spouse of Mr. Wang Zhihe. Under the SFO, Ms. Sun Yukun is taken to be interested in the same number of Shares in which Mr. Wang Zhihe is interested.

4. These 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.01% by Plenty Sun). Plenty Sun is wholly owned by Mr. Sun Yi. By virtue of the SFO, each of Plenty Sun and Mr. Sun Yi is taken to be interested in the Shares held by Bloom Ocean.

5. Ms. Yao Juan is the spouse of Mr. Sun. Under the SFO, Ms. Yao Juan is taken to be interested in the same number of Shares in which Mr. Sun Yi is interested.

6. The information disclosed is based on the disclosure of interests forms submitted by these substantial shareholders respectively.

7. Hebei Guofu Agricultural Investment Group Co., Ltd** (河北省國富農業投資集團有限公司) is deemed to be interested in these Shares through its controlled corporation, namely, Guofu (Hong Kong) Holdings Limited.

Save as disclosed above, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 19 to 60 of this Annual Report.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group are set out in note 33 to the consolidated financial statements. None of the related party transactions disclosed in note 33 in the notes to the consolidated financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for the year ended 31 December 2018. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2018 and up to the date of this Directors' Report, none of the Directors are considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Bloom Ocean, Sino-Coal Holding, Fair Noble Limited, Fair Tycoon Limited, Power Moon Limited, Decent Magic Limited, Wide Axis Limited, Elite Captain Limited, Honest Nature Limited, Timely Moon, Plenty Sun, Mr. Wang Zhihe, Mr. Sun Yi, Mr. Sun Zushan, Mr. Xu Xijiang, Mr. Song Jianning, Mr. Liu Yingdong, Mr. Li Hongliang, Ms. Li Guie, Mr. Guo Jianming and Mr. Yip Kean Mun (the "Covenantors") in respect of the compliance with the provisions of the deed of non-competition (the "Deed of Non-competition"), entered into between the Covenantors and the Company as set out in the section headed "Relationship with our Controlling Shareholders – Deed of Non-competition" of the Prospectus for the year ended 31 December 2018. Each of the Covenantors has confirmed and declared that, for the year ended December 2018, he/she/it had strictly complied with the Deed of Non-competiton without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Deed of Non-competition and consider that the terms of the Deed of Non-competition have been complied with by each of the Covenantors during the year ended 31 December 2018.

MANAGEMENT CONTRACT

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 year ended 31 December 2018 or subsisted during the year ended 31 December 2018.

RETIREMENT BENEFIT PLAN

The Group participates in a defined contribution retirement benefit plan organised by the PRC government authorities for the Group's eligible employees in the PRC. Further details of this defined contribution scheme are set out in note 4(p) to the consolidated financial statements.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Change in Director's biographical details during the year ended 31 December 2018, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of change
Ms. Lin Xiuxiang	Ms. Lin Xiuxiang ceased to be the independent director and a director of the audit committee of Minsheng Securities (民生證券股份有限公司) in August 2018.

Save as disclosed above, the Company is not aware of other changes in the Directors' information which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

PERMITTED INDEMNITY PROVISION

Under the Articles of Association of the Company, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors since the Listing Date and as at the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 December 2018, no claims were made against the Directors.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as required under the Listing Rules as at the date of this Directors' Report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 17 May 2019 to Friday, 24 May 2019 (both days inclusive) for the purpose of determining the right to attend and vote at the 2019 AGM. In order to be qualified for attending and voting at the 2019 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 16 May 2019.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2019 AGM, the register of members of the Company will also be closed from Thursday, 30 May 2019 to Friday, 31 May 2019 (both days inclusive) for the purpose of determining the entitlement to the Proposed Final Dividend. In order to be qualified for the Proposed Final Dividend (subject to the approval of the shareholders at the 2019 AGM), unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. on Wednesday, 29 May 2019.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events to cause material impact on the Group from the end of the year ended 31 December 2018 to the date of this Directors' Report are set out in note 40 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years are set out on page 144 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee has discussed with the management of the Group and reviewed this Annual Report and the audited annual financial results of the Group for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group, and discussed financial related matters.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Wang Zhihe

Executive Director and Chairman

Sun Zushan

Executive Director

25 March 2019

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

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

TO THE SHAREHOLDERS OF DONGGUANG CHEMICAL LIMITED
(東光化工有限公司)
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Dongguang Chemical Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 79 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, 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 present fairly, in all material respects, 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 International Financial Reporting Standards 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 International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We 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 judgement, 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 value-added tax recoverable

Refer to note 20 in the Group's consolidated financial statements.

Included in prepayments, deposits and other receivables of approximately RMB106.9 million, there was value-added tax recoverable of approximately RMB72.8 million relating to the prepayments to Hebei Dongguang State Administration of Tax (河北省東光縣國家稅務局) but yet to be utilised as at balance sheet date. There is a risk that the carrying amount of such value-added tax recoverable may be impaired.

Management has considered that the value-added tax recoverable can be deducted by reference to the utilisation based on the sales orders in the future. Management also considered that the risk of default of value-added tax recoverable is low as Hebei Dongguang State Administration of Tax is a government agency and the Group has frequent communication with Hebei Dongguang State Administration of Tax for the treatment of value-added tax recoverable. Management concluded that no provision for impairment is required for the value-added tax recoverable. This conclusion was based on management's judgements and estimates in the future sales and low possibility of default by Hebei Dongguang State Administration of Tax, such judgements and estimates will impact the carrying amount of value-added tax recoverable.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's impairment assessment of value-added tax recoverable included:

- understanding and assessing the reasonableness of assumptions made by management in the future sales;
- understanding and examining the utilisation pattern during the year and subsequent to the year end date;
- test checking the utilisation during the year and subsequent to year end date by inspecting the value-added tax returns and invoices;
- checking payments of value-added tax during the year and subsequent to the year end date;
- circulating the value-added tax confirmation to Hebei Dongguang State Administration of Tax for confirming the existence of value-added tax recoverable; and,
- discussing with the officials of Hebei Dongguang State Administration of Tax to understand the value-added tax recoverable condition, and the subsequent utilisation arrangement in the near future.

Preparation of the consolidated financial statements on a going concern basis

Refer to note 3(b) in the Group's consolidated financial statements.

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB196.8 million.

To support the going concern basis in preparing the consolidated financial statements, management has prepared a cash flow forecast of the Group covering the next eighteen months from 31 December 2018 (2017: twelve months) and concluded that there will be sufficient funds from the Group's existing cash resources, available facilities from banks and cash flows to be generated from its operations to finance its future operations and enable it to meet its financial obligations as and when they fall due in the next eighteen months from 31 December 2018. The cash flow forecast involved key assumptions such as revenue, gross profit margin, planned capital expenditures, and availability of banking facilities to the Group. We focused on this assessment as it involves consideration of future events and application of significant judgements and estimates and accordingly, this was an area of audit focus.

KEY AUDIT MATTERS *(CONTINUED)*

How our audit addressed the Key Audit Matter

Our procedures in relation to preparation of the consolidated financial statements on a going concern basis included:

- assessing the appropriateness of key assumptions in the cash flow forecast, including revenue growth, gross profit margin and planned capital expenditures by referencing to actual historical performance of the Group and making reference to the Group's future development plan;
- checking the mathematical accuracy of the projections;
- confirming the cash resources and available banking facilities as at year end by circularisation of bank confirmations and assessing the probability of facilities renewal during the forecast period by examining historical records of renewal pattern and bank letters of intent obtained;
- reviewing management assessment on the present and forecast status of compliance with restrictive loan covenants, and,
- evaluating the sensitivity of the projected available cash by considering downside scenarios through applying reasonably plausible changes to the key assumptions, including revenue and gross profit margin.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement 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.
- 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.

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

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
Chow Tak Sing, Peter
Practising Certificate Number: P04659

Hong Kong, 25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	6	**2,285,619**	1,858,955
Cost of sales		**(1,992,983)**	(1,668,744)
Gross profit		**292,636**	190,211
Other income	6	**11,418**	8,293
Other gains and losses, net	7	**(3,794)**	4,957
Administrative expenses		**(78,331)**	(67,182)
Distribution expenses		**(2,339)**	(4,078)
Finance costs	10	**(53,784)**	(60,770)
Profit before income tax	9	**165,806**	71,431
Income tax expenses	11	**(66,142)**	(24,548)
Profit for the year		**99,664**	46,883
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		**(2,026)**	(8,445)
Total comprehensive income for the year attributable to owners of the Company		**97,638**	38,438
		RMB cents	RMB cents
Earnings per share for profit attributable to the owners of the Company			
– Basic	14	**16.1**	8.7
– Diluted	14	**16.1**	8.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	15	1,172,713	1,218,606
Investment property	16	6,446	6,710
Prepaid land lease payments	17	83,582	85,683
Prepayments for equipment	20	5,365	3,507
Restricted bank deposits	22	51,032	51,301
Total non-current assets		1,319,138	1,365,807
Current assets			
Inventories	19	92,952	76,609
Prepaid land lease payments	17	3,172	2,079
Prepayments, deposits and other receivables	20	106,913	244,933
Loan receivable	21	90,108	89,994
Restricted bank deposits	22	–	11,038
Cash and bank balances	22	215,493	177,156
Total current assets		508,638	601,809
Current liabilities			
Trade payables	23	56,471	40,502
Deferred revenue	24	3,253	3,254
Contract liabilities	25	30,450	–
Deposits received, other payables and accruals	26	62,770	76,329
Short-term bank and other borrowings	27	532,900	440,000
Long-term bank and other borrowings – current portion	27	–	373,064
Income tax payable		16,100	3,848
Deferred tax liabilities	18	3,480	3,919
Total current liabilities		705,424	940,916
Net current liabilities		(196,786)	(339,107)

	Note	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Long-term bank and other borrowings	27	68,820	102,162
Amount due to a shareholder	33(b)	44,786	–
Deferred revenue	24	10,518	13,771
Total non-current liabilities		124,124	115,933
Net assets		998,228	910,767
Capital and reserves attributable to owners of the Company			
Share capital	28	392	392
Reserves		997,836	910,375
Total equity		998,228	910,767

On behalf of directors

WANG Zhihe 王治河 **SUN Zushan 孫祖善**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital RMB'000	Share premium RMB'000 (note 29(b))	Specific reserve RMB'000 (note 29(e))	Merger reserve RMB'000 (note 29(c))	Statutory reserve RMB'000 (note 29(a))	Foreign currency translation reserve RMB'000 (note 29(d))	Share-based payment reserve RMB'000 (note 30)	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2017	283	606,137	43,897	(559,842)	96,161	3,597	–	549,676	739,909
Profit for the year	–	–	–	–	–	–	–	46,883	46,883
Other comprehensive income									
– Exchange difference arising on translation of foreign operations	–	–	–	–	–	(8,445)	–	–	(8,445)
Total comprehensive income	–	–	–	–	–	(8,445)	–	46,883	38,438
Issue of shares	109	131,226	–	–	–	–	–	–	131,335
Appropriation of reserve	–	–	7,621	–	–	–	–	(7,621)	–
Equity-settled share-based transactions	–	–	–	–	–	–	1,085	–	1,085
Utilisation of specific reserve for the year	–	–	(1,961)	–	–	–	–	1,961	–
At 31 December 2017	392	737,363	49,557	(559,842)	96,161	(4,848)	1,085	590,899	910,767

	Share capital RMB'000	Share premium RMB'000 (note 29(b))	Specific reserve RMB'000 (note 29(e))	Merger reserve RMB'000 (note 29(c))	Statutory reserve RMB'000 (note 29(a))	Foreign currency translation reserve RMB'000 (note 29(d))	Share-based payment reserve RMB'000 (note 30)	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2018	392	737,363	49,557	(559,842)	96,161	(4,848)	1,085	590,899	910,767
Profit for the year	–	–	–	–	–	–	–	99,664	99,664
Other comprehensive income									
– Exchange difference arising on translation of foreign operations	–	–	–	–	–	(2,026)	–	–	(2,026)
Total comprehensive income	–	–	–	–	–	(2,026)	–	99,664	97,638
Issue of shares	–	787	–	–	–	–	(787)	–	–
Appropriation of reserve	–	–	8,429	–	–	–	–	(8,429)	–
Equity-settled share-based transactions	–	–	–	–	–	–	303	–	303
Dividend approved in respect of the previous year	–	–	–	–	–	–	–	(10,480)	(10,480)
Utilisation of specific reserve for the year	–	–	(5,973)	–	–	–	–	5,973	–
At 31 December 2018	392	738,150	52,013	(559,842)	96,161	(6,874)	601	677,627	998,228

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Profit before income tax	165,806	71,431
Adjustments for:		
Amortisation of prepaid land lease payments	5,130	2,102
Depreciation of investment property	264	264
Depreciation of property, plant and equipment	145,887	143,788
Government grant income	(3,254)	(3,212)
Exchange difference on other borrowings and amount due to shareholder	3,171	(8,027)
Impairment of prepayments and other receivables	10,717	–
Interest income	(7,181)	(551)
Interest expense	53,784	60,770
Share-based payment expenses	303	1,085
Operating profit before working capital changes	374,627	267,650
Increase in inventories	(16,343)	(9,847)
Decrease in notes receivables	–	1,170
Decrease/(increase) in prepayments, deposits and other receivables	127,303	(68,262)
Increase in trade payables	15,968	27,547
Decrease in deposits received, other payables and accruals	(13,559)	(32,808)
Increase in contract liabilities	30,450	–
Increase in deferred revenue	–	1,180
Cash generated from operations	518,446	186,630
Income tax paid	(54,330)	(18,691)
Net cash generated from operating activities	464,116	167,939
Cash flows from investing activities		
Purchase of property, plant and equipment	(101,851)	(45,117)
Increase in prepaid land lease payments	(4,121)	–
Increase in loan receivables	–	(90,000)
Interest received	7,067	551
Decrease/(increase) in restricted bank deposits	11,307	(56,339)
Net cash used in investing activities	(87,598)	(190,905)

	2018 RMB'000	2017 RMB'000
Cash flows from financing activities		
Issue of shares	–	147,564
Share issue expense	–	(16,229)
Drawdown of bank and other borrowings	535,100	562,000
Repayment of bank and other borrowings	(848,823)	(596,243)
Advance from a shareholder	41,832	–
Dividend paid	(10,480)	–
Interest paid	(53,784)	(50,968)
Net cash (used in)/generated from financing activities	(336,155)	46,124
Net increase in cash and cash equivalents	40,363	23,158
Cash and cash equivalents at beginning of year	177,156	162,443
Effect on foreign exchange rate changes	(2,026)	(8,445)
Cash and cash equivalents at end of year	215,493	177,156
Analysis of cash and cash equivalents:		
Cash and bank balances	215,493	177,156

1. GENERAL INFORMATION

Dongguang Chemical Limited (the"Company") was incorporated in the Cayman Islands on 23 July 2013 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the special resolutions of shareholders dated 17 June 2015, the Company changed its name from Sino-coal Chemical Limited (中煤化工有限公司) to Dongguang Chemical Limited (東光化工有限公司). Its shares are listed on the Stock Exchange of Hong Kong Limited on 11 July 2017. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The Company and its subsidiaries (referred to as the "Group") is principally engaged in manufacturing and selling urea in the People's Republic of China (the "PRC"). Details of the Company and its subsidiaries are presented in note 32 of the consolidated financial statements.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new/revised IFRSs – effective on 1 January 2018

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
Amendments to IAS 40	Transfers of Investment Property
IFRIC–Int 22	Foreign Currency Transactions and Advance Consideration

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IAS 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 IAS 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.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(a) Adoption of new/revised IFRSs – effective on 1 January 2018 *(Continued)*

Amendments to IFRS 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.

IFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

IFRS 9 replaces IAS 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 IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

IFRS 9 basically retains the existing requirements in IAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("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) FVTPL (as defined in above). The classification of financial assets under IFRS 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 IFRS 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(a) Adoption of new/revised IFRSs – effective on 1 January 2018 *(Continued)*

IFRS 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 be 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(a) Adoption of new/revised IFRSs – effective on 1 January 2018 *(Continued)*

IFRS 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:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised costs	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.
FVOCI (debt investments)	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.
FVOCI (equity investments)	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 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(a) Adoption of new/revised IFRSs – effective on 1 January 2018 *(Continued)*

IFRS 9 – Financial Instruments (Continued)

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

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

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at 1 January 2018 under IAS 39 RMB'000	Carrying amount as at 1 January 2018 under IFRS 9 RMB'000
Deposits and other receivables	Loans and receivables	Amortised cost	100,976	100,976
Notes receivables	Loans and receivables	FVOCI	–	–
Loan receivable	Loans and receivables	Amortised cost	89,994	89,994
Restricted bank deposits	Loans and receivables	Amortised cost	62,339	62,339
Cash and bank balance	Loans and receivables	Amortised cost	177,156	177,156

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". IFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than IAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under IFRS 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(a) Adoption of new/revised IFRSs – effective on 1 January 2018 *(Continued)*

IFRS 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 measured loss allowances for other receivables and loan receivable based on 12-month 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 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.

I. Impairment of loan receivable

The Group's loan receivable at amortised cost is considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECLs.

The loss allowance for loan receivable was considered insignificant. Therefore, no loss allowance for loan receivables has been recognised upon the transition to IFRS 9 as of 1 January 2018 and during the twelve months ended 31 December 2018.

II. Impairment of other receivables

Other financial assets at amortised cost of the Group mainly represents other receivables. The Group has applied the ECL model and the impact is considered insignificant to the Group. No ECL is recognised upon the transition to IFRS 9 as of 1 January 2018 and for the twelve months ended 31 December 2018.

(iii) Hedge accounting

Hedge accounting under IFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(a) Adoption of new/revised IFRSs – effective on 1 January 2018 *(Continued)*

IFRS 9 – Financial Instruments (Continued)

(iv) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2018, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 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.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under IFRS 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 Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The Group considered that the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018) is insignificant. As a result, the financial information presented for 2017 has not been restated.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(a) Adoption of new/revised IFRSs – effective on 1 January 2018 *(Continued)*

IFRS 15 – Revenue from Contracts with Customers (Continued)

Payments received in advance that are related to the sales of goods not yet delivered to customers are deferred and recognised as contract liabilities. Revenues are recognised when goods or services are delivered to customers. The Group does not expect to have any significant financing component as the period between the delivery of goods to the customers and payment by the customers does not exceed one year. As a result, the Group does not adjust any of the transaction prices for the effects of the time value of money.

The following table summarised the impact of adopting IFRS 15 on the Group's consolidated statement of financial position as at 1 January 2018. There was no material impact on the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and its consolidated statement of cash flow for the year ended 31 December 2018.

Impact on the consolidated statement of financial position as of 1 January 2018:

	RMB'000
Liabilities	
Current liabilities	
Deposits received, other payables and accruals	(25,339)
Contract liabilities	25,339
Total liabilities	–

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

Sales of urea and other products

The Group's revenue is from sales of urea and other products. Customers obtain control of the urea and other products when the goods are delivered to the customers. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. The Group determined that revenue from sales of goods is recognised at point in time when the goods are delivered to and have been accepted.

Right of return

The Group's sales contracts with customers provide a right of return within a reasonable period.

Under IAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made.

Under IFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(a) Adoption of new/revised IFRSs – effective on 1 January 2018 *(Continued)*

IFRS 15 – Revenue from Contracts with Customers (Continued)

Impact

No right to the returned goods are recognised as at 1 January 2018 as the sales returns from customers is insignificant per historical operation experience of the Group.

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

The amendments to IFRS 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 IFRS 15 and took up the clarifications in this, its first year.

Amendments to IAS 40, Investment Property – 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.

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 these financial statements as the Group has not paid or received advance consideration in a foreign currency.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

(b) New/revised IFRSs that have been issued but are not yet effective

The following new/revised IFRSs, 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.

IFRS 16	Leases[1]
IFRIC-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IAS 1 (Revised) and IAS 8	Definition of Material[2]
Amendments to IFRS 3	Definition of a Business[2]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11, Joint Arrangements[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12, Income Taxes[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23, Borrowing Costs[1]
IFRS 17	Insurance Contracts[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

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

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

3 Effective for annual periods beginning on or after 1 January 2021

4 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 continue to be permitted.

IFRS 16 – Leases

IFRS 16, which upon the effective date will supersede IAS 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 than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 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 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, IAS 17.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

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

IFRS 16 – Leases (Continued)

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 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 set out in note 34, the Group's total future minimum lease payments under non-cancellable operating leases as at 31 December 2018 was approximately RMB103,916,000. The directors of the Company do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

IFRIC-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of IAS 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 IFRS 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 IAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 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 IFRS 9 is applied to these LTI before the impairment losses guidance within IAS 28.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

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

Amendments to IAS 1 and IAS 8 – Definition of Material

The amendments provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Amendments to IFRS 3 – Definition of a Business

The amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 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 IFRS 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 IFRSs 2015-2017 Cycle – Amendments to IFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

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

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 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 IAS 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 IFRSs 2015-2017 Cycle – Amendments to IAS 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 IAS 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.

IFRS 17 – Insurance Contracts

IFRS 17 will replace IFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

Amendments to IFRS 10 and IAS 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 as mentioned above, the Group is not yet in a position to state whether other 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 the accounting policies set out in note 4, which comply with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the IASB, and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared under the historical cost convention.

As at 31 December 2018, the Group had current liabilities exceeded its current assets by RMB196,786,000 (2017: RMB339,107,000). The Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors of the Company have considered the following factor when preparing the consolidated financial statements of the Group.

The Group meets its day-to-day working capital requirements through its bank borrowings. The Group has good credit history and relationship with banks, and will be able to refinance or to consider alternative sources of financing, or to defer dividend payment and uncommitted capital expenditure, where applicable. As at 31 December 2018, the Group had obtained letters of intent from several reputable banks in the PRC in an aggregate amount of RMB356,400,000. As such, the Group has the ability to refinance the existing bank borrowings and no immediate cash flow requirement for settling such outstanding borrowings included in the statement of financial position. In addition, the directors of the Company have carried out a detailed review of the working capital forecast of the Group. Based on the review, in the opinion of the directors, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately different from those estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(c) Functional and presentation currency

The consolidated financial statements is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. All values in the consolidated financial statements are rounded to the nearest thousand except when otherwise indicated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). 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.

(b) Subsidiaries

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: power over the investee, exposure, or rights, to variable returns from the investee, and 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, 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) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The 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 valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	10 to 30 years or over the lease term, whichever is shorter
Plant and machinery	12 years
Furniture, fixtures and equipment	3 to 18 years
Motor vehicles	4 to 12 years

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Property, plant and equipment *(Continued)*

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

The gain or loss on disposal 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.

(d) Investment property

Investment property is a property held either to earn rentals or for capital appreciation or for both or held for undetermined future use, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation is charged so as to write off the cost of investment property net of estimated residual value over the estimated remaining useful live which is about 28 years using straight-line method. The useful live, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

(e) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(f) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets 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:

- property, plant and equipment/investment property under cost model;
- interests in leasehold land held for own use under operating leases; and
- investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs of disposal 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Impairment of assets (other than financial assets) *(Continued)*

Value in use is based on the estimated future cash flows expected to be derived from the asset, 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.

(g) Leases

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(h) 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 fair value through profit or loss ("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 entirety 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) 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 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 on financial assets measured at amortised cost 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 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 one year 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 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Financial Instruments (accounting policies applied from 1 January 2018) *(Continued)*

(iii) Financial liabilities (Continued)

Borrowings

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

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

(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.

(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 IFRS 9.

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

(i) Financial instruments (accounting policies applied until 31 December 2017)

(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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial instruments (accounting policies applied until 31 December 2017) *(Continued)*

(i) Financial assets (Continued)

Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

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

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

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

Loans and receivables

These assets 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 the effective interest method, less any identified impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) 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; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For 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.

(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 payables, other payables and accruals, amounts due to shareholders, amount due to a related party and bank and other borrowings, 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.

Borrowings

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial instruments (accounting policies applied until 31 December 2017) *(Continued)*

(iii) Financial liabilities (Continued)

Borrowings *(Continued)*

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

(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 each of the reporting 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.

(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 IAS 39.

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

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.

(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 the weighted average method.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

At 31 December 2018, all of the Group's amounts consisted of cash held in bank and cash on hand.

(l) 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 IFRS 15.

Revenue from sales of goods is recognised when the control of the goods is transferred to the customers, which is at the time of delivery and the title is passed to customer, on the following basis:

(i) from the sales of goods, when the control has been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers have accepted the goods; and

(ii) interest income is recognised on a time-proportion basis using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Revenue from sales 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, on the following basis:

(i) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers have accepted the goods; and

(ii) interest income is recognised on a time-proportion basis using the effective interest method.

(n) Income tax

Income tax comprises 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 taxable 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences 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.

(o) Foreign currency

Transactions entered into by the Group in currencies other than 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 in terms of 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Foreign currency *(Continued)*

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the rates approximating to those ruling when the transactions took place is used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency translation reserve. 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 currency translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation 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. Goodwill and fair value adjustments arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

(p) Employee benefits

Retirement benefits to employees are provided through a defined contribution plan.

Defined contribution plans

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) Employee benefits *(Continued)*

Share-based payments

Remuneration shares are share-based payments. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the remuneration shares are granted. The cost of equity-settled transactions is recognised in profit or loss with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Where the terms and conditions of remuneration shares are modified before they vest, the increase in the fair value of the remuneration shares, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

(q) 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.

(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 revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred revenue and consequently are effectively recognised in profit or loss over the useful life of the asset.

(s) 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 it is probable will result in an outflow of economic benefits that can be reliably 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Related parties

(1) 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.

(2) 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 (1).

(vii) A person identified in (1)(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).

(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 parent of the Group.

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.

(u) 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 components and for their review of the performance of those components.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group's management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and residual values for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Net realisable value of inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution and selling expenses. Management reassesses the estimations at each reporting date to ensure inventory is shown at the lower of cost and net realisable value.

(c) Impairment of receivables

The Group's management reviews receivables on a regular basis to determine if any provision for impairment is necessary. This estimate is based on the credit history of its customers, past settlement and industry practice and current market conditions. Management reassesses the impairment of receivables at each reporting date.

(d) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value-in-use of the cash-generating unit to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

(e) Income tax and deferred tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold by the Group, after deducting relevant taxes. In the following table, revenue is disaggregated by primary geographical market, major products and timing of revenue recognition.

	2018 RMB'000	2017 RMB'000
Revenue		
Primary geographical market		
– PRC	2,285,619	1,858,955
Major products		
– Sales of urea	1,948,553	1,597,696
– Sales of methanol	171,377	160,671
– Sales of liquid ammonia	103,119	48,559
– Sales of carbon dioxide	39,839	30,293
– Sales of LNG	22,731	21,736
Total revenue from contracts with customers	2,285,619	1,858,955
Timing of revenue recognition		
– At point in time	2,285,619	1,858,955
Other income is presented as follows:		
Sales of scrap materials	81	19
Government grants (note)	3,254	3,212
Bank interest income	3,469	551
Other interest income	3,712	3,713
Others	902	798
	11,418	8,293
Total revenue and other income	2,297,037	1,867,248

Note:

Government grants are received from the local government that are related to qualified long-lived assets and such grants were deferred and released to profit or loss as other income over the expected useful life of the relevant assets.

Government grants were received from the PRC government for construction of property, plant and equipment in prior financial years. These subsidies are recognised in the consolidated statement of profit or loss and other comprehensive income over the expected useful life of the property, plant and equipment. During the year ended 31 December 2018, RMB3,254,000 (2017: RMB 3,212,000) was recognised as other income.

The following table provides information about contract liabilities from contracts with customers.

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract liabilities from sales of goods	30,450	25,339	–

The contract liabilities mainly relate to the advance consideration received from customers. RMB25,339,000 of the contract liabilities has been recognised as revenue for the year ended 31 December 2018 from performance obligation satisfied during the year when the goods were sold.

7. OTHER GAINS AND LOSSES, NET

	2018 RMB'000	2017 RMB'000
Foreign exchange (loss)/gain	(3,794)	4,957

8. SEGMENT INFORMATION

(a) Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in the internal reporting to the executive directors, which is manufacturing and selling urea. The Group's assets and capital expenditure are principally attributable to this business component.

(b) Geographical segment information

The management determines the Group is domiciled in the People's Republic of China (the "PRC"), which is the location of the Group's principal place of operations and majority of the non-current assets are located in the PRC. All of the Group's revenue is from external customers in the PRC.

(c) Information about major customers

For both years ended 31 December 2018 and 2017, none of the customers have transactions exceeding 10% of the Group's revenue.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2018 RMB'000	2017 RMB'000
Auditors' remuneration	1,271	943
Cost of inventories sold recognised as expense	1,992,983	1,668,744
Depreciation of property, plant and equipment	145,887	143,788
Amortisation of prepaid land lease payments	5,130	2,102
Impairment of other receivables	10,717	–
Depreciation of investment property	264	264
Listing expenses	–	13,163
Employee benefit expenses		
(including directors' remuneration) (note 12)		
– Wages and salaries	48,854	48,388
– Discretionary bonuses	21,594	21,383
– Retirement benefit scheme contributions	9,617	8,493
– Staff welfare and other benefits	21,070	17,653
– Share-based payment expenses	303	1,085
	101,438	97,002

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	54,485	60,770
Loan from a shareholder	3,751	–
	58,236	60,770
Less: Amount capitalised (note)	(4,452)	–
	53,784	60,770

Note: Borrowing costs of RMB2,913,000 capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 9% (2017: nil) to expenditure on qualifying assets. The remaining borrowing cost of RMB1,539,000 capitalised during the year arose on the specific borrowing granted for acquisition of property, plant and equipment on 29 December 2017.

11. INCOME TAX EXPENSES

	2018 RMB'000	2017 RMB'000
Current tax – PRC		
Current tax	62,450	12,642
Withholding tax on dividends	4,131	5,806
Deferred tax (note 18)		
– (Credited)/charged for the year	(439)	6,100
	66,142	24,548

11. INCOME TAX EXPENSES *(CONTINUED)*

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, Samoa and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands, Samoa and British Virgin Islands are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable income arising in Hong Kong during each of the reporting period.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the PRC subsidiary of the Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the "New Corporate Income Tax Law").

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

	2018 RMB'000	2017 RMB'000
Profit before income tax	165,806	71,431
Tax calculated at a taxation rate of 25%	41,451	17,858
Effect of different tax rates operating in other jurisdictions	5,422	8,265
Tax effect of non-deductible expenses	19,107	1,655
Tax effect of non-taxable income	(1,310)	(2,002)
Under-provision in prior year	1,282	–
Others	190	(1,228)
	66,142	24,548

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to the Listing Rules and section 78(1) of Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622 for each of the reporting period are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2018					
Executive Directors					
Mr. Wang Zhihe (王治河)	2,173	263	–	–	2,436
Mr. Sun Yi (孫毅)	1,863	71	–	–	1,934
Mr. Sun Zushan (孫祖善)	1,035	211	–	–	1,246
Mr. Xu Xijiang (徐希江)	1,035	88	–	–	1,123
Total	6,106	633	–	–	6,739
Non-Executive Director					
Ms. Chen Jimin (陳繼敏)	–	–	–	–	–
Independent Non-Executive Directors					
Mr. Liu Jincheng (劉金成)	155	–	–	–	155
Mr. Ng Sai Leung (吳世良)	155	–	–	–	155
Ms. Lin Xiuxiang (林秀香)	155	–	–	–	155
Total	465	–	–	–	465
Year ended 31 December 2017					
Executive Directors					
Mr. Wang Zhihe (王治河)	1,159	73	162	–	1,394
Mr. Sun Yi (孫毅)	992	57	142	–	1,191
Mr. Sun Zushan (孫祖善)	552	71	152	–	775
Mr. Xu Xijiang (徐希江)	552	59	43	4	658
Total	3,255	260	499	4	4,018
Independent Non-Executive Directors					
Mr. Liu Jincheng (劉金成)	83	–	–	–	83
Mr. Ng Sai Leung (吳世良)	83	–	–	–	83
Ms. Lin Xiuxiang (林秀香)	83	–	–	–	83
Total	249	–	–	–	249

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(CONTINUED)*

(b) Five highest paid individuals

The five highest paid individuals of the Group included 4 directors for the year ended 31 December 2018 (2017: 4), whose emoluments are reflected in note 12(a).

The analysis of the emolument of the remaining highest paid individual for the year ended 31 December 2018 (2017: 1) are set out below:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	1,046	933
Discretionary bonuses	–	259
Retirement benefit scheme contributions	15	16
Share-based payment expenses	303	1,085
	1,364	2,293

The number of non-director highest paid individuals whose remuneration fell within the following band is as follows:

Number of individuals

	2018	2017
HK$1,000,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$3,000,000	–	1

(c) During each of the reporting period, no director or any of the highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

(d) Senior management emolument band

The number of senior management whose remuneration fell within the following band is as follows:

Number of individuals

	2018	2017
Nil to HK$1,000,000	1	3
HK$1,000,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$3,000,000	–	1

13. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Final, proposed – HK$4 cents (2017: HK$2 cents) per share	21,746	10,365
	21,746	10,365

The Board recommended a final dividend of HK$4 cents (2017: HK$2 cents) per ordinary share, absorbing a total amount of about HK$24.8 million in respect of the year ended 31 December 2018, which is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting of the Company. The proposed dividends are not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2019. The final dividends are converted from Hong Kong dollars to Renminbi at the rate at the end of reporting period.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2018 RMB'000	2017 RMB'000
Earnings for the purposes of basic earnings per share	99,664	46,883
Effect of dilutive potential ordinary shares: Remuneration shares (note 30)	–	–
Earnings for the purposes of diluted earnings per share	99,664	46,883
Weighted average number of ordinary shares for the purposes of basic earnings per share	620,222,422	536,712,329
Effect of dilutive potential ordinary shares: Remuneration shares (note 30)	433,659	729,100
Weighted average number of ordinary shares for the purposes of diluted earnings per share	620,656,081	537,441,429

In calculating the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2018, there was an adding back of bonus element of remuneration shares (see note 30). Therefore, the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2018 is based on the earnings attributable to the owners of the Company of approximately RMB99,664,000 (2017: RMB46,883,000) and on the weighted average number of 620,656,081 ordinary shares during the year ended 31 December 2018 (2017: 537,441,429 shares).

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2018						
Opening net carrying amount	244,961	2,647	810,794	127,221	32,983	1,218,606
Additions	9,475	–	10,947	1,268	78,306	99,996
Disposals	–	(2)	–	–	–	(2)
Transfer in/(out)	417	–	65,765	640	(66,822)	–
Depreciation	(15,494)	(1,387)	(112,672)	(16,334)	–	(145,887)
Closing net carrying amount	239,359	1,258	774,834	112,795	44,467	1,172,713
As at 31 December 2018						
Cost	327,232	12,412	1,476,894	208,189	44,467	2,069,194
Accumulated depreciation and impairment	(87,873)	(11,154)	(702,060)	(95,394)	–	(896,481)
Net carrying amount	239,359	1,258	774,834	112,795	44,467	1,172,713
Year ended 31 December 2017						
Opening net carrying amount	253,175	4,073	916,956	142,636	529	1,317,369
Additions	4,181	–	2,887	1,258	36,699	45,025
Transfer in/(out)	2,551	–	1,592	102	(4,245)	–
Depreciation	(14,946)	(1,426)	(110,641)	(16,775)	–	(143,788)
Closing net carrying amount	244,961	2,647	810,794	127,221	32,983	1,218,606
As at 31 December 2017						
Cost	317,340	12,465	1,400,182	206,281	32,983	1,969,251
Accumulated depreciation and impairment	(72,379)	(9,818)	(589,388)	(79,060)	–	(750,645)
Net carrying amount	244,961	2,647	810,794	127,221	32,983	1,218,606

As at 31 December 2018, the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB344,108,000 (2017: RMB491,975,000) were pledged to secure general banking facilities granted to the Group (note 27).

16. INVESTMENT PROPERTY

	2018 RMB'000	2017 RMB'000
Carrying amount at beginning of the year	6,710	6,974
Depreciation during the year	(264)	(264)
Carrying amount at end of the year	6,446	6,710

The balance represented a piece of industrial land held by the Group under medium term lease in the PRC. The Group has not yet determined the future use of the land and currently holds the land for capital appreciation since disposal of plant and machinery and furniture, fixtures and equipment of an old production plant on 23 October 2015 (the date of disposal). As such, the carrying amount of land was reclassified from prepaid land lease payments to investment property from the date of disposal. At the end of reporting period, the directors consider no impairment of the investment property is necessary.

The fair value of the investment property as at 31 December 2018 was approximately RMB21,260,000 (2017: RMB21,170,000). The fair value was determined by independent professional qualified valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, with reference to recent market prices of similar properties as observable inputs.

The valuation is carried out on a Market Value basis. Market Value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeable, prudently and without compulsion".

The fair values of the investment property are determined based on the market observable comparable prices of similar properties ranging from RMB225 to RMB317 per sq. m., and adjusted taking into account locations and size. The higher the price, the higher the fair value. The fair values are not based on observable inputs and are therefore within level 3 hierarchy.

The pledge of the investment property to secure general banking facilities granted to the Group has been released during the year ended 31 December 2018.

17. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at beginning of the year	87,762	89,864
Addition during the year	4,122	–
Amortised during the year	(5,130)	(2,102)
Carrying amount at end of the year	86,754	87,762
Represented by:		
Current portion	3,172	2,079
Non-current portion	83,582	85,683
	86,754	87,762

The Group's leasehold land is held under medium term leases and situated in Mainland China where the Group's manufacturing and storage facilities reside.

Addition of prepaid land lease during the year represented a piece of leasehold land rented from an independent third party with a lease period of 50 years since the commencement date of the lease, for the purpose of construction of manufacturing plant.

As at 31 December 2018, the Group's leasehold land with an aggregate carrying amount of approximately RMB25,290,000 (2017: RMB60,018,000) were pledged to secure general banking facilities granted to the Group (note 27).

18. DEFERRED TAX (LIABILITIES)/ASSETS

Details of the deferred tax (liabilities)/assets recognised and movements during each of the reporting period:

	Withholding tax on unremitted earnings RMB'000	Deferred revenue RMB'000	Accelerated/ (decelerated) depreciation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	(17,911)	4,970	10,984	4,138	2,181
Credited/(charged) to profit or loss	5,806	(214)	(14,200)	2,508	(6,100)
At 31 December 2017	(12,105)	4,756	(3,216)	6,646	(3,919)
Credited/(charged) to profit or loss	4,131	(813)	(1,579)	(1,300)	439
At 31 December 2018	(7,974)	3,943	(4,795)	5,346	(3,480)

18. DEFERRED TAX (LIABILITIES)/ASSETS *(CONTINUED)*

PRC dividend withholding income tax

Pursuant to the Detailed Implementation Regulations for implementation of the New Corporate Income Tax Law issued on 6 December 2007, dividends distributed from the profits generated by the PRC companies after 1 January 2008 to their foreign investors shall be subject to this withholding income tax of 10%. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are incorporated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong. For the Group, the applicable withholding tax rate is 10%.

Deferred tax liabilities have been recognised for withholding taxes that would be payable on the planned unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in the PRC. In the opinion of the directors, based on the Group's future expansion plan in the PRC, it is not possible that the subsidiary will distribute the entire earnings in the foreseeable future at the end of the reporting period, and the deferred tax liabilities provided is considered sufficient to future cash flow requirement. During the year ended 31 December 2018, special dividends in total of RMB41,315,278 was declared on 7 June 2018 and 13 December 2018 for settling the other borrowings partially. No temporary differences associated with investment in a subsidiary in the PRC for which deferred tax liabilities have not been recognised during each of the reporting period.

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	84,403	56,923
Finished goods	7,072	12,924
Parts and spares	1,477	6,762
	92,952	76,609

As at 31 December 2018, the Group's raw materials with an aggregate carrying amount of RMB20,000,000 (2017: RMB20,000,000) were pledged to secure general banking facilities granted to the Group (note 27).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments for distribution expenses	–	13
Prepayments for equipment	5,386	4,366
Value-added tax recoverable	72,824	107,086
Prepayments for coal suppliers	4,411	14,220
Other receivables for drawdown of bank borrowings	–	45,162
Other prepayments, deposits and other receivables	29,657	77,593
	112,278	248,440
Less: non-current portion	(5,365)	(3,507)
	106,913	244,933

21. LOAN RECEIVABLE

Loan receivable as at 31 December 2018 represented a sum of RMB90 million lent to Min-Silver-Gold Investment Management (Beijing) Co. Ltd. for entrustment loan agreements in relation to the borrowings granted from an independent third party in December 2016 and March 2017 respectively. Subsequent to the year end date, loan receivable of RMB60 million was received on 9 January 2019 as the respective entrustment loan was repaid on 27 December 2018.

22. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000
Non-current		
Restricted bank deposits	51,032	51,301
Current		
Cash and bank balances	215,493	177,156
Restricted bank deposits	–	11,038
	215,493	188,194
	266,525	239,495

22. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS *(CONTINUED)*

As at 31 December 2018, the Group has cash and bank balances denominated in RMB amounted to approximately RMB200,304,000 (2017: RMB117,763,000) which are deposited with banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks in the PRC that is authorised to conduct foreign exchange business.

Bank balances earn interest at floating rates based on daily bank deposit rates.

The bank balances are deposited with creditworthy banks. The directors of the Company considered that the fair value of the cash and bank balances is not materially different from their carrying amount because of the short maturity period on their inception.

Non-current restricted bank deposits are to secure long-term bank borrowings of RMB44,820,000 (2017: RMB45,162,000) (note 27). The restricted bank deposits will be released upon settlement of long-term bank borrowings.

23. TRADE PAYABLES

Trade payables are non-interest bearing and normally have a credit period of 0 to 90 days.

	2018 RMB'000	2017 RMB'000
Trade payables	56,471	40,502

An ageing analysis of the Group's trade payables, based on the invoice dates is as follows:

	2018 RMB'000	2017 RMB'000
0 to 90 days	42,047	29,530
91 to 180 days	3,410	964
181 to 365 days	1,700	4,629
Over 365 days	9,314	5,379
	56,471	40,502

24. DEFERRED REVENUE

	2018 RMB'000	2017 RMB'000
Cost:		
At beginning of the year	33,410	32,230
Received during the year	–	1,180
Refunded during the year	–	–
At end of the year	33,410	33,410
Accumulated amortisation:		
At beginning of the year	16,385	13,173
Amortised during the year	3,254	3,212
At end of the year	19,639	16,385
Net carrying amount:		
Current	3,253	3,254
Non-current	10,518	13,771
	13,771	17,025

Deferred revenue related to government grants given to the Group for installation and building of machinery with the aim to implement energy-saving production methods and reduce production cost. The grants are subject to final approval by the government upon the completion of the project.

25. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract liabilities from sale of goods	30,450	25,339	–

Typical payment term which impacts on the amount of contract liabilities is as follows:

Sale of goods

The Group would only deliver the goods after receiving the relevant deposits from the customers. Whenever the goods are delivered, such contract liabilities would be derecognised and the respective amount would be recognised as revenue.

25. CONTRACT LIABILITIES *(CONTINUED)*

Sale of goods *(Continued)*

Movements in contract liabilities

	2018 RMB'000
Balance as at 1 January	25,339
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(2,285,619)
Increase in contract liabilities as a result of deposits received in advance from customers	2,290,730
Balance at 31 December	30,450

Note: The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of HKFRS 15, amounts previously included as "Deposits received" have been reclassified to "Contract liabilities".

26. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Deposits received	–	25,339
Accruals	16,574	13,574
Other payables	46,196	37,416
	62,770	76,329

27. BANK AND OTHER BORROWINGS

	2018 RMB'000	2017 RMB'000
Current		
Interest bearing		
Secured		
– Short-term bank loans (note (i))	283,400	170,000
– Short-term other loans (note (i))	48,800	–
– Current portion of long-term bank and other loans (notes (i) and (v))	–	331,104
Unsecured		
– Short-term bank loans	130,000	270,000
– Short-term other loans (note (iii))	70,700	–
– Current portion of long-term other loans (note (iv))	–	41,960
	532,900	813,064
Non-current		
Interest bearing		
Secured		
– Long-term bank loans (Note (i))	68,820	102,162
	601,720	915,226

At end of reporting period, total current and non-current bank and other borrowings were scheduled to repay as follows:

	2018 RMB'000	2017 RMB'000
Within one year	532,900	813,064
More than one year, but not exceeding two years	68,820	102,162
	601,720	915,226

27. BANK AND OTHER BORROWINGS *(CONTINUED)*

Notes:

(i) As at 31 December 2018, the Group's secured short-term bank loans, short-term other loans and long-term bank and other loans were secured by certain of the Group's property, plant and equipment (note 15), leasehold land (note 17), inventories (note 19) and bank deposits (note 22). As at 31 December 2017, the investment property (note 16) was secured to the borrowings and the pledge was released during the year ended 31 December 2018. Short-term secured other loan as at 31 December 2018 were granted from a financial leasing company in the PRC.

(ii) All of the banking facilities are subject to the fulfilment of covenants relating to certain of the financial position ratios of Hebei Dongguang, as are commonly found in lending arrangements with financial institutions. If Hebei Dongguang was to breach the covenants, the drawn down facilities would become repayable on demand.

(iii) Short-term unsecured other loans as at 31 December 2018 represented borrowings granted from two independent third parties in total of RMB70.7 million, which carried fixed interest rate 9% per annum, where repayable within one year. Personal guarantee by a director of the Company has been provided to the respective loans.

(iv) All the remaining principal and interests of HK$51 million long-term unsecured other loans have been fully settled on 14 February 2018.

(v) All the long-term secured other loans have been fully settled to a non-bank financial institution, a financial leasing company and an independent third party.

(vi) At 31 December 2018, secured borrowings amounted to RMB27,000,000 (2017: RMB70,000,000) and unsecured borrowings amounted to RMB70,700,000 (2017: RMB135,000,000) were guaranteed by directors of the Company, respectively.

The ranges of effective interest rates per annum of the Group's bank and other borrowings are as follows:

	2018 RMB'000	2017 RMB'000
Fixed-rate borrowings	3.30%-9.00%	3.30%-11.28%

28. SHARE CAPITAL

	Number of shares '000	Amount US$	Amount RMB'000
Authorised share capital:			
As at 1 January 2018 and 31 December 2018			
Ordinary share at US$0.0001 each	500,000,000	50,000,000	340,449
Issued share capital:			
As at 1 January 2017	460,000	46,000	283
Issue of new shares	160,000	16,000	109
As at 31 December 2017 and 1 January 2018	620,000	62,000	392
Issue of remuneration shares (note)	472	47	–
As at 31 December 2018	620,472	62,047	392

Note: On 12 July 2018, 472,000 remuneration shares granted to a senior management were issued in accordance to the agreed terms at the subscription price of HK$1.06 per share (note 30).

29. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the end of reporting period are presented in the consolidated statements of changes in equity.

(a) Statutory reserve

Pursuant to relevant laws and regulations in the PRC and the Articles of Association of Dongguang Chemical, both are required to make appropriation from profit after taxation as reported in the PRC statutory financial statements to reserve fund at rates not less than 10% until the reserve fund balance reaches 50% of its registered capital.

The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

(b) Share premium

The amount represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired plus the shareholder loan pursuant to the Reorganisation, and the difference between the nominal value of the ordinary shares issued by the Company and the proceeds received from public offer in Hong Kong and international placing.

(c) Merger reserve

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation as mentioned in the Prospectus during global offer.

(d) Foreign currency translation reserve

The reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(e) Specific reserve

According to relevant PRC regulations, the Group is required to set up a specific reserve for the safety production fund based on the sales of goods.

29. RESERVES *(CONTINUED)*

Company

	Share premium RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total reserves RMB'000
As at 1 January 2017	606,137	349	–	(43,751)	562,735
Issue of shares	131,226	–	–	–	131,226
Loss for the year	–	–	–	(32,705)	(32,705)
Equity-settled share-based transaction	–	–	1,085	–	1,085
Other comprehensive income	–	(4,250)	–	–	(4,250)
As at 31 December 2017	737,363	(3,901)	1,085	(76,456)	658,091
Issue of shares	787	–	(787)	–	–
Loss for the year	–	–	–	(13,466)	(13,466)
Equity-settled share-based transaction	–	–	303	–	303
Dividends approved in respect of the previous year	–	–	–	(10,480)	(10,480)
Other comprehensive income	–	(1,493)	–	–	(1,493)
As at 31 December 2018	738,150	(5,394)	601	(100,402)	632,955

30. SHARE-BASED PAYMENTS

The Company has adopted a share award scheme to a senior management since 2015. The share award represented the remuneration shares which the prerequisite to obtain the share award is the completion of the Listing. As the Company has been listed on the Main Board of the Stock Exchange of Hong Kong Limited on 11 July 2017, the Board of the Company considered that the share award scheme was ascertained and recognised immediately after the Listing. The vesting period of the awarded shares is determined by the Board.

Movement in the number of awarded shares for the year ended 31 December 2018 is as follows:

	Number of awarded shares
At 1 January 2018	944,000
Granted	–
Exercised	(472,000)
At 31 December 2018	472,000
Vested but not transferred as at 31 December 2018	–

The fair value of the awarded shares was calculated based on the share price of the Company at the grant date, which was determined by implementing income approach in the form of the discounted cash flow methodology. Details of the variables and assumptions for the fair value of share price and share-based payments were as follows:

Risk-free rate	1.55%
Expected volatility (note (i))	39.33-39.35%
Discount rate	15.20%
Expected dividend yield	0.00%

Note:

(i) Expected volatility was estimated based on the annualised volatility calculated from the daily closing stock price of the comparable companies. The higher the amount, the higher the fair value.

The fair value of awarded shares granted during the year ended 31 December 2018 was HK$3.72 per share.

The outstanding awarded shares as at 31 December 2018 were from the second tranche. The first tranche was exercised and remuneration shares were issued on 12 July 2018 (note 28). The second tranche will be exercisable two years after the Listing, which is expected to be on 12 July 2019. The prerequisite for the senior management to be entitled to the remuneration shares is the continuing service to the Group up to the second year after the Listing for the second tranche.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Interests in a subsidiary	32	750,816	750,816
Restricted bank deposit	22	51,032	51,301
Total non-current assets		801,848	802,117
Current assets			
Prepayments and other receivables		186	539
Cash and bank balances		3,140	51,650
Total current assets		3,326	52,189
Current liabilities			
Accruals		3,328	3,314
Amounts due to subsidiaries	33(c)	123,713	91,897
Other borrowings – current portion		–	100,612
Total current liabilities		127,041	195,823
Net current liabilities		(123,715)	(143,634)
Non-current liability			
Amount due to a shareholder		44,786	–
Net assets		633,347	658,483
Capital and reserves			
Share capital	28	392	392
Reserves	29	632,955	658,091
Total equity		633,347	658,483

On behalf of directors

WANG Zhihe 王治河

SUN Zushan 孫祖善

32. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Company name	Date and place of incorporation/ establishment and kind of legal entity	Particulars of issued and fully paid up share capital/ registered capital	Effective interest held by the Company		Principal activity and place of operation
			Directly	Indirectly	
Sino-Coal Chemical Limited ("Sino-Coal Samoa")	Samoa/ 27 February 2014/ International company	Fully paid up share capital US$1,000,000	100%	–	Investment holding
Sino Nitrogen Industries Limited ("Sino Nitrogen")	British Virgin Islands/ 13 June 2014/ Limited liability company	Fully paid up share capital US$1	–	100%	Investment holding
Sino Emirates Chemicals Limited ("Sino Emirates")	Hong Kong/ 4 October 2007/ Limited liability company	Fully paid up share capital HK$1	–	100%	Investment holding
Hebei Dongguang Chemical Co., Ltd.* (河北省東光化工有限責任公司) ("Dongguang Chemical")	The PRC/ 1 July 1998/ Limited liability company	Registered and fully paid up capital RMB90,000,000	–	100%	Manufacturing and selling urea
Sino-Coal Chemical Limited	Hong Kong/ 6 March 2014/ Limited liability company	Issued share capital HK$10,000	–	100%	Not yet commenced business

* The English name of the subsidiary established in the PRC represents management's best effort at translating the Chinese name of such subsidiary for identification purpose only as no English name has been registered.

33. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	Relationship with the Group
Wang Zhihe (王治河)	Ultimate shareholder
Sun Yi (孫毅)	Ultimate shareholder
Sun Zushan (孫祖善)	Ultimate shareholder
Xu Xijiang (徐希江)	Ultimate shareholder
Song Jianning (宋建寧)	Ultimate shareholder
Liu Yingdong (劉英棟)	Ultimate shareholder
Li Hongliang (李洪亮)	Ultimate shareholder
Li Guie (李桂娥)	Ultimate shareholder
Guo Jianming (郭建明)	Ultimate shareholder

(b) Amount due to a shareholder, Bloom Ocean Investments Limited, is unsecured, interest bearing at 8% per annum and repayable in full on 13 February 2020.

(c) Amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

(d) Compensation of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	1,319	1,453
Retirement benefit scheme contributions	23	22
Share-based payment expenses	303	1,085
Total compensation paid to key management personnel	1,645	2,560

Further details of directors' emoluments are included in note 12.

34. OPERATING LEASE COMMITMENTS

At each reporting date, the Group's total future minimum rental payable under non-cancellable operating lease in respect of land and buildings are as follows:

	2018 RMB'000	2017 RMB'000
Within one year	2,296	236
In the second to fifth year	8,901	658
Over five years	92,719	4,043
	103,916	4,937

The leases run for an initial period of four to thirty years.

As at 31 December 2018, none of these lease arrangements include contingent rentals (2017: nil).

35. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided	22,031	28,466

36. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group is exposed to a variety of financial risks in the normal course of business. The Group does not have written risk management policies and guidelines. However, the directors meet periodically to analyse and formulate strategies to manage the Group's exposure to market risks (specifically to foreign currency risk, interest rate risk, price risk and fair value risk), credit risk and liquidity risk. Generally, the Group utilises conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

The most significant financial risks to which the Group is exposed are described below. A summary of the Group's financial assets and liabilities by category is shown in note 36(b).

(i) Foreign currency risk

Currency risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In 2018, the Group has repayments of other borrowings of HK$373,064,000. As at 31 December 2017 and 2018, the Group's assets and liabilities denominated in Hong Kong dollars and United States dollars, of which the financial currency of group entities is Renminbi, were as follows:

HK dollars

	2018 HK'000	2017 HK'000
Bank and other borrowings	54,000	174,362
Amount due to a shareholder	51,114	–
Other receivables	–	(54,000)
Cash and bank balances	(11,456)	(571)
Overall net exposure	93,658	119,791

United States dollars

	2018 US'000	2017 US'000
Cash and bank balances	(345)	(16,101)
Overall net exposure	(345)	(16,101)

36. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Financial risk factors *(Continued)*

(i) Foreign currency risk (Continued)

The following table indicates the approximate change in the Group's profit for the year and retained earnings and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit for the year and retained earnings and other components of consolidated equity where RMB strengthens against the relevant currency. For a weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year and retained earnings and other components of consolidated equity, and the balances below would be negative.

		31 December 2018	
	Increase in foreign exchange rate	Effect on profit for the year and retained earnings RMB'000	Effect on other components of consolidated equity RMB'000
Hong Kong dollars ("HK$")	1%	(723)	–
United States dollars ("US$")	1%	20	–

		31 December 2017	
	Increase in foreign exchange rate	Effect on profit for the year and retained earnings RMB'000	Effect on other components of consolidated equity RMB'000
Hong Kong dollars ("HK$")	1%	(751)	–
United States dollars ("US$")	1%	789	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

36. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instruments and cause a financial loss to the Group. The Group has no significant concentration of credit risk.

The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem. Most of the Group's cash and cash equivalents are held in major reputable financial institutions in the PRC, which management believes are of high credit quality.

Management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

The related parties are in good settlement records and reputation. The management believes that the credit risk on the amount due is minimal.

The Group has assessed the recoverability of all overdue receivables. The directors of the Group consider that no provision is necessary to cover the credit risk by reference to the counterparty's default history.

The measures to manage credit risk have been followed by the Group since prior years and are considered to be effective.

(iii) Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

Other than cash and bank balances (note 22) and bank and other borrowings (note 27), the Group does not have any other significant interest-bearing financial assets and liabilities. All financial liabilities bear fixed rate. As a result, any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

The measures to manage interest rate risk have been followed by the Group since prior years and are considered to be effective.

Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained earnings by approximately RMB3.3 million (2017: RMB4 million).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

36. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Financial risk factors *(Continued)*

(iv) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings, also regularly monitor its liquidity requirements, its compliance with lending covenants and its relationship with its bankers to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. In addition, banking facilities have been put in place for contingency purposes.

The Group's liquidity position is monitored on a daily basis by the management.

The following table summarises the remaining contractual maturities at the reporting dates of the Group's financial liabilities, which are based on contractual undiscounted payments.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	On demand RMB'000	Within 1 year RMB'000	More than 1 year RMB'000
As at 31 December 2018					
Trade payables	56,471	56,471	56,471	–	–
Other payables and accruals	62,770	62,770	62,770	–	–
Bank and other borrowings	601,720	623,130	–	553,719	69,411
	720,961	742,371	119,241	553,719	69,411
As at 31 December 2017					
Trade payables	40,502	40,502	40,502	–	–
Other payables and accruals	50,990	50,990	50,990	–	–
Bank and other borrowings	915,226	964,274	–	859,223	105,051
	1,006,718	1,055,766	91,492	859,223	105,051

The measures to manage liquidity risk have been followed by the Group since prior years and are considered to be effective.

36. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at each reporting dates are also analysed into the following categories. See note 4(h) for explanations about how the category of financial instruments affects their subsequent measurement.

	2018 RMB'000
Financial assets	
Amortised cost	
– Loan receivable	90,108
– Deposits and other receivables	88,387
– Restricted bank deposits	51,032
– Cash and bank balances	215,493

	2017 RMB'000
Financial assets	
Loans and receivables	
– Loan receivable	89,994
– Deposits and other receivables	100,976
– Restricted bank deposits	62,339
– Cash and bank balances	177,156

	2018 RMB'000	2017 RMB'000
Financial liabilities		
Amortised cost		
– Trade payables	56,471	40,502
– Other payables and accruals	62,770	50,990
– Bank and other borrowings	601,720	915,226
– Amount due to a shareholder	44,786	–

Financial instruments not measured at fair value

Financial instruments not measured at fair value include loan receivable, deposits and other receivables, cash and bank balances, restricted bank deposits, trade payables, other payables and accruals and bank and other borrowings.

Due to their short-term nature, their carrying values approximate their fair values.

37. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern; and

(ii) to provide an adequate return to equity holders.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher owners' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The directors of the Company also balance its overall capital structure through the payment of dividends or issue new shares. No changes were made in the objectives, policies or processes during each of the reporting period.

The Group sets the amount of equity in proportion to its overall financing structure. The equity-to-overall financing ratios at the end of each reporting period were as follows:

	2018 RMB'000	2017 RMB'000
Total equity	998,228	910,767
Overall financing:		
Bank and other borrowings	646,506	915,226
Equity-to-overall financing ratio	1.54	1.00

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through optimisation of the debt and equity balance. The Group's overall strategy remained unchanged throughout each of the reporting period.

38. CONTINGENT LIABILITIES

As at 31 December 2018, neither the Group nor the Company had any significant contingent liabilities.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank loans and other borrowings RMB'000 (note 27)	Amount due to a shareholder RMB'000 (note 33(b))
At 1 January 2018	915,226	–
Changes from cash flows:		
Loan from a shareholder	–	41,832
Drawdown of bank and other borrowings	535,100	–
Repayment of bank and other borrowings	(848,823)	–
Interest paid	(54,485)	(3,751)
Total changes from financing cash flows	(368,208)	38,081
Exchange adjustments	217	2,954
Other changes:		
Interest expense	50,033	3,751
Interest capitalised to property, plant and equipment	4,452	–
At 31 December 2018	601,720	44,786

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 20 February 2019, the Group early repaid a bank loan of approximately RMB45 million (equivalent to HK$54 million) which borrowed from China Minsheng Bank. The restricted bank deposits for pledging the bank loan of approximately RMB51 million was released. The released bank deposits has been partly used to repay the loan borrowed from a shareholder, Bloom Ocean Investments Limited on 25 February 2019.

41. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the directors on 25 March 2019.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below. The summary does not form part of the audited consolidated financial statements.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**2,285,619**	1,858,955	1,457,523	1,859,300	1,383,882
Gross profit	**292,636**	190,211	149,754	452,979	233,622
Profit from operations	**165,806**	71,431	29,557	238,979	119,135
Profit before income tax	**165,806**	71,431	36,914	208,462	119,135
Income tax expenses	**(66,142)**	(24,548)	(18,104)	(100,367)	(29,950)
Profit for the year	**99,664**	46,883	18,810	108,095	89,185

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Non-current assets	**1,319,138**	1,365,807	1,417,725	1,529,066	1,589,784
Current assets	**508,638**	601,809	369,957	339,146	419,348
TOTAL ASSETS	**1,827,776**	1,967,616	1,787,682	1,868,212	2,009,132
Current liabilities	**705,424**	940,916	666,989	836,904	752,248
Non-current liabilities	**124,124**	115,933	380,784	313,646	509,188
TOTAL LIABILITIES	**829,548**	1,056,849	1,047,773	1,150,550	1,261,436
NET ASSETS	**998,228**	910,767	739,909	717,662	747,696