# Tianjin Tianbao Energy Co., Ltd.*
# 天津天保能源股份有限公司

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

Stock Code : 1671

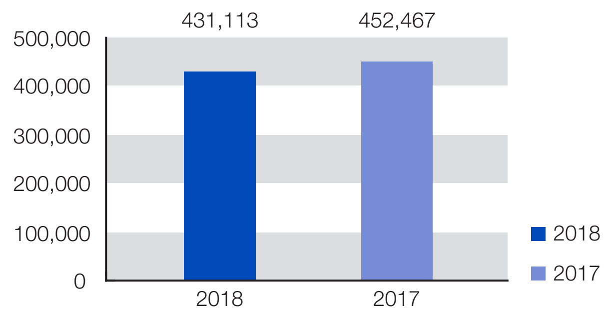
* For identification purposes only

Annual Report 2018

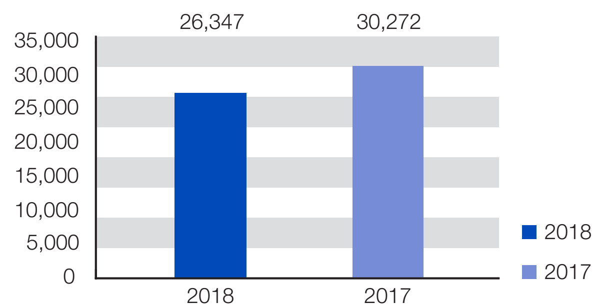

# Contents

# Financial Highlights

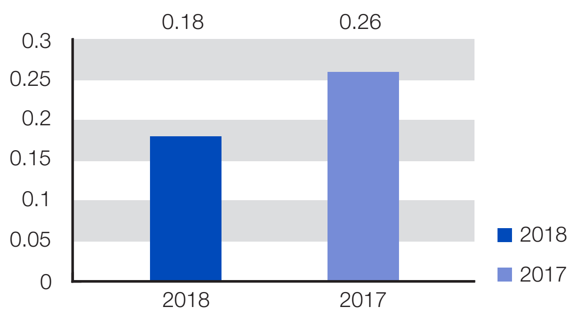
The Board of Directors announces the audited operating results for the year ended December 31, 2018 and a comparison with the audited operating results for the corresponding period of the previous year. For the year ended December 31, 2018, the Group recorded a consolidated operating revenue of RMB431.1131 million, representing a decrease of 4.72% as compared with RMB452.4674 million for the corresponding period of the previous year. The profit attributable to equity shareholders of the Company was RMB26.3468 million, representing a decrease of 12.97% as compared with RMB30.2715 million for the corresponding period of the previous year. The earnings per Share were RMB0.18, representing a decrease of 30.77% as compared with RMB0.26 for the corresponding period of the previous year.




Operating income (RMB'000)




Profit for the year attributable to shareholders of the Company (RMB'000)




Earnings per Share (RMB)

# Financial Summary

| | **Year ended December 31, 2018 RMB'000** | Year ended December 31, 2017 RMB'000 | Year ended December 31, 2016 RMB'000 | Year ended December 31, 2015 RMB'000 |
|---|---|---|---|---|
| Operating income | **431,113** | 452,467 | 432,886 | 478,604 |
| Profit from operations | **44,120** | 50,305 | 72,400 | 70,391 |
| Profit before tax | **35,152** | 40,369 | 72,428 | 73,561 |
| Income tax | **(8,805)** | (10,097) | (18,110) | (18,518) |
| Profit for the year | **26,347** | 30,272 | 54,318 | 55,043 |
| Attributable to: | | | | |
| Equity shareholders of the Company | **26,347** | 30,272 | 54,318 | 55,043 |
| Profit for the year | **26,347** | 30,272 | 54,318 | 55,043 |
| Earnings per Share | | | | |
| Basic (RMB) | **0.18** | 0.26 | 0.47 | 0.48 |
| Diluted (RMB) | **0.18** | 0.26 | 0.47 | 0.48 |

# Financial Summary

| | **At December 31, 2018 RMB'000** | At December 31, 2017 RMB'000 | At December 31, 2016 RMB'000 | At December 31, 2015 RMB'000 |
|---|---|---|---|---|
| Total assets | **551,191** | 555,203 | 525,936 | 520,966 |
| Non-current assets | **369,755** | 368,668 | 385,820 | 395,701 |
| Current assets | **181,436** | 186,535 | 140,116 | 125,265 |
| Total liabilities | **246,756** | 310,398 | 311,403 | 126,780 |
| Current liabilities | **72,211** | 143,997 | 89,778 | 117,430 |
| Non-current liabilities | **174,545** | 166,401 | 221,625 | 9,350 |
| Net assets | **304,435** | 244,805 | 214,533 | 394,186 |
| Capital and reserves | | | | |
| Share capital | **159,921** | 115,601 | 87,003 | 219,003 |
| Reserves | **144,514** | 129,204 | 127,530 | 175,183 |
| Total equity | **304,435** | 244,805 | 214,533 | 394,186 |

# Corporate Profile

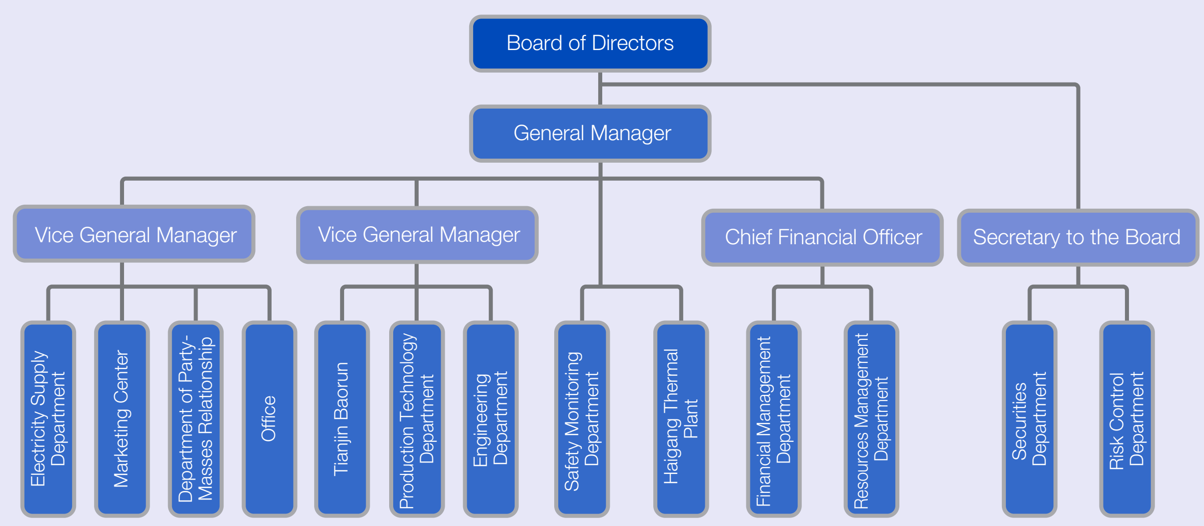
The Company was formerly known as Tianbao Electricity Company of Tianjin Port Free Trade Zone* (天津港保税區天保電力公司) (now known as Tianjin Tianbao Electricity Company Limited)* (天津天保電力有限公司), whose establishment was approved by Tianjin Port Free Trade Zone Administrative Committee in 1992. It is now mainly responsible for the power supply and service guarantee of electricity and heating for Seaport Free Trade Zone. The Company has a wholly-owned subsidiary, Tianjin Baorun, which is mainly responsible for the operation and maintenance of electricity transformation and distribution equipment and lines, and the agency sales of electrical switches and other products. On April 27, 2018, the Shares of the Company was listed on the Main Board of the Hong Kong Stock Exchange, becoming the first state-owned power operator in Tianjin engaging in co-generation of steam, electricity, heating and cooling listed on the Main Board of the Hong Kong Stock Exchange.

After approximately 26 years of development, the Company has formed a diversified industrial structure with the supply of electricity, steam, heating and other power as the mainstay, supplemented by value-added services such as engineering construction, electricity commission maintenance and sales of electrical equipment. Unlike conventional power generation methods, the Company is committed to the "Green + Environmental Protection" concept, focusing on green production and ultra-low emissions. The coal-fired co-generation technology adopted can realize the synergies of generating steam, electricity, heating and cooling simultaneously, and can achieve a thermal efficiency rate that is much higher than the industry average with a fuel cost that is much lower than the industry average consumption value. By strictly controlling fuel quality and improving production technology, the average emission levels of sulfur dioxide, nitrogen oxides and flue gas are also less than the ultra-low emission standards stipulated by laws and regulations. At the same time, the Company has actively seized the opportunities derived from national strategy and energy industry reform for many years. It has been selected as the first batch of incremental electricity distribution business reform pilot projects in the country and has become the first electricity sales enterprise in the North China region with operational rights for an electricity distribution network, achieving rapid growth in scale and efficiency.

The Company will take full advantages of Hong Kong's capital platform, continuously enhance its core competitiveness and value creativity, fully promote institutional and mechanical changes and management innovation, enhance design and research and development capabilities, improve operational efficiency and production capacity, strengthen market value management and increase shareholder returns, in order to reward the society and investors with better results of operations.

The internal structure of the Company is as follows:

## ORGANIZATIONAL STRUCTURE



# Chairman's Statement

Dear Shareholders,

2018 marked the beginning of the comprehensive implementation of the spirit of the 19th CPC National Congress. China further promoted supply-side structural reform, and attached great importance to economic quality and sustainability. The focus of national economy changed from "speed" to "quality". Under the general environment of China's economic restructuring, the Company comprehensively implemented the corporate objectives of "advanced management, excellent service, safety and reliability, outstanding benefits, and harmonious development", focused on economic benefits, strengthened cost management and process control, and benefited from management, thus continuing to maintain a good development trend of steady progress.

At present, China's clean energy industry continues to expand, the construction of clean and low-carbon, safe and efficient energy system is accelerating, energy structure is shifting from coal-based energy to energy diversification, and energy development momentum is shifting from traditional energy to new energy. At the same time, gradually accelerating the adjustment of composition of the industry, accelerating the elimination of surplus and outdated production capacity is an important direction for China to adjust its economic structure, which has led energy supply enterprises to face the opportunities and challenges of transformation and development.

The explanation of Beautiful China in the 19th CPC National Congress report established the fundamental position of the environment in the composition of productive forces, and clarified the need to establish a socialist ecological civilization concept, adhere to the concept of green development, promote energy production and consumption revolution, and build a clean and low-carbon, safe and efficient energy system. The Company will adhere to the new development concept, based on the existing power supply business, it will expand financing channels strengthen risk management and control, focus on promoting the development of new energy business, break through the bottleneck of the Company's traditional business, and firmly grasp new goals and new requirements for the reform of state-owned assets and state-owned enterprises in the new era, to actively prepare for the Company's transformation and development and innovation breakthrough.

2019 is a key year for the Company to achieve leap-forward development. The Company will take full advantages of the capital operation of listed companies and, on the basis of consolidating the Company's traditional energy business, further enhance the Company's scientific management level and strengthen awareness to market competition, risk prevention and control, pioneering and innovation, to focus the Company's development on new business development, dig deeper into new profit growth points, continue to enhance the Company's core competitiveness, expand the scale of operation, and create harmonious, stable and healthy development of the Company.

**GAO Hongxin**
*Chairman of the Board*
Tianjin, the PRC

March 26, 2019

# General Manager's Statement

Dear Shareholders,

In 2018, the world economy continued to grow moderately, with obvious differentiation of growth, inflation and monetary policy in major economies. In the current global economic environment, China further promoted supply-side structural reform for the economy, attached great importance to economic quality and sustainability, and implemented macro-control in terms of economic growth rate. The national economy has changed from "speed" to "quality" and entered a continuous and stable economic development.

This year, faced with many challenges in the external environment and with the theme of "reducing cost and increasing efficiency", Tianbao Energy comprehensively implemented the corporate objectives of "advanced management, excellent service, safety and reliability, outstanding benefits, and harmonious development". It focused on economic efficiency, strengthened cost management and process control, and benefited from management, thus continuing to maintain a good development of steady progress. During the year, sales of electricity amounted to 271.0057 million kilowatt-hours, sales of steam amounted to 786,400 tons, on-grid power generation amounted to 63.4446 million kilowatt-hours, operating income amounted to RMB431.1131 million, and total profit before tax amounted to RMB35.1519 million. In addition, the Company further promoted its enterprise reform process and its Shares was successfully listed on the Main Board of the Hong Kong Stock Exchange on April 27, 2018. A total of 44.32 million H shares were issued through private placing and Hong Kong public offer, accounting for 27.71% of the total issued share capital of the Company after issuance. The financing scale was approximately HK$84.208 million, making the Company the first state-owned power operator in the city listed on the Main Board of the Hong Kong Stock Exchange with electricity dispatch and sale and steam supply as the mainstay.

In 2019, the Company will actively seize national strategic opportunities and energy industry reform opportunities arising from coordinated development of Beijing-Tianjin-Hebei, development and opening up of Binhai New Area, and establishment of free trade zone, gather all kinds of high-quality resources, and continue to expand the Company's business from three aspects including regional energy business integration, electricity sales market transaction and photovoltaic project construction. At the same time, the Company will continue to implement the "Green + Environmental Protection" business philosophy, and continue to improve and stabilize emission reduction program and emission assessment indicators based on the operation of the flue gas ultra-clean emission transformation project, to ensure that the atmospheric pollutant emission indicators remain stable in the ultra-clean emission standards.

In the coming year, the Company's leadership team will lead all staff to work together, seize opportunities, and act actively, striving to create a lucrative return on investment for all Shareholders and investors.

**XING Cheng**
*General Manager*
Tianjin, the PRC

March 26, 2019

# Management Discussion and Analysis

## 1. INDUSTRY REVIEW

In 2018, the world economy continued to grow moderately, with obvious differentiation of growth, inflation and monetary policy in major economies. In the current global economic environment, China further promoted supply-side structural reforms for the economy, attached great importance to economic quality and sustainability, and implemented macro-control in terms of economic growth rate. The national economy has changed from "speed" to "quality" and entered a continuous and stable economic development status. In 2018, the GDP reached RMB90,030.9 billion, representing a year-on-year increase of 6.6%.

In 2018, China continued to promote reform in the energy sector. With the new round of electric power system reform, coupled with the rapid development of related energy technology innovations such as big data, energy internet, Internet of Things, smart energy, blockchain technology and artificial intelligence, the business models and energy consumption patterns have been further optimized. In 2018, the national electricity consumption amounted to 6,844.9 billion kilowatt-hours, representing a year-on-year increase of 8.5%, representing the highest growth rate since 2012, of which the electricity consumption of the primary industry amounted to 72.8 billion kilowatt-hours, representing a year-on-year increase of 9.8%; that of the secondary industry amounted to 4,723.5 billion kilowatt-hours, representing a year-on-year growth of 7.2%; that of the tertiary industry amounted to 1,080.1 billion kilowatt-hours, representing a year-on-year increase of 12.7%, and that of urban and rural residents amounted to 968.5 billion kilowatt-hours, representing a year-on-year increase of 10.4%. The full caliber generating equipment capacity amounted to 1.89967 billion kilowatts, representing a year-on-year growth of 6.5%, of which thermal power, hydropower, nuclear power, on-grid wind power and on-grid solar power generations increased by 3.0%, 2.5%, 24.7%, 12.4% and 33.9% year-on-year, respectively. During the year, China's National Development and Reform Commission successively approved the transmission prices of the five regional power grids in North China, Northeast China, East China, Central China and Northwest China, as well as the transmission prices of 24 trans-provincial and trans-regional special projects. Three batches of incremental power distribution business pilot reforms were launched, and pilot projects totaled to 320, providing diversified choices and services for power consumers and effectively stimulating the market.

During the Reporting Period, with the theme of "reducing cost and increasing efficiency", the Company comprehensively implemented the corporate objectives of "advanced management, excellent service, safety and reliability, outstanding benefits, and harmonious development", focused on economic benefits, strengthened cost management and process control, and benefited from management, thus continuing to maintain a good development trend of steady progress.

## 2. BUSINESS REVIEW FOR THE YEAR OF 2018

### (1) Advance the reformation of electric power system

Under the background of our country's more in-depth new round of electric power system reform, the Company actively promoted the electricity sale business. During the year, the Company completed the registration of independent electricity sales company with Tianjin Power Trading Platform, and is now working on the digital certificate processing and binding, submission of paper materials and signing of market entry agreement as an electricity sales company. Next, the Company will push the application to Beijing Power Exchange Center and Northern Hebei Power Exchange Center for registration, so as to participate in the power trading of Beijing-Tianjin-Tangshan Power Grid and truly take substantial steps in the electricity sale market.

**(2) Research and promote photovoltaic power generation projects**

To speed up the adjustment of the Company's energy structure, explore new business models and respond to the call of our country to develop a green, low-carbon and circular economy, the Company has conducted in-depth research and promotion of photovoltaic power generation projects during the year. Based on the research and analysis of solar energy resources in Tianjin, roof area and structure of buildings and plants in the Seaport Free Trade Zone, the Company planned to use the roofs of buildings and plants of the Company and other companies in the Seaport Free Trade Zone for the first phase of construction. The feasibility study of the project has been completed and preliminary cooperation consensus with some companies in the Seaport Free Trade Zone has been reached.

**(3) Accelerate the construction of information technology infrastructure**

The Company has completed the adjustment of the three-year information technology plan during the year. The Company carried out information technology related projects this year in accordance to the plan. Firstly, the Company realized the acquisition and analysis of electricity consumption, local recharge of CPU cards and meter end prepayment by developing smart meter management system and adopting advanced computer, communication, system integration and data collection technologies, thus improving the accuracy and timeliness of meter reading and clearing. Secondly, based on the analysis of power business, the Company upgraded the power marketing customer service system, increased and expanded approval process modules, and performed price structure adjustment and multiple upgrades of price adjustment modules on the system. Thirdly, the Company completed the development and operation of material management system, realizing the management and control of the whole process of material planning, procurement, inventory and delivery.

**(4) Put emphasis on both safety and environmental protection to ensure the stable operation of the Company**

The Company strictly adheres to its safe production responsibilities. In 2018, the Company held 18 safe production meetings, invested safety funds of RMB873,000, organized safety trainings 15 times, discovered and eliminated 327 safety hazards, organized emergency drills 17 times, and carried out extensive safety activities on special nodes such as "Safety Day", "Safety Month" and "Fire Safety Publicity and Education Day" to create a strong safety culture. It also strictly implemented the requirements of the national environmental protection policy, and based on the stable operation of the ultra-low smoke emission renovation project, scientifically perfected the environmental protection assessment system and strengthened operational management, thus ensuring that the pollutant discharge data of Haigang Thermal Plant meets the ultra-low emission standards consistently. In addition, during the construction, dust pollution was reduced by spraying, covering and fog guns. The Company did not receive any criticism in terms of environmental emission and environmental pollution throughout the year.

## 3. OPERATING RESULTS AND ANALYSIS

According to the Company's statistics, in 2018, sales of steam amounted to 786,400 tons, representing a decrease of 1.55% from 798,800 tons over the corresponding period of the previous year, mainly due to the fact that Haigang Thermal Plant consumed more surplus steam for electricity generation for its own usage during this year to increase the percentage of electricity generated in-house and reduce the costs of electricity purchased for its own usage under the principle of cost-effectiveness. Sales of electricity amounted to 271.0057 million kilowatt-hours, representing an increase of 2.48% from 264.4404 million kilowatt-hours over the corresponding period of the previous year, mainly due to the increase in business volume of one of the Group's major customers this year. On-grid power generation amounted to 63.4446 million kilowatt-hours, representing a decrease of 6.30% from 67.7137 million kilowatt-hours over the corresponding period of the previous year.

Taking into account the changing trend of operating income and profit before tax in 2018 and 2017, we are analyzing the indicators significantly affecting operating income and profit before tax of the Company in 2018, which is as follows:

### (1) Operating income

In 2018, the Company and its subsidiary recorded consolidated operating income of RMB431.1131 million, representing a slight decrease from RMB452.4674 million over the corresponding period of the previous year, mainly due to decreased income from the electricity distribution and sale segment and other segments.

#### *Electricity dispatch and sale segment*

The income from our electricity dispatch and sale segment decreased by 2.4% from RMB207.8124 million for the whole year of 2017 to RMB202.8166 million for the whole year of 2018, mainly due to the requirement to cancel the charges on certain consumers since July 1, 2018 according to the electricity price document issued by the pricing bureau.

#### *Power generation and supply segment*

The income from our power generation and supply segment increased by 0.26% from RMB185.4609 million for the whole year of 2017 to RMB185.9471 million for the whole year of 2018, mainly due to the increase in heating and cooling area this year.

#### *Other segments*

The income from other segments decreased by 28.46% from RMB59.1941 million for the whole year of 2017 to RMB42.3495 million for the whole year of 2018, mainly due to the reduction in sales of electrical switches under market influences and the real estate project in Tianjin undertaken by one of the Company's major customers having passed the peak purchasing period.

### (2) Other net income

In 2018, the Group recorded other net income of RMB21.2966 million, representing an increase of 221.93% as compared with the corresponding period of the previous year of RMB6.6153 million, which was primarily due to the exchange net income of about RMB5.2839 million obtained from the Group's balance of HK$69.69 million in one of the banks as at December 31, 2018 being converted into RMB at the end of the period under the influence of continuous increase in the exchange rate of Hong Kong dollars against RMB and the increase of RMB9.2884 million in government grants.

## (3) Segment costs

### *Electricity dispatch and sale segment*

The costs of our electricity dispatch and sale segment increased by 0.79% from RMB191.2312 million for the whole year of 2017 to RMB192.7455 million for the whole year of 2018, mainly due to the increase in electricity consumption of our consumers which led to the increase in electricity purchase and electricity purchase cost.

### *Power generation and supply segment*

The costs of our power generation and supply segment increased by 5.3% from RMB151.6531 million for the whole year of 2017 to RMB159.6935 million for the whole year of 2018, mainly due to the continuous increase in coal prices in 2018.

### *Other segments*

The costs of other segments decreased by 27.05% from RMB50.9035 million for the whole year of 2017 to RMB37.1330 million for the whole year of 2018, mainly due to the decrease in cost of sales as a result of the reduction in sales of electrical switches under market influences.

## (4) Segment gross profit

### *Electricity dispatch and sale segment*

The gross profit from our electricity dispatch and sale segment decreased by 39.26% from RMB16.5812 million for the whole year of 2017 to RMB10.0711 million for the whole year of 2018, mainly due to the need to cancel the charges on certain consumers since July 1, 2018 according to the electricity price document issued by the pricing bureau.

### *Power generation and supply segment*

The gross profit from our power generation and supply segment decreased by 22.34% from RMB33.8078 million for the whole year of 2017 to RMB26.2536 million for the whole year of 2018, mainly due to the continuous increase in coal prices in 2018.

### *Other segments*

The gross profit from other segments decreased by 37.08% from RMB8.2906 million for the whole year of 2017 to RMB5.2165 million for the whole year of 2018, mainly due to the year-on-year decrease in income and costs as a result of the reduction in sales of electrical switches under market influences.

## (5) Finance costs

In 2018, the Company and its subsidiary recorded finance costs of RMB9.9534 million, representing a decrease of 12.27% as compared with the corresponding period of the previous year of RMB11.3457 million, which was primarily due to the repayment of bank loans of RMB24.00 million by the Company in 2017 and the coming of the maturity date of the remaining capital reduction amount due to certain Shareholders, thereby reducing the interest expenses in this year.

### (6) Fuel costs

In 2018, the Company and its subsidiary recorded fuel costs of RMB87.1581 million, representing an increase of 6.30% as compared with the corresponding period of the previous year of RMB81.9904 million, which was primarily due to the increase in cost of coal as a result of the continuous increase in coal prices arising from the macro-control in 2018 and the slight increase in coal consumption in 2018 compared with the previous year.

### (7) Profit before tax

The profit before tax decreased by 12.92% from RMB40.3683 million for the whole year of 2017 to RMB35.1519 million for the whole year of 2018.

### (8) Income tax expenses

In 2018, the Group recorded income tax expenses of RMB8.8051 million, representing a decrease of 12.79% as compared with the corresponding period of the previous year of RMB10.0967 million, which was primarily due to the decrease in profit in 2018.

### (9) Profit for the year

Profit for the year decreased by 12.97% from RMB30.2715 million for the whole year of 2017 to RMB26.3468 million for the whole year of 2018.

## 4. FINANCIAL POSITION

### (1) Assets and liabilities

Total assets decreased by 0.72% from RMB555.2030 million as at the end of 2017 to RMB551.1902 million as at the end of 2018, mainly due to the accounting of the prepaid and estimated initial public offering expenses after the successful listing of the Group on the Hong Kong Stock Exchange in April 2018. Total liabilities decreased by 20.50% from RMB310.3984 million as at the end of 2017 to RMB246.7548 million as at the end of 2018, mainly due to the repayment of capital reduction payment of RMB72.4900 million to certain Shareholders by the Group this year. Total equity attributable to Shareholders increased by 24.36% from RMB244.8050 million as at the end of 2017 to RMB304.4354 million as at the end of 2018.

As at the end of 2018, our current assets amounted to RMB181.4360 million, representing a decrease of 2.73% as compared with the end of 2017 of RMB186.5350 million, mainly due to the accounting of the prepaid and estimated initial public offering expenses after the successful listing of the Group on the Hong Kong Stock Exchange in April 2018, of which cash and cash equivalents amounted to RMB140.4000 million (end of 2017: RMB116.0709 million), trade and bill receivables amounted to RMB34.5746 million (end of 2017: RMB41.9098 million), which was mainly receivables of steam revenue. Our current liabilities amounted to RMB72.2098 million (end of 2017: RMB143.9976 million), of which trade and other payables amounted to RMB42.9249 million (end of 2017: RMB44.2581 million), and non-current liabilities amounted to RMB174.5450 million (end of 2017: RMB166.4008 million).

### (2) Cash and cash equivalents

As at the end of 2018, the Group recorded cash and cash equivalents of RMB140.4000 million, representing an increase of 20.96% as compared with the end of the previous year of RMB116.0709 million, which was primarily due to business generation and the issue of new Shares by the Company. Taking into account the capital requirements of the Company's daily operating activities and the higher expected capital expenditures, the Company adopted a conservative cash management strategy.

### (3) Gearing ratio

The gearing ratio is calculated as the balance of liabilities as at the end of the Reporting Period divided by the balance of Shareholders' equity as at the end of the Reporting Period.

At the end of 2018, the Group recorded a gearing ratio of 0.81, representing a decrease as compared with the corresponding period of the previous year of 1.27, which was primarily due to repayment of capital reduction amount due to certain Shareholder, leading to decrease in liabilities and the increase in Shareholders' equity resulting from the issue of new Shares by the Company.

## 5. OTHER SIGNIFICANT EVENTS

### (1) Capital raising

The Company completed the initial public offering and was listed on the Main Board of the Stock Exchange on April 27, 2018. The net proceeds from the initial public offering, after deducting the underwriting commission and other estimated expenses in connection with the initial public offering, amounted to approximately HK$41.1800 million.

### (2) Capital expenditure

In 2018, capital expenditure of the Group was RMB21.6780 million, of which expenses of procurement of machinery and equipment amounted to RMB4.9100 million, expenses of upgrading the dust removal system amounted to RMB6.8100 million, expenses of Free Trade Zone (Seaport) thermal pipes underground renovation project amounted to RMB5.4700 million, expenses of upgrading no. 1 and 2 switching stations in Tianjin Port Free Trade Zone amounted to RMB4.3300 million and expenses of purchasing automatic license plate number identification and weighting system was RMB0.1600 million.

### (3) Liquidity and financial resources

As at December 31, 2018, the Group had no bank borrowings or other borrowings. There were no financial instruments entered into by the Group for hedging purpose. In addition, the Group had no investments in foreign currency.

### (4) Material acquisitions and disposals

As of December 31, 2018, the Group did not have material acquisitions and disposals.

### (5) Significant investments

As of December 31, 2018, the Group did not have significant investments.

### (6) Contingent liabilities

As of December 31, 2018, the Group did not have contingent liabilities.

### (7) Bank borrowings of the Group

As of December 31, 2018, the Group did not have bank borrowings.

### (8) Other debts of the Group

Except for the capital reduction amounts of RMB168.38 million due to Shareholders of the Company, the Group did not have other interest-bearing debts.

### (9) Charges on Group's assets

As of December 31, 2018, the Group had no charge on its assets.

### (10) Capital structure

The H Shares of the Company were listed on the Main Board of the Stock Exchange on April 27, 2018. The capital structure of the Company consists of Domestic Shares and H Shares.

### (11) Share option scheme

As of December 31, 2018, the Company had not implemented any share option scheme.

### (12) Foreign exchange and exchange rate risk

The Group mainly operates in China. Other than bank deposits denominated in foreign currencies (including bank deposits in Hong Kong dollars and US dollars), the Group is not exposed to material foreign exchange rate risk. The Directors expect that fluctuation in the exchange rate of RMB will not have a material adverse effect on the operation of the Group. Accordingly, the Group did not enter into any hedging arrangement for reducing the risk of fluctuation in exchange rates during the Reporting Period.

## 6. RISK FACTORS AND RISK MANAGEMENT

Currently, the operation and development of the Group are not exposed to any significant risk factors. From the results of the Group's annual risk assessment, the top three important risks are material procurement management risk, equipment operation management risk and performance appraisal management risk.

### (1) Material procurement management risk

For example, due to the adjustment of national policies and industrial restructuring, the supply-demand relationship changes, leading to price fluctuations and affecting the schedule and procurement costs. Or due to external factors such as weather or emergencies, the purchased materials failing to be delivered in time, thus affecting the normal production and operation activities of the Company. Or because the procurement plan is not submitted in a timely and accurate manner, cause mismatched with the actual procurement demand.

The Company completed the launch of the material management system in 2017, realizing the information management of material requisition, acceptance warehousing and ex-warehouse, reducing the proportion of manual control and improving the Company's supervision on the material procurement activities. Meanwhile, the procurement plan and budget were executed in strict accordance with approval procedures, and the annual material procurement plan and budget were prepared according to the production and operation needs to avoid excessive procurement.

During the Reporting Period, the Company purchased coals from limited suppliers, and the coals consumed were purchased from about 5 suppliers respectively. The purchase from the largest coal supplier accounted for 46% of the total volume of fuel purchased during the year. The Company has implemented appropriate management measures to lower the relevant material procurement risk, such as the coal supply agreement with a period of two to three months entered into with coal suppliers upon bidding process, to secure continuous and stable coal supply for the Company.

**(2) Equipment operation management risk**

For example, due to the lack of operation training and safety education, and inexperience of the operators or failure to follow the equipment operating procedures, equipment operation errors occur, affecting the efficiency of production and operation, and even causing casualties. Or due to insufficient equipment protections and operators failing to wear necessary protective equipment, effective safety protection is not provided to the operator when the equipment malfunctions. Or due to excess noise and temperature under the operating environment, the mental state of the operator or the normal operation of the equipment is affected, thus leading to operational errors or equipment failure. Or due to relaxed acceptance inspection of purchased equipment, unreasonable layout of construction site, non-standard equipment installation, poor daily maintenance and improper raw material input, equipment failure occurs, even causing accidents.

The Company customized targeted training programs for different types of equipment operators and regularly organized relevant trainings to enhance the professional skills of the operators. The Company adopted "two cards" and other means to regulate equipment operations. The electric regulators work in shifts. The on-duty personnel worn work cards, performed necessary equipment operations, monitored the operation of the equipment, and timely handled equipment accidents to ensure the safe operation of the equipment. The equipment was provided with necessary protections, and the operators were checked for their personal safety protection equipment before operation with timely correction made if necessary. The Company strictly supervised daily patrol inspections and strengthened the routine inspection of equipment appearance. The Company formulated equipment emergency disposal procedures to standardize emergency operations. The Company deployed necessary environmental protection facilities and fire prevention facilities at the construction site. In addition to meeting the requirements of relevant laws and regulations, the Company provided basic safety guarantees for constructors and machinery at the construction site.

**(3) Performance appraisal management risk**

For example, due to unscientific and unreasonable setting of performance appraisal indicators, and failure of the appraisal content to cover the main production and operation activities of each function, the appraisal results cannot truly reflect the production and operation of the enterprise. Or due to lengthy appraisal cycle, untimely appraisal or biases of appraisers, halo effect, primacy effect, recency effect, central tendency, seniority or position tendency or the impartiality of the appraisal results is affected.

The Company strictly implemented the Performance Appraisal Management System, defined performance goals by breaking down the strategic objectives and annual key projects, and formulated performance appraisal indicators according to different functions and post settings to regularly examine and appraise the employees at different levels from different functions. The Company adopted the method of monthly monitoring and quarterly appraisal to appraise each function and employee every quarter. After the completion of performance appraisal, the appraisers interviewed the appraisees in time to give feedback on the appraisal results.

## 7. SUBSEQUENT EVENTS

As at March 26, 2019, based on the provisions and relevant requirements in laws and regulations, including, among others, the Company Law of the PRC, and the changes of economic environment, the Board, after referring to other listed companies and combining with actual situation of the Company and its operation and development needs, made a relevant recommendation on amendment to relevant terms of Articles of Association and in accordance with principles of prudence, suitability and necessity. The proposed amendment to Articles of Association is subject to approval by a special resolution of the Shareholders at the 2018 annual general meeting (the "**AGM**"). Please refer to the announcement of the Company dated March 26, 2019 for details. Besides, subsequent to the Reporting Period to the date of this Report, the Group had no significant subsequent events.

## 8. BUSINESS OUTLOOK FOR 2019

In 2019, guided by Xi Jinping's direction on socialism with Chinese characteristics for a new era, the Company will take full advantages of its capital operation advantages as a listed company, further enhance its scientific management level on the basis of consolidating its traditional energy business, strengthen the market competition awareness, risk prevention and control awareness and pioneering and innovative consciousness to gather its development strength on new business development, explore new profit growth points, continuously improve its core competitiveness, expand business scale and break new ground for the harmonious, stable and healthy development of the Company.

In 2019, the Company will strive to accomplish the following tasks:

1. Accelerate the development of new businesses

   Firstly, the Company will keep a close eye on the reform of Tianjin electric power system, cooperate and negotiate with major power usage customers timely to reach a purchase intention, and enter the electricity sales market to conduct transactions. Secondly, it will carry out the pilot construction of photovoltaic power generation projects. Starting from the Seaport Free Trade Zone, it will gradually accumulate management experience and technical data regarding photovoltaic projects in this region to lay a solid foundation for expanding the photovoltaic project market in the future.

   Relying on the advantages of the listing platform, the Company will make full use of the capital market and look for other energy companies through investment, M&A and acquisitions, so as to facilitate the transformation of the Company's control mechanism, incentive mechanism and employment mechanism toward market standards, which would enable the Company to grow in size and renew its vitality.

2. Organizational structure adjustment and building of the talent team

   According to its top-level design of human resources consulting projects, the Company will promote the implementation of the results and constantly perfect the system in the operation process to form an organizational structure system with scientific organization, distinctive rights and responsibilities, standardized process and efficient operation. It will also enhance the performance appraisal mechanism, formulate separate key appraisal indicators according to the characteristics of different business posts, and motivate employees by putting pressure to tap their potential. According to business needs, talent introduction will be carried out, and key positions will be replenished to provide inexhaustible power for the sustained and strong development of the Group.

3. Carry out industry benchmarking thoroughly

Taking the leading enterprises in the industry as the benchmark in terms of plant business and power business, the Company will define a comprehensive solution for its scientific management from the aspects of macro objectives, process control and micro details, by finding out the gap through comparison with the benchmark, checking the implementation against relevant tables and raising questions against the standards, so as to promote the qualitative improvement of its management and control level through in-depth analysis and improvement.

4. Accelerate the construction of information technology infrastructure

Firstly, focusing on the management and maintenance and equipment, the Company will advance the construction of the production management system of Haigang Thermal Plant to realize the fine control over the whole process of equipment management, work order management, defect management, operation index management and patrol management. Secondly, the construction of the Company's data center and integrated portal will be launched, in which the various data mining and analysis capabilities will be strengthened and a unified portal platform will be established based on the existing systems of each business, to connect the information of each system and realize the unified collection, unified analysis, unified display of key data, thus providing support to the Company's decision-making.

5. Improve the energy-saving technology for Haigang Thermal Plant

Firstly, the boiler feed pumps will be maintained and the interstage seals will be repaired to improve the efficiency of equipment operation. Meanwhile, the minimum flow valves of the boiler feed pumps will be technically transformed to reduce leakage and thus save energy. Secondly, the high energy consuming motors in the plant will be replaced gradually to reduce power consumption. Thirdly, the chemical water workshops will be provided with first-stage concentrated water reverse osmosis devices to increase the recovery efficiency from 50% to 75% and save costs. Fourthly, the refrigerators at heat exchange stations No. 1 and No. 4 will be inspected and maintained to improve the refrigerating efficiency.

6. Strengthen the operation and improvement of management system

Firstly, the internal control system will be optimized and perfected continuously, and the risk control of the Company's key business links will be strengthened from the aspects of system and process to ensure the Company's legal compliance and healthy and stable operation. Secondly, the production management procedures will be optimized constantly at the technical and management levels according to the Company's energy management system certification requirements, to further save energy and reduce consumption. Thirdly, the new quality management system will be implemented strictly and great attention will be paid to process control to further improve the work quality in all aspects of business.

# Human Resources

The Company upholds the principle of people-orientation, and attaches great importance to build talents team and strives to create a sustained and harmonious working atmosphere. The human resources conditions of the Company in 2018 are as follows:

## I OVERVIEW OF HUMAN RESOURCES

As of December 31, 2018, the Company had 70 employees. The education level of employees is generally high, and the holders of bachelor degree or above accounted for 75.71% of the total. The number of employees in each business segment and the age and academic structure of employees are as follows:

### 1. Business segment structure

| Role | Number of employees | Percentage |
|---|---|---|
| Management, administration, finance | 18 | 25.7% |
| Marketing | 11 | 15.7% |
| Procurement | 4 | 5.7% |
| Engineering and technology | 37 | 52.9% |
| **Total** | **70** | **100.0%** |

### 2. Age Structure

| Age ranges | Numbers of employees | Percentage | Cumulative percentage |
|---|---|---|---|
| Under 35 | 18 | 25.71% | 25.71% |
| 36-45 | 32 | 45.71% | 71.42% |
| 46-55 | 17 | 24.29% | 95.71% |
| 56 and above | 3 | 4.29% | 100.00% |
| **Total** | **70** | **100.00%** | **–** |

### 3. Education Structure

| Education level | Numbers of employees | Percentage | Cumulative percentage |
|---|---|---|---|
| Master’s degree | 6 | 8.57% | 8.57% |
| Bachelor’s degree | 47 | 67.14% | 75.71% |
| College and below | 17 | 24.29% | 100.00% |
| **Total** | **70** | **100.00%** | **–** |

## II EMPLOYEE INCENTIVES

To cope with its development, the Company, on the basis of position-oriented accountability system, has established performance indicators covering all employees to assess employees quarterly. Objective performance evaluations enable employees to focus on the main tasks when performing their duties, and to identify unsatisfactory aspects of their works, so as to improve themselves continuously.

## III EMPLOYEES' REMUNERATION

Employees' remuneration includes basic salary and performance-related salary, which is related to both the performance evaluation of the Company and that of the respective employees.

## IV EMPLOYEES' TRAININGS

Employee training is a focal point of the Company's effort to build its talents team. By combining both internal and external trainings with online education of information technology and training employees based on features of their positions to boost expertise, the Company intends to improve employees' comprehensive qualities.

## V EMPLOYEES' BENEFITS

The Company strictly complies with the Labor Law, the Employment Contract Law and the Social Insurance Law by paying social insurance, housing provident fund as well as enterprise annuity to reinforce employees' sense of belonging and happiness.

The Company is not allowed to use the contributions to defined contribution retirement plans which have been forfeited to reduce the current level of contributions.

## EXECUTIVE DIRECTORS

**Mr. GAO Hongxin (高洪新)**, aged 52, is the chairman of the Board and an executive Director of the Company. He is responsible for holding Board meetings, formulating business development strategies, reforming the power system operations and safety management. Mr. GAO joined the Group on May 10, 2007 and has more than 25 years of experience in the power industry. In October 1989, Mr. GAO joined Tianjin Teda Electric Power Co., Ltd. (天津泰達電力公司) and worked successively as a technician in the power generation, equipment and electricity supply departments, deputy head of operation department, head of measuring management department, head of engineering department, head of client service department, head of electricity supply department, and head of public and private electricity management department from October 1989 to April 2007, successively responsible for various matters including the electricity supply, overall operation and administrative management of the company. He joined the Company in May 2007 as a manager and was appointed as the chairman of the Board and our general manager in April 2012. From June 2009 to April 2012, Mr. GAO was also the vice general manager of Tianjin Tianbao Thermal Electricity Company Limited mainly in charge of the overall management, and the operation of the electricity supply business. He was reappointed as the chairman of the Board of the Company in March 2017 after the Company was converted into a joint stock limited liability company.

Mr. GAO obtained a master's degree in electrical engineering from the Northeast Electric Power University (東北電力大學) in PRC in December 2011. Mr. GAO was awarded the "Tianjin Tianbao Holdings Limited 2012-2013 Team Award for Outstanding Contribution" (天保控股公司2012-2013年度重大項目突出貢獻團隊獎) in January 2014.

**Mr. XING Cheng (邢城)**, aged 55, is the executive Director and general manager of our Company and is responsible for supervising the daily operation of our Company. He is also in charge of our Company's Haigang Thermal Plant and safety monitoring department. Mr. XING joined the Company on February 17, 2016. Mr. XING has rich experience in thermodynamics. From September 1992 to December 2004, he worked in the Tianjin Port Free Trade Zone Tianbao Thermal Co., Ltd., (天津港保稅區天保熱力公司), responsible for production and general operation. Mr. XING was head of the thermal department of Tianjin Tianbao Public Facility Co. Ltd. (天津天保公用設施有限公司) between December 2004 and December 2006, responsible for the operation of thermal power. Mr. XING joined Tianjin Tianbao Thermal Electricity Company Limited in December 2006 as an assistant to the general manager and was promoted to vice general manager in September 2008, responsible for the operation of thermoelectricity generation. Mr. XING left Tianjin Tianbao Thermal Electricity Company Limited in February 2016.

Mr. XING obtained a bachelor's degree in mechanical engineering (compression and refrigeration) from the Xi'an Jiaotong University (西安交通大學) in PRC in July 1986.

**Mr. PENG Chong (彭沖)**, aged 41, is an executive Director and chief financial officer of the Company. He joined our Group on January 1, 2017 and is responsible for the Company's financial accounting, financing, taxation, auditing and material procurement matters. He is also in charge of the financial management department and resources management department of the Company. Mr. PENG has been a supervisor of the Tianjin Lingang Construction and Development Co., Ltd. (天津臨港建設開發有限公司) since May 2016. Mr. PENG joined Tianjin Tianbao International Logistics Group Co., Ltd. (天津天保國際物流集團有限公司) in March 2004 as a supervising accountant and left in November 2010 as deputy head (finance), responsible for accounting and financial management. Mr. PENG was deputy head of the planning and finance department of Tianjin Tianbao Thermal Electricity Company Limited between November 2010 and August 2013 where he was in charge of the financial management matters. He was head of financial management department of Tianjin Tianbao Finance Management Co. Ltd. (天津天保財務管理有限公司) from August 2013 to December 2016, overseeing financing management matters of TFIHC and its subsidiaries (excluding the Company and Tianjin Baorun).

Mr. PENG obtained a bachelor's degree in economics and with a major in auditing from Nankai University (南開大學) in PRC in June 1998. He is also a senior accountant accredited by the Tianjin Human Resources and Social Security Bureau. He was awarded the "Personal Award in Finance Work 2007" (2007年度財務工作先進個人) by Tianbao Holdings in April 2008, "Personal Award in Finance Education 2010" (2010年度財務後續教育先進個人) by Tianbao Holdings in April 2011 and "Labour Award of Binhai New Area 2015" (2015年度濱海新區"五一"勞動獎章) by Tianjin Binhai New Area Labour Union (天津市濱海新區總工會) in April 2016.

## NON-EXECUTIVE DIRECTORS

**Mr. YU Yang (于暘)**, aged 40, is a non-executive Director of the Company. He is responsible for participating in the decision making of Directors with respect to major issues of the Company and making recommendations on matters such as corporate governance, connected transactions, audit as well as remuneration of Directors, supervisors and senior management of the Company. Mr. YU joined the Company as a non-executive Director on November 22, 2017. Mr. YU has over 10 years of experience in the operations and management of banking and securities. He served as senior manager at Bohai Securities Co., Ltd. from September 2003 to March 2007. Mr. YU served as the head of the asset management department of Tianbao Holdings from April 2007 to December 2008. Since January 2009, Mr. YU served as assistant to the general manager and deputy general manager and later serves as the general manager at Tianbao Investment. In May 2018, Mr. YU resigned as general manager of Tianbao Investment. Mr. YU serves as a non-executive director of Bank of Tianjin Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 1578)) between May 2015 and May 2018, and serves as a supervisory since May 2018. Mr. YU is currently an assistant to the general manager in Tianjin Financial Investment and Services Group.

Mr. YU graduated from Nankai University (南開大學) in Tianjin, China in June 2001 with a bachelor's degree of sector economics in real estate operation and management from the Department of Economics.

**Mr. WU Tao (武韜)**, aged 57, is a non-executive Director of the Company. He is responsible for participating in the decision making of Directors with respect to major issues of the Company; and making recommendations on matters such as corporate governance, connected transactions, audit as well as remuneration of Directors, Supervisors and senior management. Mr. WU joined the Company on January 19, 2017. Mr. WU worked in Tianjin Sinorails-Long Jin Tai Storage and Transportation Co. Ltd. (天津華鐵隆津泰儲運有限公司) as the vice general manager from December 1995 to June 2002, Tianjin Tianbao International Procurement Center Co. Ltd. (天津天保國際採購中心有限公司) as the general manager from June 2002 to April 2004, Tianjin Tianbao International Logistics Co. Ltd. (天津天保國際物流有限公司) as the vice general manager from April 2004 to November 2005 and Tianjin Tianbao International Logistics Group Co., Ltd. (天津天保國際物流集團有限公司) as the vice general manager from November 2005 to October 2014. Mr. WU has been the vice general manager of Tianbao Investment since October 2014, responsible for the strategic planning and overall management of the company, and been an executive director since May 2018. Mr. WU has been a non-executive director of Bank of Tianjin Co., Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 1578) since May 2018.

Mr. WU obtained his bachelor's degree in storage and transportation management from the Beijing School of Business (北京商學院), in PRC in July 1985. He is a senior economist accredited by the Tianjin Municipal Human Resources and Social Security Bureau (天津市人力資源和社會保障局) in December 2012.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. LAU Tsz Bun (劉子斌)**, aged 48, is an independent non-executive Director of the Company. He has over 20 years of experience in financial advisory and professional accounting. He has been a director (since February 2015) of PKF Consulting Inc. Limited (安鵬投資諮詢有限公司) and a partner (since January 2016) of PKF Consulting (Shanghai) Co. Ltd. (瀚信企業管理諮詢（上海）有限公司), where he provides professional accounting and financial management services. Mr. LAU has also been a director of Finpass Consulting Company Limited from December 2008 to December 2017 and in charge of management of the company. Mr. LAU had, from August 1992 to August 2003, engaged in accounting related works in various professional accounting firms, including as a staff of accountant and senior auditor in Ernst & Young (安永會計師事務所) from August 1992 to January 1996 and as audit manager in KPMG (畢馬威會計師事務所) from January 1999 to August 2003. From June 2003 to January 2008 Mr. LAU had been a director of Premium Financial Consulting Co., Limited (普惠財務諮詢有限公司) providing professional accounting and financial management services in Hong Kong. Mr. LAU obtained a bachelor's degree in accountancy from the Hong Kong Polytechnic University (香港理工大學) in October 1992. He has been a member of the Hong Kong Institute of Certified Public Accountants (香港會計師公會) since February 1997, a member of the Chartered Financial Analyst since October 2000 and fellow member of the Association of Chartered Certified Accountants (特許公認會計師公會) since January 2001.

**Mr. HAN Xiaoping (韓曉平)**, aged 61, is an independent non-executive Director of the Company. He established the China Energy Net in 2000 and has served as its managing director and chief information officer since then. Mr. HAN has been an independent non-executive director of Longitech Smart Energy Holding Ltd., a company listed on the Stock Exchange (stock code: 1281) since June 2016 and Beijing Jingneng Clean Energy Co. Ltd., a company listed on the Stock Exchange (stock code: 579) since October 2014. In 1995, Mr. HAN cofounded Beijing Qunying Investment Co., Ltd (北京群鷹投資有限公司), principally engaged in project investment and asset management, and served as its deputy chairman. Mr. HAN is also actively involved in the power and energy industry and holds positions in various organizations such as deputy director of China Energy Research Society Distributed Energy Professional Committee (中國能源研究會分佈式能源專委會).

Mr. HAN obtained his diploma in media management from the Cheung Kong Graduate School of Business (長江商學院) in 2007. He was nominated as visiting professor of the North China Electric Power University (華北電力大學) in June 2006. Mr. HAN was awarded the outstanding contribution for distributed energy decade award (中國分佈式能源十年傑出貢獻人物獎) by the China Energy Research Society (中國能源研究會) in 2010, and second class research prize (課題研究二等獎) by the NEA in 2012.

**Ms. YANG Ying (楊瑩)**, aged 39, is an independent non-executive Director of the Company. She has been a senior partner of Shanghai Allbright Law Offices (Tianjin) (上海錦天成（天津）律師事務所) since June 2015. From February 2006 to February 2010, Ms. YANG was a practising lawyer in several law firms in PRC, including Tianjin Jinbo Law Firm (天津津博律師事務所) and Beijing Zhong Lun Wende (Tianjin) Law Firm (北京中倫文德（天津）律師事務所). She has been the host of the television show "Law Lecture" (法律講堂), broadcast on channel CCTV-12 and the guest lawyer of the television show "Hotline-12" (熱線12) since 2010. She was an executive chief of the Tianjin Bencheng Law Firm (天津本誠律師事務所) from July 2012 to June 2015.

Ms. YANG obtained her doctorate degree in management from the University of Tianjin (天津大學), in PRC in February 2009. She was also awarded the Hexi District Youth Foundation Outstanding Progress Award (河西青聯優秀進步獎) for the years 2012 and 2013. She was listed as a Tianjin Municipal Government Part-time Government Legal Adviser by the Tianjin Municipal Government Legislative Affairs Office (天津市政府法制辦) in October 2016.

## SUPERVISORS

**Ms. XUE Xiaofang (薛曉芳)**, aged 52, is a chairperson of the Supervisory Board of the Company. Ms. XUE has been the head of risk management department of Tianbao Holdings since September 2015 responsible for auditing and legal affairs. She joined the Group on January 19, 2017. Prior to this, she served successively as an accountant, auditor supervisor, auditor senior supervisor, assistant to the head of risk management department and deputy head of risk management department from August 2002 to September 2015 in Tianbao Holdings, responsible for the management of various financial matters, special audit as well as legal affairs. She was a supervisor between July 2007 and June 2014 and has also been a director of Tianjin Tianbao Infrastructure Co., Ltd. (天保基建股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000965) since June 2014. Ms. XUE also has been a supervisor of Tianjin Taiyangguang Electricity Technology Co., Ltd. (天津泰陽光電科技有限公司).

She was certified by Ministry of Finance of the PRC as an accountant in October 1994.

Ms. XUE obtained a bachelor's degree in auditing from the Tianjin University of Finance and Economics (天津財經學院) in July 1989. She was accredited as a certified internal auditor by the China Institute of Internal Audit (中國內部審計協會) in November 2003. She obtained senior auditor qualification accredited by the Tianjin Human Resources Bureau (天津市人力資源局) in February 2007. She obtained the international certified internal auditor (CIA) qualification (issued by China Institute of Internal Auditors with the authorization from the Institute of Internal Auditors (國際內部審計師協會)) in November 2003. She was awarded the "2011-2013 Tianjin Internal Auditor Advanced Worker Award" (2011-2013年度天津市內部審計先進工作者).

**Mr. SHAO Guoyong (邵國永)**, aged 40, is a Supervisor of the Company. Mr. SHAO has been the head of risk management department in Tianjin Tianbao Commercial Factoring Co. Ltd. (天津天保商業保理有限公司) and the head of risk management department in Tianjin Binhai New Area Tianbao Microcredit Co., Ltd. (天津濱海新區天保小額貸款有限公司) since April 2018. He joined the Group on January 19, 2017. From January 2007 to May 2012, Mr. SHAO worked as a practicing lawyer in Tianjin Guopeng Law Firm (天津國鵬律師事務所). He then joined Tianjin Tianbao Leasing Co. Ltd. (天津天保租賃有限公司) as the head of legal department from June 2012 to January 2015. From January 2015 to April 2018, he served as the deputy head of risk management department in Tianjin Tianbao Commercial Factoring Co. Ltd..

Mr. SHAO obtained his bachelor's degree in laws from the Tianjin University of Commerce (天津商學院), in PRC in June 2001 and his master's degree in laws from Nankai University (南開大學), in PRC in December 2015. Mr. SHAO holds a legal professional qualification certificate promulgated by the Ministry of Justice, in PRC since November 2003. Mr. SHAO was awarded the "2014-2016 Tianjin Excellent In-house Legal Consultant Award" (天津市國資系統2014-2016年度優秀企業法律顧問) by SASAC Tianjin in January 2017.

**Mr. YANG Kui (楊逵)**, aged 40, is a Supervisor representing ordinary employees of the Company and was elected as a Supervisor by the employee representative assembly. He was appointed as the head of safety monitoring department in January 2017, and has been transferred as the head of resources management department since April 2017. Mr. YANG joined the Company on October 1, 1997 and served successively as a staff responsible for power dispatch operations from October 1997 to December 2009. He had been as our deputy office supervisor from January 2010 to November 2013, and the chief office supervisor from November 2013 to December 2016.

Mr. YANG obtained his professional degree in computer application from the Tianjin Coastal Polytechnic School (天津濱海職業學院) in July 2001 and his bachelor's degree in information management and information technology from the Tianjin Polytechnic Institute (天津理工學院) in July 2005.

He was awarded the "Excellent Youth Expert of the Free Trade Zone Airport Economic Zone" (保税區空港經濟區"優秀青年崗位能手") jointly by the Binhai New Area Youth League/Free Trade Zone Party Committee/Free Trade Zone Human Resources and Social Security Bureau/Free Trade Zone Trade Union/Free Trade Zone Women's Federation (濱海新區團委（保税區黨委）保税區人力資源和社會保障局（保税區工會）保税區婦女聯合會) in April 2014, the "21st Session Of The Tianjin Enterprise Management Modernization Innovation Achievement First Prize" (第二十一屆天津市企業管理現代化創新成果一等獎) by the Tianjin Enterprise Management Modernization Innovation Achievement Examination Committee (天津市企業管理現代化創新成果審定委員會) in February 2015, and the "2014-2015 Key Work (Project) Outstanding Contributors" (2014-2015年度重點工作（項目）傑出貢獻者) award by Tianbao Holdings in January 2016.

## SENIOR MANAGEMENT

**Mr. XING Cheng (邢城)**, aged 55, is the executive Director and general manager of the Company. Please refer to the above section headed "Executive Directors" for the biographical details of Mr. XING.

**Mr. MAO Yongming (毛永明)**, aged 49, is the vice general manager of the Company. He is responsible for the Company's party fairs, labor union, administrative, power supply, marketing and information technology matters, assisting general party branch secretary to share responsibility for cadres' personnel affairs and takes in charge of office, party committee and affairs department, marketing centre and power supply department. Mr. MAO joined the Company on April 1, 1997. He was appointed as our vice general manager in December 2014. He worked successively in the Company as an electrical engineer in the electricity supply department from April 1997 to April 2007; head of the electricity supply department from April 2007 to December 2011; vice manager and head of the electricity supply department from December 2011 to August 2013; assistant to general manager and head of the electricity supply department from August 2013 to December 2014. He was promoted as our vice general manager in December 2014 and was further reappointed for the same position in January 2017 after the Company was converted into a joint stock limited liability company.

Mr. MAO obtained his bachelor's degree in electrical automation from the Tianjin University of Technology and Education (天津職業技術師範大學) in the PRC in July 1991 and his master degree in environmental engineering from the Tianjin University (天津大學) in July 2005.

**Mr. YAO Shen (姚慎)**, aged 47, is the vice general manager of the Company. He is responsible for the Company's construction management, bidding and tendering, production technology and environmental protection, and in charge of manufacturing technology department, engineering department and Tianjin Baorun. He was also the sole director of Tianjin Baorun from September 2014 to January 2017. Mr. YAO joined our Group on July 5, 1994. He has more than 22 years of experience in electricity generation. He joined the Company in July 1994 as a technician in the engineering technology department from July 1994 to October 2003 and head of the engineering technology department from October 2003 to October 2007. Mr. YAO also worked in Tianjin Baorun as a vice manager, and subsequently a manager, from October 2007 to December 2016. He served as the Company's head of the production technology department from January 2017 to January 2019 after the Company was restructured into a joint stock limited liability company. He was appointed as the vice general manager of the Company in November 2018.

Mr. YAO has been a level two architect approved by Tianjin Construction Management Committee (天津市建設管理委員會) since March 2008. He obtained his bachelor's degree in electrical engineering and automation from the Tianjin University (天津大學) in PRC in July 1994.

**Mr. PENG Chong (彭沖)**, aged 41, is the executive Director and chief financial officer of the Company. Please refer to the above section headed "Executive Directors" for the biographical details of Mr. PENG.

**Mr. FENG Wei (馮巍)**, aged 51, is the factory director of the Company's Haigang Thermal Plant. He is responsible for the operation and power production in the Haigang Thermal Plant of the Company. Mr. FENG joined the Company on March 21, 2016. Mr. FENG has more than 28 years of experience in thermal power generation. He began his career in Shaanxi Weinan Thermal Power Plant (陝西渭南熱電廠) as a staff from December 1988 to February 1989. He studied the operation of boilers in Xi'an Electric Power School (西安電力學校) from February 1989 to August 1989 and thermal power engineering of thermal energy and power engineering in the Northwest Electric Power Workers Secondary Specialized School (西北電力職工中等專業學校) from September 1989 to June 1992. He went back to Shaanxi Weinan Thermal Power Plant worked for the boiler department from July 1992 to March 2003, as a boiler technician and later a specialized supervisor. He joined Shaanxi Huayang Thermal Power Group (陝西華陽熱電集團) as a head of power generation department from March 2003 to April 2008. Mr. FENG then worked in Tianbao Thermal as a boiler specialist from April 2008 to December 2009, deputy head of the production and operation department from December 2009 to December 2011, and deputy head of the enterprise management department from December 2011 to July 2013. He was then served as the factory director of the Konggang Thermal Plant from November 2013 to August 2014 and of Haigang Thermal Plant from September 2014 to March 2016. He was appointed as the factory director of Haigang Thermal Plant in March 2016 by the Company after the Company completed the integration of Haigang Thermal Plant into our operations.

Mr. FENG is an intermediate professional boiler engineer approved by the Weinan City Job Reform Office (渭南市職改辦) in December 2005. He completed a part-time distance learning course in thermal engineering and power engineering from the Shaanxi University of Science and Technology (陝西理工大學), in PRC, in January 2017.

**Mr. PAN Xiushan (潘秀山)**, aged 51, is the manager of Tianjin Baorun and responsible for the daily operation of Tianjin Baorun. Mr. PAN has nearly 20 years of experience in the power industry. He worked in the Company from May 1, 1998 until January 2017 during which he served successively as a regulator from May 1998 to November 2009, chief regulator from December 2009 to November 2014, and the head of electricity supply department and chief regulator from December 2014 to January 2017, responsible for the compliance matters and operation of electricity supplies, respectively. He was reappointed as the manager of Tianjin Baorun in January 2017 after the Company was restructured into a joint stock limited liability company.

Mr. PAN has been a level two architect approved by Tianjin Construction Management Committee (天津市建設管理委員會) since August 2006. In June 2005, he completed a course in computer science and technology from the Network Education College of Tianjin University (天津大學網絡教育學院), in PRC.

**Ms. WANG Hua (王華)**, aged 45, is the marketing centre director of the Company. She is responsible for the sales and marketing of electricity and heating as well as customer service matters. Ms. WANG has nearly 20 years of experience in the power industry. She joined the Company on May 4, 1998 as a regulator. Thereafter she served successively as deputy head of the safety and monitoring department from June 2012 to January 2016, head of the safety and monitoring department from January 2016 to December 2016 in charge of production safety matters of the Company. She was reappointed as the marketing centre director of the Company in January 2017 after the Company was restructured into a joint stock limited liability company.

Ms. WANG completed a part-time professional course in accounting at Tianjin University of Commerce(天津商業大學), in PRC, in January 2008.

**Mr. QI Song (齊頌)**, aged 46, is the head of power supply department of our Company. He is responsible for the daily operation and management of power grid and power supply facilities. Mr. QI joined our Group on July 5, 1995 and has more than 22 years of experience in the power industry. He joined the Company on July 5, 1995 as a staff in the production technology management from July 1995 to September 2007 and head of engineering technology department from October 2007 to February 2016, responsible for matters including power planning, bidding and tendering and electricity engineering. In March 2016, he was appointed as the head of production technology department, responsible for power planning, bidding and tendering and environmental protection. He was head of power supply department of the Company in January 2017 after it was converted into a joint stock limited liability company.

Mr. QI has been a level two architect approved by Tianjin Job Title Office (天津市職稱工作辦公室) since November 2005. He completed a professional course in industrial automation at the Tianjin Polytechnic Institute (天津理工學院), in PRC, in July 1999.

## JOINT COMPANY SECRETARIES

**Ms. FANG Wei (房瑋)** was an executive Director, joint company secretary and secretary to the Board of the Company. She was appointed as our joint company secretary on March 24, 2017. Ms. FANG Wei resigned from the aforementioned positions on February 28, 2019. From the same day, Mr. LAU Kwok Yin served as the company secretary of the Company.

**Mr. LAU Kwok Yin (劉國賢)** is a company secretary of the Company and now a manager of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited). He was appointed as a joint company secretary of the Company on May 30, 2018 and a company secretary of the Company on February 28, 2019. He has over 10 years' experience in corporate secretarial services, finance and bank operations. He holds a bachelor's degree of Business Administration in Accounting and Finance from The University of Hong Kong (香港大學), and is a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charter holder.

# Report of the Directors

The Board of Directors of the Company now presents the Group's annual report for the year of 2018 (the "**Annual Report**") and audited financial statements prepared in accordance with IFRS for the year ended December 31, 2018 (the "**Financial Statements**") to Shareholders.

## CORPORATE INFORMATION AND INITIAL PUBLIC OFFERING

The Company was incorporated as a joint stock company in the PRC with limited liability on February 28, 2017. The H shares of the Company were listed on the Main Board of the Stock Exchange on April 27, 2018.

Basic information of the Company is set out in "Corporate Information" on pages 147 to 148 of this Annual Report.

## PRINCIPAL BUSINESS

The Group is the sole power operator in the Tianjin Port Free Trade Zone (Seaport). The Group is engaged in cogeneration of steam, electricity, heating and cooling. The Group's operations comprise (i) power generation and supply; (ii) electricity dispatch and sale; and (iii) other businesses, including power facility construction services, industrial facility operation and maintenance services and trading of electrical components. The Group's power operations enable us to provide one-stop and comprehensive power services to our customers in Tianjin Port Free Trade Zone (Seaport) and neighboring areas. Details of the principal subsidiaries of the Company are set out in note 12 to the Financial Statements.

## RESULTS

The audited results of operations of the Group for the year ended December 31, 2018 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on pages 80 to 81. The financial condition of the Group for the year ended December 31, 2018 is set out in the Consolidated Statement of Financial Position on pages 82 to 83. The consolidated cash flow of the Group for the year ended December 31, 2018 is set out in the Consolidated Cash Flow Statement on pages 85 to 86.

Discussion and analysis about the operating performance and significant elements affecting the results of operations and financial condition of the Group during the year are set out in the Management Discussion and Analysis on pages 8 to 17 of this Annual Report.

## BUSINESS REVIEW

During the Reporting Period, the Group continued to expand its diversified industrial layout with power supply as the mainstay and value-added services as a supplement, sparing no effort to promote "Green + Environmental Protection" concept, and committed to expanding new businesses of green production and ultra-low emissions. The Company has actively kept an eye on the opportunities arising from the national strategies and energy industry, so as to develop a long-term development strategy that can strengthen the sustainability of the Group's business. A review of the business of the Group during the year and a discussion on the Group's future business development are set out on pages 8 to 9 and pages 16 to 17 of this Annual Report. A description of possible main risks and uncertainties that the Group may face is set out on pages 14 to 15 of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is set out on pages 10 to 12 of this Annual Report. To the knowledge of the Directors, there has not been any important event affecting the Group since the end of the financial year.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

A discussion on the Company's environmental policies and performance is set out in the Environmental, Social and Governance Report on pages 55 to 75 of this Report.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Company recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licenses. The Company has been allocating systemic and staff resources to ensure continuous compliance with rules and regulations and to maintain cordial working relationships with regulators through effective communications. During the Reporting Period, the Company has complied, to the best of the knowledge of Directors, with all relevant rules and regulations that have a significant impact on the Company.

## SHARE CAPITAL

As of December 31, 2018, the total share capital of the Company was 159,920,907 Shares, divided into 115,600,907 Domestic Shares and 44,320,000 H Shares, with par value of RMB1.00 each. After the Listing of the Shares on the Main Board of the Stock Exchange, the Company did not issue any new shares in exchange for cash.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OR REDEEMABLE SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiary purchased, sold or redeemed any of the Company's listed securities or redeemable securities during the year ended December 31, 2018.

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

For the year ended December 31, 2018, none of convertible securities, options, warrants and other similar rights were issued and granted by the Company or any of its subsidiaries, nor any conversion rights or subscription rights were exercised pursuant to any convertible securities, options, warrants and other similar rights issued and granted by the Company or any of its subsidiaries at any time.

## DEBENTURES IN ISSUE

Neither the Company nor its subsidiary issued any debentures during the year ended December 31, 2018.

## USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The Shares of the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on April 27, 2018. A total of 44.32 million H Shares with par value of RMB1.00 each were issued at the price of HK$1.90 per Share through private placing and Hong Kong public offering, accounting for 27.71% of the total share capital after the issue, representing a financing scale of approximately HK$84.208 million. The net proceeds from the public offering, after deducting the underwriting commission and other estimated expenses in connection with the public offering, amounted to approximately HK$41.18 million (the "**IPO Proceeds**").

The Company will utilize the IPO Proceeds for the purposes which are consistent with those set out in the Prospectus. The net proceeds from the public offering amounted to HK$41.18 million, among which, HK$25.62 million is expected to be used for the upgrade of technology and equipment. Since the date of obtaining the IPO Proceeds and up to December 31, 2018, HK$10.39 million has been utilised, including HK$4.00 million used for the update of No. 1 and No. 2 power transformation stations (of which, HK$3.9 million was used for reconstruction) and HK$6.39 million used for upgrading the dust removal system (of which, HK$3.77 million was used for equipment purchase and HK$2.28 million was used for construction), the remaining HK $15.23 million will be used from 2019 onwards to upgrade the Company's No. 1 and No. 2 power transformation stations and dust removal system according to the business development plan of the Company. Pursuant to the Prospectus, net proceeds of HK$15.56 million will be used to establish Tianbao Electricity Sales Company and contribute to its registered share capital.

In 2018, the Company actively sought cooperative partners and participated in the survey conducted by Tianjin Development and Reform Commission in respect of Implementation Rules for the Management of Entry and Exit of Companies Selling Electricity (《天津市售電公司准入與退出管理實施細則》). At present, the Implementation Rules for the Management of Entry and Exit of Companies Selling Electricity (Trial) (《天津市售電公司准入與退出管理實施細則（試行)》) was promulgated in September 2018 and the Company will carry out relevant work in accordance with the specific implementation rules of the policy, and expand the Company's electricity sales business on time according to the business development plan of the Company. The Company will utilize the proceeds of HK$15.56 million in 2019 to 2020 to establish an electricity sales company to expand its electricity sales business according to the relevant policy requirements.

The unutilized IPO Proceeds have been deposited into short-term demand deposits in a bank account maintained by the Group.

## EQUITY-LINKED AGREEMENT

For the year ended December 31, 2018, the Company did not enter into any equity-linked agreement and there was no equity-linked agreement.

## PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate liability insurance for its Directors, Supervisors and senior management. The permitted indemnity provisions are set out in such liability insurance. Save as disclosed above, no permitted indemnity provision was made by the Company for the year ended December 31, 2018 and no permitted indemnity provision was in force as at the Latest Practicable Date.

## PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDER

The controlling shareholder of the Company did not pledge any of its shares in the Company to secure the Company's debts or to secure guarantees or other support of the Company's obligations for the year ended December 31, 2018.

## CHARGES ON THE GROUP'S ASSETS

For the year ended December 31, 2018, there were no charges on the Group's assets.

## LOAN ARRANGEMENTS GRANTED BY THE COMPANY TO ENTITIES

For the year ended December 31, 2018, the Group did not grant any loan to any entity which is subject to disclosure requirements under Rule 13.13 of the Listing Rules.

## LOAN AGREEMENTS OR FINANCIAL ASSISTANCE OF THE COMPANY

The Company has no affiliated companies and the Company did not provide any financial assistance nor guarantee to its affiliated companies for the year ended December 31, 2018, which gives rise to a disclosure under Rule 13.16 of the Listing Rules. The Company did not enter into any loan agreement with covenants relating to specific responsibility of its Controlling Shareholders nor breach the terms of any loan agreements for the year ended December 31, 2018.

## SHARE OPTION SCHEME

As of December 31, 2018, the Company had not implemented any share option scheme.

## PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company has no provision on pre-emptive rights requiring it to propose new issues to its existing Shareholders in proportion to their shareholdings.

## DIVIDEND POLICY

In order to provide return to its Shareholders, and having considered the financial and business conditions of the Group after the Listing, the Board has approved and adopted a dividend policy (the "**Dividend Policy**"). According to the Dividend Policy, in the absence of any adverse circumstances which might reduce the profits that are distributable whether by losses or otherwise, the Company will distribute 30% to 50% of its profit for the year to Shareholders as annual dividends in any financial year in compliance with relevant laws and regulations of China and Hong Kong and related considerations.

The declaration and payment of dividends shall remain to be determined at the sole discretion of the Board. Any declaration of dividends shall be conducted in accordance with all applicable PRC laws and regulations, the Articles of Association, all applicable laws and regulations of the place where the shares of the Company are listed, and other applicable laws and regulations.

A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, the Company's results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under CASBE or IFRS (whichever is lower), the Articles of Association, the PRC Company Law and any other applicable PRC law and regulations and other factors that the Directors may consider relevant without prejudice to the normal operation of the Group.

The Board shall continually review the Dividend Policy and reserve the absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time. The Company does not guarantee the payment of any specific amount of dividends for any given period of time.

## FINAL DIVIDEND

The Board resolved to propose to the Shareholders of the Company at the 2018 annual general meeting to be held on June 10, 2019, for their consideration and approval of the payment of a final dividend of RMB0.08 per Share (tax inclusive) for the year ended December 31, 2018 (the "**2018 Final Dividends**") payable to the Shareholders of the Company, whose names are listed in the register of members of the Company on June 19, 2019, in an aggregate amount of approximately RMB12.79 million. The 2018 Final Dividends will be denominated and declared in RMB. Dividends on Domestic Shares will be paid in RMB and dividends on H Shares will be paid in Hong Kong dollars. Subject to the passing of the relevant resolution at the AGM, the 2018 Final Dividends are expected to be paid on or around August 2, 2019.

Pursuant to the Enterprise Income Tax Law of the PRC and its implementation rules, which came into force since January 1, 2008 and were amended on December 29, 2018 and other relevant rules, where the Company distributes the proposed 2018 Final Dividends to non-resident enterprise Shareholders whose names appear on the register of members of H Shares of the Company, it is required to withhold enterprise income tax at a rate of 10%. Any H shares registered in the name of non-individual Shareholders, including HKSCC Nominees Limited, other nominees or trustees, or other organizations or groups, will be treated as shares being held by non-resident enterprise Shareholders, and consequently the dividends payable on such shares will be subject to the withholding of the enterprise income tax.

Pursuant to the PRC Individual Income Tax Law, the Regulations for Implementation of the Individual Income Tax Law and other relevant laws and regulations, the foreign individuals who are the holders of H Shares shall pay individual income tax at a tax rate of 20% upon their receipt of distribution of dividend from domestic enterprises which issued such H Shares, which shall be withheld and paid by such domestic enterprises on behalf of such individual H Shareholders. However, the Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax effective from May 13, 1994 (the "**1994 Notice**") grants exemption to foreign individuals from PRC individual income tax on dividend from foreign-invested enterprises. Since the Company has obtained the record-filing receipt for the incorporation of foreign-invested enterprises and has completed registration processes with relevant industrial and commercial administration in November 2018, the individual Shareholders who hold the Company's H shares and whose names appear on the register of members of H Shares of the Company (the "**Individual H Shareholders**") are not required to pay PRC individual income tax when the Company distributes the 2018 Final Dividends based on the 1994 Notice. Therefore, the Company will not withhold any amount of the 2018 Final Dividends to be distributed to the Individual H Shareholders to pay the PRC individual income tax.

Shareholders are recommended to consult their taxation advisors for advice on the PRC, Hong Kong and other tax effects with respect to the holding and disposing of H Shares of the Company.

According to the Articles of Association, the Hong Kong dollars required for the Company to pay cash dividends and other payments to the Individual H Shareholders shall be handled in accordance with the relevant foreign exchange administration regulations of the State.

The Company was not aware of any Shareholders had waived or agreed to waive any dividend arrangement for the year ended December 31, 2018.

## CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholders' entitlement to attend and vote at the AGM and to the proposed 2018 Final Dividends, the H Share register of members of the Company will be closed from May 11, 2019 to June 10, 2019 (both days inclusive) and from June 14, 2019 to June 19, 2019 (both days inclusive) respectively, during such periods no transfer of H Shares will be registered.

In order to qualify for attending and voting at the forthcoming AGM, holders of H Shares of the Company must lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on May 10, 2019.

In order to qualify for receiving the proposed 2018 Final Dividends (subject to the approval by Shareholders at the forthcoming AGM), holders of H Shares of the Company must lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on June 13, 2019.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 10 to the Financial Statements.

## RESERVES

Details of movements in the reserves of the Group during the year are set out in Consolidated Statements of Changes in Equity, of which details of reserves available for distribution to Shareholders are set out in Consolidated Statement of Changes in Equity. The Company's reserves available for distribution to ordinary Shareholders as at December 31, 2018 represents the retained profits of approximately RMB48.05 million (2017: RMB25.17 million).

## DONATIONS

During the Reporting Period, the Group did not make external donations.

## BANK BORROWINGS AND OTHER BORROWINGS

As at December 31, 2018, the Group had no bank borrowings and other borrowings.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Part of the information of the Directors, Supervisors and Senior Management of the Company for the year ended December 31, 2018 and as the date of this report is illustrated below.

| Name | Title in the Company | Date of appointment/ re-election |
|---|---|---|
| GAO Hongxin | Executive Director and chairman of the Board | March 24, 2017 |
| XING Cheng | Executive Director | March 24, 2017 |
| | General manager | January 19, 2017 |
| PENG Chong | Executive Director | March 24, 2017 |
| | Chief financial officer | January 19, 2017 |
| FANG Wei *(Note 1)* | Executive Director | March 24, 2017 |
| | Secretary to the Board | January 19, 2017 |
| YU Yang | Non-executive Director | November 22, 2017 |
| WU Tao | Non-executive Director | March 24, 2017 |
| LAU Tsz Bun | Independent non-executive Director | April 4, 2018 |
| HAN Xiaoping | Independent non-executive Director | April 4, 2018 |
| YANG Ying | Independent non-executive Director | April 4, 2018 |
| XUE Xiaofang | Chairperson of the Supervisory Board | January 19, 2017 |
| SHAO Guoyong | Supervisor | January 19, 2017 |
| YANG Kui | Supervisor | January 19, 2017 |
| MAO Yong Ming | Vice general manager | January 19, 2017 |
| YAO Shen *(Note 2)* | Head of the production technology department | January 19, 2017 |
| | Vice general manager | November 12, 2018 |
| FENG Wei | Factory director of Haigang Thermal Plant | January 19, 2017 |
| PAN Xiushan | Manager of Tianjin Baorun | January 19, 2017 |
| WANG Hua | Marketing center director | January 19, 2017 |
| QI Song | Department head of electricity supply department | January 19, 2017 |

Notes:

(1) Ms. FANG Wei has resigned as an executive Director, secretary to the Board, joint company secretary and authorised representative of the Company on February 28, 2019.

(2) Mr. YAO Shen was the head of the production technology department from January 2017 to January 2019 and was appointed as the vice general manager of the Company on November 12, 2018.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive Directors to be independent.

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of Directors, Supervisors and senior management of the Company are set out on pages 20 to 27 of this Annual Report.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Company has entered into service contracts with the Directors, major terms of which include that (1) the tenure is three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained (for executive Directors and non-executive Directors) or three years commencing from the date of the agreement (for independent non-executive Directors); and (2) the tenure may be terminated in accordance with respective terms of the contract. The service agreements may be renewed under the Articles of Association and applicable rules.

The Company has entered into contracts with the Supervisors in respect of, among others, compliance with relevant laws and regulations, the Articles of Association and provisions of arbitration.

Save as disclosed above, none of the Directors or Supervisors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## EMOLUMENTS OF DIRECTORS AND SUPERVISORS

The emoluments of our Directors and Supervisors are paid in the form of fees, salaries, allowances and benefits in kind, discretionary bonuses and retirement scheme contributions. The details of the remuneration of the Directors and Supervisors of the Company are set out in note 7 to the Financial Statements.

The emoluments paid to our Directors and Supervisors are determined by such factors as the size of business, industry, work experiences and duties, meanwhile the performance by them in various committees are considered as well. The standards and amounts for the emoluments are proposed by remuneration committee, reviewed by the Board and shall be valid after the final approval by shareholders' general meeting.

During the year ended 31 December 2018, the emoluments of the senior managements of the Company (other than executive directors) are set out as below:

| **Remuneration(HK$)** | **Number** |
|---|---|
| 0 to 1,000,000 | 6 |

The details of the emoluments of our directors and the top five highest paid individuals of the Company are set out in the note 8 to the Financial Statements.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS

After the end of the year of 2018 or at any time during the year, there were no transaction, arrangement or contracts of significance subsisting in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which any Director or Supervisor or any entity connected with the Director or Supervisor had a material interest directly or indirectly.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year of 2018, save as disclosed below, none of the Directors or their associates had any competing interests in any business that constitutes or may constitute direct or indirect competition with the Company's businesses:

| Name of Directors | Positions in the Company | Other interests |
|---|---|---|
| YU Yang | Non-executive Director | General manager of Tianbao Investment *(Note 1)* |
| WU Tao | Non-executive Director | Vice general manager of Tianbao Investment and executive Director *(Note 2)* |

Notes:

(1) Mr. YU Yang resigned as the general manager of Tianbao Investment in May 2018.

(2) Mr. WU Tao has been the vice general manager of Tianbao Investment since October 2014 and has been the executive Director of Tianbao Investment since May 2018.

We are of the view that the arrangement did not affect our operation and independence, though Mr. YU Yang and Mr. WU Tao hold senior management positions in Tianbao Investment, a shareholder of the Company, during the Reporting Period. We have taken adequate corporate governance measures, including specifying provisions to avoid conflict of interests in the Articles of Association, to ensure our management independence. As our non-executive Directors, Mr. YU Yang and Mr. WU Tao are not involved in managing our day-to-day business, but are primarily responsible for strategy and planning matters. In addition, as the Company and Tianbao Investment are managed by different management teams, there are sufficient non-overlapping Directors who have relevant experience to ensure the proper functioning of the Board.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2018, no Director, Supervisor or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests or short positions in accordance with such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES

As at December 31, 2018, to the knowledge of the Directors, the persons (other than a Director, Supervisor or chief executive of the Company) who have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name of shareholders | Types of shares | Capacity | Number of shares/ underlying shares held (share) *(Note 3)* | Percentage of relevant class of share capital (%) | Percentage of total share capital (%) |
|---|---|---|---|---|---|
| Tianbao Holdings *(Note 1)* | Domestic shares | Beneficial owner | 109,606,538(L) | 94.81 | 68.54 |
| TFIHC *(Note 1)* | Domestic shares | Interest of a controlled corporation | 115,600,907(L) | 100.00 | 72.29 |
| Tsinlien Group Company Limited *(Note 2)* | H shares | Beneficial owner | 9,472,000(L) | 21.37 | 5.92 |
| Tianjin Pharmaceutical Group Co., Ltd. *(Note 2)* | H shares | Interest of a controlled corporation | 9,472,000(L) | 21.37 | 5.92 |
| Tianjin Bohai State-owned Assets Management Co., Ltd. *(Note 2)* | H shares | Interest of a controlled corporation | 9,472,000(L) | 21.37 | 5.92 |
| Tianjin Tsinlien Investment Holdings Co., Ltd. *(Note 2)* | H shares | Interest of a controlled corporation | 9,472,000(L) | 21.37 | 5.92 |

Notes:

1. Tianbao Holdings is interested in 109,606,538 Domestic Shares, and Tianbao Investment is interested in 5,994,369 domestic shares. Since Tianbao Holdings and Tianbao Investment are wholly-owned subsidiaries of TFIHC, TFIHC is deemed to be interested in the Domestic Shares held by Tianbao Holdings and Tianbao Investment by virtue of the SFO.

2. Tsinlien Group Company Limited is interested in 9,472,000 H Shares. Tsinlien Group Company Limited is wholly-owned by Tianjin Pharmaceutical Group Co., Ltd., which is in turn wholly-owned by Tianjin Bohai State-owned Assets Management Co., Ltd., and Tianjin Bohai State-owned Assets Management Co., Ltd. is wholly-owned by Tianjin Tsinlien Investment Holdings Co., Ltd. As such, by virtue of the SFO, each of Tianjin Pharmaceutical Group Co., Ltd., Tianjin Bohai State-owned Assets Management Co., Ltd. and Tianjin Tsinlien Investment Holdings Co., Ltd. is deemed to be interested in the H Shares held by Tsinlien Group Company Limited.

3. The Letter "L" denotes the relevant person's long position in such Shares.

## MANAGEMENT CONTRACT

No contract concerning the management and administration of all or any substantial part of our business was entered into by the Company or existed in 2018.

## CONTRACT OF SIGNIFICANCE

Save as disclosed in this Annual Report and the Prospectus, at no time during the Reporting Period had the Company or any of its subsidiaries entered into any contract of significance with the Controlling Shareholder (as defined in the Listing Rules) or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the Controlling Shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

## CONNECTED TRANSACTIONS

The Group did not conduct any non-exempt one-off connected transactions during the year ended December 31, 2018.

## CONTINUING CONNECTED TRANSACTIONS

The Group has conducted certain non-exempt continuing connected transactions with TFIHC during the year:

| | Connected transactions under | Connected persons | Annual caps for 2018 *RMB'000* | Actual transaction value in 2018 *RMB'000* |
|---|---|---|---|---|
| 1. | Construction, Technical Support and Maintenance Services Framework Agreement | TFIHC | 6,700 | 5,904 |
| 2. | Raw Material Supply Framework Agreement | TFIHC | 28,127 | 425 |

## CONTINUING CONNECTED TRANSACTIONS BETWEEN THE GROUP AND TFIHC

TFIHC jointly and indirectly owns approximately 72.29% of the Company's share capital. Therefore, TFIHC is a substantial shareholder of the Company. TFIHC is a connected person of the Company under Rule 14A.07 of the Listing Rules.

The Company entered into two framework agreements in respect of the continuing connected transactions with TFIHC, so as to regulate the connected transactions carried out between the parties. Details of such transactions are set out below:

### Construction, Technical Support and Maintenance Services Framework Agreement

The Company entered into a construction, technical support and maintenance services framework agreement (the "**Construction, Technical Support and Maintenance Services Framework Agreement**") with TFIHC on April 4, 2018, pursuant to which the Group provides certain types of construction, technical support and maintenance services to Tianbao Group, including construction, spare parts services, training, maintenance, operation preparation services, technical studies and expert support services.

The Construction, Technical Support and Maintenance Services Framework Agreement, effective on the Company's Listing Date, is valid for a term commencing from the Listing Date and ending on December 31, 2020. Separate contracts will be entered into between relevant entities of both parties to set out the specific terms and conditions pursuant to the principles stipulated in the Construction, Technical Support and Maintenance Services Framework Agreement.

For the years ended December 31, 2018, 2019 and 2020, the annual cap for total fees paid to the Group from Tianbao Group under the Construction, Technical Support and Maintenance Services Framework Agreement is RMB6.700 million, RMB6.700 million and RMB6.700 million, respectively.

### Raw Material Supply Framework Agreement

The Company entered into a raw material supply framework agreement (the "**Raw Material Supply Framework Agreement**") with TFIHC on April 4, 2018, pursuant to which the Group purchases from Tianbao Group and Tianbao Group will supply to the Group coal and water.

The Raw Material Supply Framework Agreement, effective on the Company's Listing Date, is valid for a term commencing from the Listing Date and ending on December 31, 2020. Separate contracts will be entered into between relevant entities of both parties to set out the specific terms and conditions pursuant to the principles stipulated in the Raw Material Supply Framework Agreement.

For the years ended December 31, 2018, 2019 and 2020, the annual cap for total fees paid by the Group to Tianbao Group under the Raw Material Supply Framework Agreement is RMB28.127 million, RMB28.127 million and RMB28.127 million, respectively.

Save as disclosed above, none of the transactions disclosed as related party transactions in note 26 to the Financial Statement is a connected transaction or a continuing connected transaction for the Company as defined under the Listing Rules nor are they connected transactions or continuing connected transactions for the Company exempt from the reporting requirements under the Listing Rules. The Company has complied with the disclosure requirements governing connected transactions under the Listing Rules.

### Review by and confirmation of independent non-executive Directors of the Company

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions, and confirmed that such transactions were:

(1) carried out in the ordinary course of business of the Group;

(2) made on normal commercial terms; and

(3) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable, and in the interests of the Company's Shareholders as a whole.

### Confirmation of the auditors

The auditors of the Company have performed the relevant assurance procedures regarding the above continuing connected transactions, and confirmed by way of a letter to the Board of Directors that for the year ended December 31, 2018 that these transactions:

(1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

(2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

(3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(4) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value as set by the Company.

Save as disclosed above, the Directors confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules with regard to the above mentioned connected transactions.

## COMPLIANCE WITH THE NON-COMPETITION DEED

The Company entered into a non-competition deed with the Company's Controlling Shareholders, Tianbao Holdings and TFIHC, on April 4, 2018 in favour of the Company, pursuant to which each of our Controlling Shareholders has given certain non-competition undertakings to the Company (for itself and for the benefits of other members of the Group), to the effect that, it shall not, and it shall procure that its associates (other than any member of the Group) do not and shall not, directly or indirectly, whether on its own or through any entities, carry on, participate, be interested or engaged or otherwise be involved, whether for profit, reward, other benefit or otherwise, in any business or activity that is in competition with, or is likely to be in competition with, the business carried on by any member of the Group from time to time during the period when the non-competition deed remains valid and effective and will grant the Company options for new business opportunities and acquisitions, as well as pre-emptive rights and the right to acquire the Konggang Thermal Plant Business. The independent non-executive Directors of the Company are solely responsible for reviewing, considering and deciding whether to exercise the options for acquisitions and pre-emptive rights and are responsible for reviewing, considering and deciding whether to exercise the right to acquire the Konggang Thermal Plant Business.

During the year, the Company's independent non-executive Directors have reviewed the implementation of the non-competition deed and confirmed that the Controlling Shareholders have fully observed the non-competition deed without any case of violation.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2018, the total purchases from the five largest suppliers of the Company accounted for 83% of the total purchases during the year. The purchase from the largest coal supplier accounted for 46% of the total volume of fuel purchased during the year.

For the year ended December 31, 2018, the total sales to the five largest customers of the Company accounted for 49% of the total sales during the year. The sales to the largest customer accounted for 22% of the total sales during the year.

During the Reporting Period, to the knowledge of the Directors, none of the Directors, their close associates, or Shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had interests in the five largest suppliers or customers of the Company during the year.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and complies with code provisions as set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules for the year ended December 31, 2018. Please refer to the section "Corporate Governance Report" in this Annual Report for details.

## RELATIONSHIP WITH STAKEHOLDERS

The Company recognizes that our employees, customers and business associates are keys to our sustainability journey. The Company strives to achieve corporate sustainability through engaging its employees, providing quality services for its customers, collaborating with business partners and supporting its community.

The Company places significant emphasis on human resources. The Company provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. The Company administers its employees' health and safety management system and ensures the adoption of the principles across the Group. The Company provides regular trainings for staff to keep them abreast of the latest developments in the market and industry, in the form of both internal trainings and trainings provided by experts from external organizations.

The Company values the feedback from customers, so it investigates and understands their opinions by daily communication and other means. The Company has also established the mechanism about customer service and support. The Company treats providing customer service as an opportunity to improve our relationship with the customers, addressing customers' concerns in a timely manner and in accordance with international standards.

The Company believes that its suppliers are equally important in producing quality products. Therefore, the Company proactively collaborates with its business partners to deliver quality sustainable services.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a public float of no less than 25% of the issued shares as at the Latest Practicable Date prior to the issue of this Annual Report, which was in line with the requirement under the Listing Rules.

## SIGNIFICANT LEGAL PROCEEDINGS

For the year ended December 31, 2018, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's 2018 annual results and the Financial Statements for the year ended December 31, 2018 prepared in accordance with the IFRSs.

## INDEPENDENT AUDITORS

In July 2016, KPMG was hired as a reporting accountant for the Company's listing.

In July 2018, the Board of Directors proposed to hire KPMG as the auditor for the Company's 2018 IFRS until the date of conclusion of the 2018 annual general meeting of the Company.

In March 2019, the Board of Directors proposed to hire KPMG as the auditor for the Company's 2019 IFRSs from the date of conclusion of the 2018 annual general meeting of the Company to the date of conclusion of the 2019 annual general meeting of the Company. This proposal shall be effective after the approval by the 2018 annual general meeting of the Company.

## FINANCIAL SUMMARY

Summary of results of operation and the assets and liabilities of the Group for the last four financial years is set out on pages 3 to 4 of this Annual Report. The financial summary does not constitute part of the audited consolidated Financial Statements of the Group.

By order of the Board
**Tianjin Tianbao Energy Co., Ltd.**

**GAO Hongxin**
*Chairman of the Board*

Tianjin, the PRC
March 26, 2019

# Report of the Supervisory Board

In 2018, all members in the Supervisory Board, in strictly compliance with the Company Law of the PRC and other laws, regulations, rules and directives and the relevant provisions of the Articles of Association, the Rules of Procedure of the Supervisory Board and the Listing Rules, had been performing its supervisory duties on the Directors and senior management's fulfilling of their respective responsibilities in the Company, aiming at guarding the long-term benefits of the Company and the interests of all of our Shareholders. We hereby report the main works we have done during the Reporting Period as follows:

## I MEETINGS OF THE BOARD OF SUPERVISORS

The Supervisory Board held two meetings in 2018. The convening of the meetings, the signing of the resolutions and the exercise of the Supervisors' rights were compliance with the relevant provisions of the Company Law of the PRC, the Articles of Association and the Rules of Procedure of the Supervisory Board. During the Reporting Period, the Board of Supervisors has considered and confirmed the interim report and the interim results announcement for the six months ended June 30, 2018 as required by the Listing Rules; considered and approved the Proposal on Formulating Shareholders' Communication Policy of Tianjin Tianbao Energy Co., Ltd., the Proposal on Formulating Dividend Policy of Tianjin Tianbao Energy Co., Ltd., the Proposal on Formulating Model Code for Securities Transactions by Directors, Supervisors and Personnel in Possession of Insider Information of Tianjin Tianbao Energy Co., Ltd., the Proposal on Formulating Administrative Measures on Information Disclosure of Tianjin Tianbao Energy Co., Ltd., and the Proposal on Formulating Administrative Measures on Connected Transactions of Tianjin Tianbao Energy Co., Ltd.. Besides, members of the Board of Supervisors attended all the previously-held on-site Board meetings, provided suggestions and opinions on the meeting's subject and its supervisory duties, and conducted proper supervision over the procedures and substance of each meeting held, which enabled the Shareholders' legal rights have been exercised and each of the meeting has been held legally and orderly.

## II PRESENT AT/ATTEND MAJOR MEETINGS

In 2018, the Supervisors presented at three general meetings and attended ten Board meetings. By attending those meetings, the Supervisors not only got to understand the operation and management of the Company, but also actively participated in the consideration and discussion of proposals to provide opinions and suggestions, and effectively supervised procedures for convening these meetings, and the discussion of subjects the meetings.

## III ROUTINE EXAMINATION AND RESEARCH

In 2018, the Board of Supervisors watched closely the compliance of operation of the Company to ensure that internal operation of the Company always respects related systems and regulations of the Listing Rules.

## IV INDEPENDENT OPINION AND SPECIAL EXPLANATIONS

The Supervisory Board has mainly conducted the following works:

1. By supervising duty performance of Directors and senior management of the Company and the legality of the operation of the Company, the Supervisory Board was of the view that the Company was able to make decisions according to the law and in strict compliance with requirements such as the Company Law of the PRC, the Articles of Association and the major decision making processes for its operation is legal and valid. The Company further completed and optimized internal management system and internal control mechanisms including the Board diversity policy (the "**Board Diversity Policy**"), Shareholders' Communication Policy, Administrative Measures on Information Disclosure and Administrative Measures on Connected Transactions. The Company disclosed important information on the Company in a timely manner according to securities regulatory and management requirements so that the information was disclosed in a regulated manner, and the securities trading system for the informed parties of insider information was conducted well; the Company also adopted Appendix 10 of the Listing Rules headed "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as its model code for securities transactions by Directors, Supervisors and personnel in possession of insider information of the Company. Directors and senior management of the Company have all performed their duties in accordance with related laws and regulations, the Articles of Association and resolutions of the general meetings and meetings of directors and devoted to their duties while forging ahead. Besides, no actions which violated laws and regulations, the Articles of Association, or harmed the interests of the Company or Shareholders have ever been found during the execution of their duties for the Company.

2. By communicating with the accounting firm in charge of providing audit and review service to the Company, the Supervisory Board reviewed Financial Statements of the Company, considered periodical reports of the Company and the audit report submitted by accounting firm, and periodically attended to the report by internal audit department of the Company on the conduct of internal audit work, and carried out effective supervision and inspection on the financial management and operation of the Company. The Supervisory Board of was of the view that during 2018, the Company had sound financial systems, regulated management and reasonable expenses. The Company's 2018 Financial Statements was audited by KPMG who have issued the standard audit report with an unqualified opinion that the 2018 Financial Statements prepared by the Company fairly reflected the financial condition and operating results of the Company.

3. The Supervisory Board supervised the utilization of the proceeds by the Company. The Supervisory Board was of the view that the Company was able to manage and utilize the proceeds according to national laws and regulations and the commitments made by it in the Prospectus, and the Supervisory Board will continue to supervise and inspect the utilization of such proceeds.

4. The Supervisory Board supervised the Company's connected transactions and was of the view that connection transactions of the Company were carried out according to the provisions of the Company Law, the Listing Rules and the Articles of Associations, as well as Administrative Measure on Connected Transactions, and the pricing of connected transactions are fair and have neither breached principles of openness, fairness and impartiality, nor identified any acts which harmed the interests of the Company and minority Shareholders of the Company.

5. The Supervisory Board made a special explanation of the internal control of the Company and was of the view that during 2018, internal control systems of the Company have been constantly improved and internal control evaluation has made solid progress with overall performance continuously improving, thus internal control targets can be realized reasonably.

In 2019, the Board of Supervisors will carry out its duties in supervising, strictly comply with relevant provisions of the Company Law of the PRC, the Articles of Association, the Rules of Procedure of the Board of Supervisors and the Listing Rules, adhere to the principle of integrity to supervise the Company, Directors and senior management, closely watch the production, operation and management condition of the Company, pay attention to important decisions and actions of the Company, so as to contribute economic efficiency growth of the Company and firmly safeguard interests of the Shareholders and the Company.

*Chairperson of the Supervisory Board*
**XUE Xiaofang (薛曉芳)**
Tianjin, the PRC

March 26, 2019

## CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to maintain high standards of corporate governance. The Board believes that high standard of corporate governance is essential for the Company to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has applied the principles set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

The Directors consider that the Company has complied with all code provisions as set out in the Corporate Governance Code since the Listing Date and up to the end of the Reporting Period.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 14 to the Listing Rules as the code of conduct regarding securities transactions of the Company by the Directors, Supervisors and relevant employees of the Company. Upon making specific enquiries to all of the Directors, Supervisors and relevant employees of the Company, all Directors, Supervisors and relevant employees confirmed that during the period between the Listing Date and December 31, 2018, each of the Directors, Supervisors, and relevant employees has strictly complied with the required standards set out in the Model Code.

The Company is not aware of any incident of non-compliance of the Model Code has been committed by any Directors, Supervisors or relevant employees during the period between the Listing Date and December 31, 2018.

## BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the interests of the Company.

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

The Board currently consists of eight members, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors.

The Board of the Company consists of the following Directors:

### Executive Directors

Mr. GAO Hongxin (高洪新) *(Chairman of the Board)*
Mr. XING Cheng (邢城) *(General Manager)*
Mr. PENG Chong (彭沖)

### Non-executive Directors

Mr. YU Yang (于暘)
Mr. WU Tao (武韜)

### Independent non-executive Directors

Mr. LAU Tsz Bun (劉子斌)
Mr. HAN Xiaoping (韓曉平)
Ms. YANG Ying (楊瑩)

Biographical information of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" on page 20 to page 27 of this Annual Report.

There are no financial, business, family or other material or relevant relationships between members of the Board, in particular between the chairman and the general manager.

According to Article 133 of the Articles of Association, the Board should consist of nine directors. Ms. FANG Wei's resignation as an executive Director will result in the Company's failure to comply with the provisions of Article 133 of the Articles of Association. However, Ms. FANG Wei's resignation will not result in the Board being lower than the minimum quorum required by the Company Law of the PRC, and will not affect the Board's operation in accordance with applicable Chinese laws and regulations. The Company will appoint a new director in accordance with the relevant Chinese laws and regulations and the relevant electoral procedures of the Articles of Association.

## CHAIRMAN OF THE BOARD AND GENERAL MANAGER

The positions of the chairman of the Board and the general manager of the Company are held separately. The role of chairman of the Board of the Company is held by Mr. GAO Hongxin, and general manager is held by Mr. XING Cheng. The chairman of the Board is responsible to preside over and govern the Board so as to create the conditions for the effective performance of the Board as a whole and effective contributions by individual Directors and to ensure that the Board performs its responsibilities and all key and appropriate issues are discussed by the Board in a timely manner. The general manager has the delegated power to manage the Company and to oversee the activities of the Company on a day-to-day basis.

The division of responsibilities between the chairman of the Board and the general manager is defined and established in writing.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended December 31, 2018, the Board has been in compliance with relevant requirements of the Listing Rules, and has appointed at least three independent non-executive Directors (representing at least one-third of our Board), with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

## RE-ELECTION OF NON-EXECUTIVE DIRECTORS AND DIRECTORS

Code provision A.4.1 of the Corporate Governance Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors of the Company has been appointed for a specific term of three years and is renewable upon re-election by Shareholders.

## RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and expertise to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgment on corporate actions and operations.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the joint company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

For the year ended December 31, 2018, the Board held ten meetings to deal with various important matters of the Company.

## CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of a Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company will arrange internally-facilitated briefings for Directors and issue reading material on relevant topics to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year of 2018, the Company provided two trainings for all Directors. One is by providing training material for them to learn by themselves. The other is by teaching. Such training sessions cover a wide range of relevant topics including Directors' statements and undertakings, Supervisors' statements and undertakings, code for securities transactions by Directors and Supervisors, related insider dealing rules under the SFO, discloseable interests as required by SFO, management of information disclosure, continuing responsibilities for information disclosure (such as general matters and inside information), connected transactions and discloseable transactions. In addition, relevant reading materials including legal and regulatory updates and seminar handouts have been provided to the Directors for their reference and studying. Each of the Directors has completed the aforementioned trainings.

## BOARD COMMITTEES

The Board has established three committees, namely, the audit committee, remuneration committee and nomination committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which state clearly their authority and duties. The terms of reference of all of the committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Members of each Board committee comprise independent non-executive Directors and the list of the chairperson and members of each Board committee are set out under "Corporate Information" on page 147 of this Annual Report.

## AUDIT COMMITTEE

The audit committee comprises three non-executive Directors, namely Mr. LAU Tsz Bun (chairperson), Ms. YANG Ying and Mr. WU Tao, with the majority being independent non-executive Directors (including one independent non-executive Director with accounting expertise). None of the members of the audit committee is a former partner of the Company's existing auditors. The primary responsibilities of the audit committee are to review and supervise our Group's financial reporting process and internal control system. The terms of reference of the audit committee is available on the Stock Exchange's website and the Company's website.

During the year ended December 31, 2018, the audit committee held two meetings to review the interim financial results and reports and appointment of external auditors, and other matters of importance of the Company and its subsidiaries. For the work and reports of the audit committee on the risk management and internal control of the Company, please see the paragraph headed "Risk Management and Internal Control".

The audit committee also held one meeting with the external auditors without the presence of the executive Directors.

## REMUNERATION COMMITTEE

The remuneration committee comprises three members, namely Mr. LAU Tsz Bun (chairperson), Ms. YANG Ying and Mr. PENG Chong, with the majority being independent non-executive Directors. The primary responsibilities of the remuneration committee are to make recommendations to our Board on the remuneration policies and structure of the remuneration for the Directors, Supervisors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. The terms of reference of the remuneration committee is available on the Stock Exchange's website and the Company's website.

During the year ended December 31, 2018, the remuneration committee held one meeting. The remuneration committee has reviewed remuneration matters such as the relevant salary adjustments for Mr. XING Cheng's rank adjustment, the relevant salary adjustments for Mr. PENG Chong's rank adjustment and the remuneration of the proposed deputy general manager, has assessed the performance of each of the executive Directors during the Reporting Period and provided advice to the Board on these matters.

## NOMINATION COMMITTEE

The nomination committee comprises three members, namely Mr. GAO Hongxin (chairperson), Ms. YANG Ying and Mr. HAN Xiaoping, with the majority being independent non-executive Directors. The primary responsibility of the nomination committee is to make recommendations to our Board on the appointment of Directors and senior management. The terms of reference of the nomination committee is available on the Stock Exchange's website and the Company's website.

During the year ended December 31, 2018, the nomination committee held one meeting. The nomination committee conducted a comprehensive investigation on the occupation, academic qualifications, professional titles, detailed work experience, etc. of the candidates for deputy general managers, and conducted qualification examination for such candidates according to the conditions of employment, and gave suggestion to the Board on such issues.

The nomination committee considered an appropriate balance of diversity of the Board is maintained.

## BOARD DIVERSITY POLICY

The Board has adopted the Board Diversity Policy with effect from December 2018. The Company recognises the importance of diversity of the Board members to corporate governance and the Board effectiveness.

The nominations and appointments of members of the Board will continue to be made on merit basis based on its business needs from time to time while taking into account the benefits of diversity of the Board members. The nomination committee selected Director candidates based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, age, language, cultural background, educational background, industry experience and professional experience. The nomination committee will also ensure that recruitment and selection procedures of Director candidates are appropriately structured so that a diverse range of candidates are considered by the Company.

The nomination committee is responsible for reviewing this policy, developing and reviewing measurable objectives for implementing this policy and monitoring the progress on achieving these measurable objectives. The nomination committee shall review this policy and the measurable objectives at least annually to ensure the continuing effectiveness of the Board. The nomination committee shall also assess annually the diversity profile of the Company including gender balance of the Board and the Company's progress in achieving diversity objectives. The nomination committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

## NOMINATION POLICY

The nomination policy of the Company is as follows:

(1) the nomination committee shall review at least once a year the number, composition and organizational structure of the Board (including the skills, knowledge base, work experience and diversity of the Board members), and to advise on personnel changes of the Board to consolidate the Company's development strategy;

(2) the nomination committee shall consider the criteria and procedures for selecting directors, general manager and other senior management members and make recommendations thereon to the Board, develop or revise the Board Diversity Policy and focus on developing board diversity in the member selection process. Factors to consider include but are not limited to gender, age, culture, perspectives, education background and previous experience;

(3) the nomination committee shall identify individuals suitably qualified to become the Board members and make recommendations to the Board on the nomination of individuals suitable for directorships, having due regard to the Company's Board Diversity Policy, the requirements in the Articles of Association regarding the appointment of directors of the Company, the Listing Rules and applicable laws and regulations, and the relevant candidates' contributions to the Board in terms of qualifications, skills, experiences, independence and gender diversity; and

(4) the nomination committee shall review the independence of independent non-executive Directors with reference to the factors set out in Rule 3.13 of the Listing Rules and any other factors deemed appropriate by the nomination committee or the Board. If a proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, to assess his/her ability to devote sufficient time to the Board matters.

## NOMINATION PROCEDURES

The procedures for nomination of the Directors and senior managements of the Company are as follows:

(1) the Board office and the nomination committee shall actively communicate with the relevant departments of the Company to assess the demand for new Directors and senior management members and their re-election and prepare written materials;

(2) the nomination committee may extensively seek for candidates for Directors and senior management within the Company, the Company's subsidiaries/associated corporations/joint ventures as well as in the recruitment market;

(3) the nomination committee identifies individual(s) suitably qualified to become the Board member(s), having due regard to the relevant requirements, including but not limited to the Nomination Policy and the Board Diversity Policy, and assesses the independence of the proposed independent non-executive Director(s) as appropriate. The nomination committee shall obtain information of the occupation, academic qualifications, job title, detailed work experience and all the part-time positions of the preliminary candidates and prepare written materials;

(4) to seek for the written consent from the nominated candidates on the proposed nomination; otherwise, such nominated candidates shall not be considered as candidates for directors, general manager and senior management members;

(5) to convene nomination committee meetings to review the qualifications of the preliminary candidates according to the job descriptions of Directors, general manager and senior management members;

(6) to submit proposals and relevant materials to the Board in respect of the candidates for Directors, the re-election of Directors and the candidates for senior management members within reasonable time prior to the election of new directors, the re-election of directors and senior management members; and

(7) to carry out other follow-up work according to the decision(s) and feedback of the Board.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code.

During the Reporting Period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with laws and regulations, the compliance with the Model Code and Employees Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

## ATTENDANCE RECORDS OF DIRECTORS AND MEMBERS OF BOARD COMMITTEE

The attendance record of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended December 31, 2018 is set out in the table below:

| | Attendance/number of meetings during the term of office | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Board of Directors** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **Shareholders' General Meeting** |
| GAO Hongxin | 10/10 | | | 1/1 | 2/3 |
| XING Cheng | 10/10 | | | | 3/3 |
| PENG Chong | 10/10 | | 1/1 | | 3/3 |
| FANG Wei *(Note 1)* | 10/10 | | | | 3/3 |
| YU Yang | 10/10 | | | | 3/3 |
| WU Tao | 10/10 | 2/2 | | | 3/3 |
| LAU Tsz Bun | 10/10 | 2/2 | 1/1 | | 3/3 |
| HAN Xiaoping | 10/10 | | | 1/1 | 3/3 |
| YANG Ying | 10/10 | 2/2 | 1/1 | 1/1 | 3/3 |

Note:

(1) Ms. FANG Wei resigned as an executive Director, secretary to the Board and joint company secretary of the Company on February 28, 2019.

Apart from regular Board meetings, the Chairperson also held one meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the Reporting Period, mainly discussing the Company's development strategy and future plans.

## RISK MANAGEMENT AND INTERNAL CONTROL

To comply with the requirements of risks management for listed companies, establish and improve the risk control and management system, process and warning mechanism as necessary for the operation of listed companies to ensure effective identification of risks, the Company further organized and conducted internal control and risks management, including analyzing the current status of the Company, analyzing and optimizing the difference between the actual and planned internal control, compiling an internal control manual, conducting internal control research, establishing risks management system, identifying and collecting risks facing the Company, compiling a risk response report and risk management manual for the year. During the course, the integrity, reasonableness, and the implementation of the internal control measures by various departments of the Company have been organized and reviewed to effectively control the possibility of the occurrence of such risks. By introducing advanced risk management concepts and tools, improving the internal control system and meanwhile meeting the regulatory requirements for risk management and internal control, the Company's risk management and control capabilities are enhanced as a whole so as to continuously enhance its core competitiveness.

The Board fully understands its responsibilities for risk management and internal control systems, and for reviewing their effectiveness. The systems aim to manage rather than eliminate the risks of the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The major internal control policies established by the Company include budget control, operation activities analysis, financial reimbursement and approval control, credit and borrowing control. The management has confirmed to the Board and the audit committee on the effectiveness of the risk management and internal control systems for the year ended December 31, 2018.

The Board reviews the Company's risk management and internal control systems annually. The Board, as supported by the audit committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended December 31, 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Arrangements/Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, executive officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may significantly affect the Company's ability to operate as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 76 to 79.

Where appropriate, a statement will be submitted by the audit committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the audit committee.

## AUDITORS' REMUNERATION

The remuneration paid and payable to the Company's external auditors by the Company in respect of audit services and non-audit services for the year ended December 31, 2018 amounted to RMB1 million and RMB85,000 respectively.

## JOINT COMPANY SECRETARIES

Ms. FANG Wei and Mr. WONG Yat Tung have been appointed as our joint company secretaries by the Board with effect from March 14, 2017. On May 30, 2018, Mr. WONG Yat Tung resigned as a joint company secretary of the Company, and Mr. LAU Kwok Yin has been appointed as the joint company secretary to replace Mr. WONG Yat Tung.

The Stock Exchange has granted an updated waiver to the Company from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules for a period from the date of the appointment of Mr. LAU Kwok Yin as a joint company secretary (i.e. May 30, 2018) to April 26, 2021 in relation to the eligibility of Ms. FANG Wei to act as a joint company secretary of the Company. For details, please refer to the announcement of the Company dated May 30, 2018.

Ms. FANG Wei was an executive Director, joint company secretary and secretary to the Board of our Company, and acted as the contact person between the Company and the Stock Exchange and is responsible for information disclosure and investment management as well as corporate governance for the Company. Ms. FANG Wei resigned as an executive Director, secretary to the Board and joint company secretary of the Company on February 28, 2019. From the same day, Mr. LAU Kwok Yin served as a company secretary of the Company.

For the year ended December 31, 2018, Ms. FANG Wei and Mr. LAU Kwok Yin have received no less than 15 hours of relevant professional training on reviewing the requirements under the Listing Rules and other compliance. The major contact person in the Company of Mr. LAU Kwok Yin is Ms. FANG Wei. After Ms. FANG Wei resigned on February 28, 2019, the major contact person in the Company of Mr. LAU Kwok Yin is Mr. PENG Chong.

## SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels and a shareholders' communication policy is in place to ensure that Shareholders' views and concerns are appropriately addressed. The Company reviews the policy regularly to ensure its effectiveness.

To safeguard Shareholders' interests and rights, separate resolution is proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors.

All resolutions put forward at Shareholders' meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each Shareholders' meeting.

## CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Shareholders holding more than 10% of Shares (individually or together with others) of the Company shall be entitled to request for an extraordinary general meeting or class meeting.

Upon signing one or several written requests with the same content and format, and stating the subject of the meeting, the aforesaid Shareholders may request the Board to convene an extraordinary general meeting or class meeting. Shares held by the abovementioned Shareholders shall be calculated as at the date of submitting the written request. The aforesaid shareholdings of the proposed Shareholders shall be calculated as of the day on which the written request is made by such Shareholders.

## PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

When the Company convenes the general meeting, the Board of Directors, Supervisory Board and Shareholders holding more than 3% of the shares of the Company separately or jointly are entitled to propose resolutions to the Company. The Shareholders holding more than 3% of the shares of the Company separately or jointly may submit adhoc proposals and submit them to the convener in writing ten days before the general meeting is held.

The proposal contents shall fall into the terms of reference of the general meeting. There shall be definite topics and specific matters for resolution. The proposal shall comply with the relevant provisions of the laws, administrative regulations and Articles of Association.

## PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

## CONTACT DETAILS

Shareholders may send their written enquiries or requests through the following means:

Address: No. 35 Haibinba Road
Tianjin Port Free Trade Zone
Tianjin City
PRC
(For the attention of the secretary to the Board)

Email: tianbaonengyuan@tjtbny.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full names, contact details and identification in order to facilitate the Company to respond. Shareholders' information may be disclosed as required by law.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTORS RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, non-executive Directors, independent non-executive Directors, and the chairman of all Board committees (or their delegates) will make themselves available at general meetings to meet Shareholders and answer their enquiries.

## THE ARTICLES OF ASSOCIATION

During the Reporting Period, the Company has revised its Articles of Association on August 22, 2018 and November 5, 2018. Details of such amendments are set out in the circulars to Shareholders dated July 6, 2018 and September 17, 2018. An up-to-date version of the Articles of Association is also available on the Company's website and the Stock Exchange's website.

# 1 ABOUT THIS REPORT

## 1.1 Overview

Tianjin Tianbao Energy Co., Ltd. (hereinafter referred to as "**Tianbao Energy**", "**Company**" or "**We**") is currently publishing its first "Environmental, Social and Governance Report" (hereinafter referred to as "**the Report**"). The purpose of this Report is to disclose the Company's policies, measures and performance in environmental, social and governance aspects in 2018 to various stakeholders.

This Report is published in traditional Chinese and English. In case of any discrepancies in the content of the report, the traditional Chinese version shall prevail. The electronic version of the report can be read and downloaded through the official website of the Company and the website of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

## 1.2 Reporting scope

The disclosure scope of this Report covers the power generation and supply business of Tianbao Energy, which covers the period from January 1, 2018 to December 31, 2018 (hereinafter referred to as "**Reporting Period**", "**this Year**" or "**2018**").

## 1.3 Reporting standard

This Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (hereinafter referred to as the "**Guide**") in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited published by the Hong Kong Stock Exchange. This Report has complied with all the "comply or explain" provisions in the Guide and has been prepared in accordance with the four reporting principles in the Guide: Materiality, Quantitative, Balance and Consistency.

## 1.4 Feedback

Tianbao Energy attaches great importance to the opinions of stakeholders. If you have any suggestions or questions about the contents of this Report, please feel free to call or write to us through the following contact information:

Address: No. 35 Haibinba Road, Tianjin Port Free Trade Zone, Tianjin City, PRC
Postal code: 300461
Phone: +86-22-66276388
Fax: +86-22-66276388
Email: tianbaonengyuan@tjtbny.com

# 2 SUSTAINABLE DEVELOPMENT MANAGEMENT

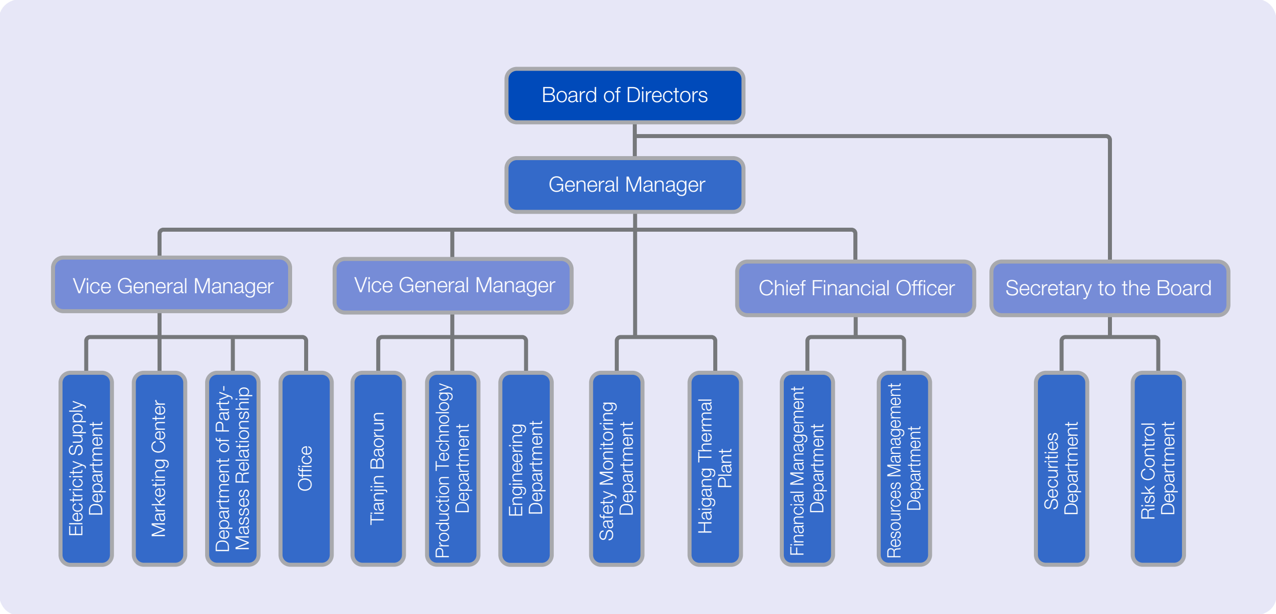
## 2.1 Company culture

| | |
|---|---|
| Company goal: | advanced management, excellent service, safety and reliability, outstanding efficiency, harmonious development |
| Company spirit: | diligent in learning, good at innovation, courageous to challenge, willing to contribute |
| Company vision: | to become a leading power supply company in China |
| Company mission: | to provide efficient and comprehensive power services for the society, so that employees can show their value in life |

## 2.2 Directors' responsibility

The Board of Directors has established environmental, social and governance related management policies, strategies, priorities and objectives by assessing the environmental, social and governance related risks and opportunities of Tianbao Energy, and has determined the reporting scope of this Report. At the same time, the Board of Directors ensures that the Company has an appropriate and effective risk management and internal control system, approves the disclosure content of this Report, and assumes overall responsibility for Tianbao Energy's environmental, social and governance strategies and reporting.

### 2.3 Organizational structure




In the compilation and preparation of this Report, the management of the Company led various functional departments to promote the screening of important topics, collection of materials and recording of related data. On the basis of completing the preparation of this Report, the Company has sorted out the environmental, social and governance related responsibilities of various departments, and tentatively formed its own environmental, social and governance management structure to better implement the relevant management responsibilities at all levels of the Company.

### 2.4 Communication with stakeholders

For the long-term interests and sustainable development of Tianbao Energy, the Company and the Board of Directors actively maintain good relations and sufficient communication with stakeholders. The Company protects the interests of stakeholders by understanding the information needs of stakeholders and responding to the expectations of various stakeholders.

During the Reporting Period, the Company mainly maintained contact with key stakeholders through the following communication channels.

| Key stakeholders | Communication channels |
|---|---|
| Shareholders and investors | Shareholders' meeting, company website, information disclosure, written inquiry by shareholders |
| Government and regulatory agencies | Information disclosure, regular inspection |
| Customers | Customer satisfaction survey, product and service complaint hotline |
| Staff | Staff training, regular meetings |
| Suppliers | Supplier inspection |
| Community and public | Public welfare activities, community service activities |

## 3 SAFE AND RELIABLE IN PROVIDING EFFICIENT AND COMPREHENSIVE POWER SERVICES

In the power production and supply business, we sell the electricity from cogeneration to Tianjin Electric Power Company, which is a local branch of State Grid, while we also provide steam, heating, cooling and electricity supply services to our industrial and commercial customers in Tianjin Port Free Trade Zone (Seaport). Through standard and professional management, the Company provides high-quality and efficient power services and contributes to the development of Tianjin Binhai New District.

| 2018 annual performance | |
|---|---|
| Electricity generation: 77,712,000 kWh | Production of steam: 990,897 tons |
| Total heating area: 1.336 million square meters | Total cooling area: 0.7545 million square meters |

### 3.1 Quality management system

The Company's predecessor, Tianbao Electricity Company passed the third-party audit and certification of ISO9001 quality management system in 1998. Over the past 20 years, the Company has undergone several conversions of ISO9001 standard and implemented GB/T19001-2016/ISO 9001:2015 standard on January 10, 2018. The Company's Chairman organizes management review every year, and formally evaluates the on-going suitability and effectiveness of quality policy, quality objective, risk control and quality management system to ensure that the quality management system is always operating effectively.


Figure: Quality Management System Certification Certificate

During the Reporting Period, Tianbao Energy has strictly complied with the requirements for products and services in the Product Quality Law of the People's Republic of China and the Electricity Law of the People's Republic of China to ensure the provision of high quality and stable steam, heating, cooling and electricity supply services. The Company has established a three-level document management system, with the Tianbao Energy-Quality Management Manual as the first-level document, the working procedure documents as the secondary documents, the work instructions, technical standards and daily work records as the third-level documents to provide systematic policy support for quality management.

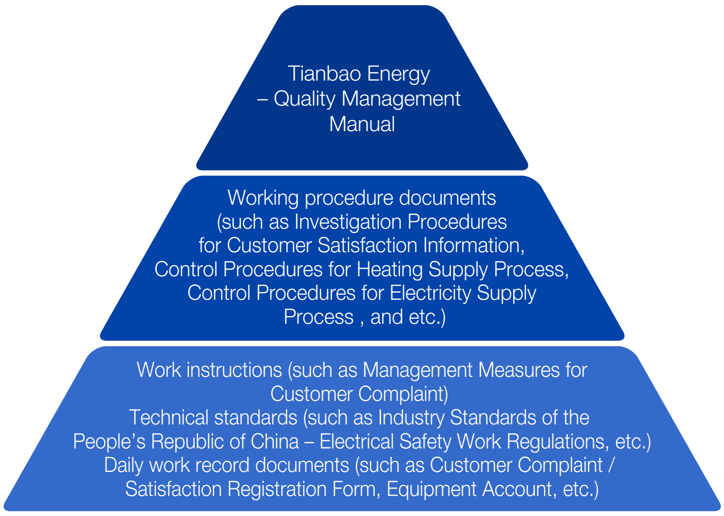



Figure: Three-level structure document management system

In order to establish the Company's quality management standards, on January 10, 2018, the Company completed the preparation and release of the Tianbao Energy – Quality Management Manual, and detailed specified the Company's quality management system in accordance with the Plan, Do, Check, Act (PDCA) quality management cycle method.

The second-level procedure document Control Procedures for Heating Production and Supply Process further specifies the heating production and supply process in the Tianbao Energy-Quality Management Manual, and stipulates the duties and work of the management and staff at all levels of coal-fired cogeneration power plant (hereinafter referred to as "Thermal Plant"). The Control Procedures for Heating Production and Supply Process stipulates that equipment management personnel and professional and technical personnel shall perform production operations, operation status monitoring and equipment account management in accordance with relevant management measures, implement various safety measures and technical measures in accordance with the second-level and third-level documents in the quality management system to ensure safe and reliable electricity generation and gas supply services, and ensure that the quality of electricity and steam and load requirements meet relevant standards. Control Procedures for Electricity Supply Process further specifies the electricity supply process in the Tianbao Energy-Quality Management Manual, and stipulates the duties and work contents of the management and staff at all levels of the electricity supply department.

If in the process of heating production and supply, the quality of electricity and heating energy does not meet the national standards or the requirements of the contract, the relevant management personnel shall perform the operation according to the Control Procedures for Unqualified Product, and adjust the dispatch. The Thermal Plant or the electricity supply department shall organize the relevant departments to review, keep records and process in accordance with the Control Procedures for Corrective Action.

The Company attaches great importance to the maintenance and protection of intellectual property rights, and designates relevant department to record and manage all intangible assets such as patents and copyrights it holds. In 2018, the Company held 20 new utility model patents and 6 computer software copyrights in total.

### 3.2 Quality customer service

On the basis of ensuring the perfect operation of the product and service quality management system, the Company further regulates the quality of customer service. In order to properly respond to customers' opinions and suggestions on products and services, we have formulated policies such as Customer Service Management Measures and Investigation Procedures for Customer Satisfaction Information, and made the following requirements for the solutions to customer complaints on products and services.

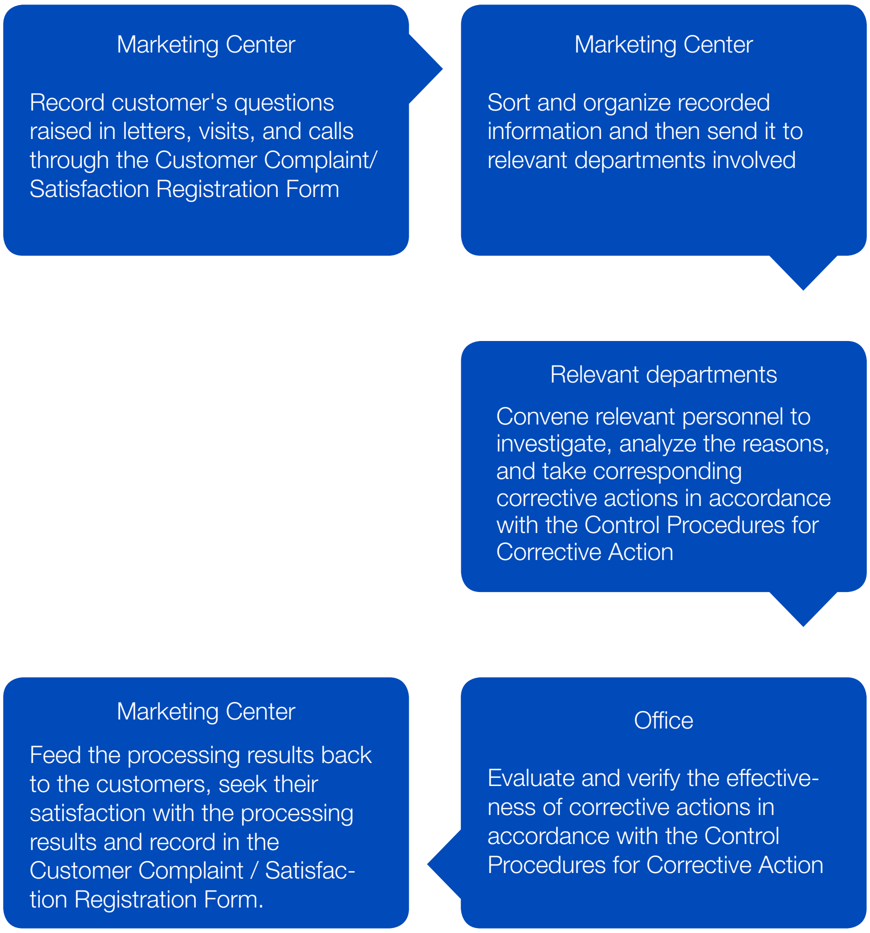



Figure: Complaint handling procedures for products and services

The Customer Service Management Measures and the Investigation Procedures for Customer Satisfaction Information stipulate that the Company conducts customer satisfaction surveys in the fourth quarter of each year and conducts statistics and analysis on the survey results in January of the following year to obtain customers' needs and expectations and understand the Company's direction of improvement. In the survey results of customer satisfaction in 2018, the interviewed customers' grades for the evaluation indexes including quality perception, quality expectation, corporate image, customer satisfaction, and perceived value of Tianbao Energy ranged from 8 to 10 points (10-point system), indicating that customers' recognition of the Company's services.

Tianbao Energy also attaches great importance to protecting the information and privacy of its customers and partners. In 2018, the Company has strictly complied with the provisions of the Contract Law of the People's Republic of China on trade secrets. Regardless of whether the partnership is established, it will not reveal or improperly use other people's trade secrets. In the Customer Service Management Measures, the Company stipulates that any employee is prohibited from revealing confidential information of customers to other companies, media, networks, organizations and individuals. If an employee violates this regulation and causes losses to the customer, he will be punished according to relevant regulations.

### 3.3 Procurement risk management

Tianbao Energy's materials and service suppliers are an important part of the Company's provision of safe and reliable power services. Therefore, the Company pays great attention to the management of environmental and social risks and opportunities in the supply chain. Our raw material suppliers mainly include five coal suppliers (four from Tianjin and one from Nantong, Jiangsu Province) and one water supplier in Tianjin, which provide stable supply of raw materials and water to the Company. In addition, we outsource some of the operations and maintenance services of the Thermal Plant to third-party professional service providers.

In order to properly regulate the environmental and social risks in the supply chain, the Company has formulated the Response Control Procedures for Risks and Opportunities, regularly analyzes and evaluates the risks in supplier review and procurement control process through the establishment of risk and opportunity assessment team, and collaborates with relevant departments to develop countermeasures.

During the Reporting Period, the Company implemented the provisions on supplier review and procurement control process in the policies such as Related Party Management System, Tendering, Comparison and Selection Management Measures, Materials (Services) Procurement Management Measures and Coal Purchasing System for all procurement activities. According to the above documents, during the procurement period, we require potential suppliers to submit qualifications, and then assess and evaluate suppliers based on their product and service quality, delivery schedule, pricing terms, and credit and financial status to form a list of qualified suppliers. According to the Coal Purchasing System, we also entrust a professional consulting company with relevant qualifications to review and determine the qualified coal suppliers that are short-listed to ensure that their production processes comply with the laws and regulations and environmental protection standards of the place where they operate. Afterwards, qualified suppliers are selected for appointment contracts through open tendering, bidding comparison and selection, and direct entrustment in accordance with the Tendering, Comparison and Selection Management Measures and Materials (Services) Procurement Management Measures.

Before the purchased coal is put into production, the Company will sample and accept it according to the requirements of the Coal Purchasing System, and submit it to a qualified third party for inspection to ensure that the coal quality meets the standard of coal used for production.

For third-party service providers, the Company assigns employees to regularly supervise and assess their work to ensure that the services provided by the suppliers meet the contract requirements and relevant standards.

### 3.4 Guarantee of safe production

During the Reporting Period, Tianbao Energy has complied with the Electricity Law of the People's Republic of China, the Safe Production Law of the People's Republic of China, the Fire Prevention Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the Safety Training Regulations for Production and Operation Units, the Administrative Measures on Emergency Plan for Production Safety Accidents, the Interim Provisions on the Investigation and Treatment of Hidden Dangers of Safety Production Accidents, the Tianjin Safe Production Regulations and other relevant national and local laws and regulations. During the year, the Company implemented related work to provide a safe working environment, ensure production safety and avoid occupational hazards through the following management measures.

#### Institutional support

- The Company has formulated and implemented the Safe Production Inspection and Hidden Danger Treatment System, which clarifies the relevant management responsibilities and implementation standards for safety inspection and hidden danger treatment.

#### Publicity training

- The Company organized 15 safety education and trainings such as safety training for resumed work after the Spring Festival, safety knowledge training for hazardous chemicals, accident incident and disposal requirements training, office electricity safety training, fire safety training, occupational health knowledge training, common electrical hidden peril training, metrological inspection safety training, safety production responsibility system training, emergency rescue plan training, typical accident case warning education, and safety equipment configuration standards for thermal power generation enterprises.

#### Regular assessment

- The Company held a knowledge test on the post safety responsibility of all employees, carried out the detection of occupational hazards at the production site, and organized physical examinations for all employees.

In 2018, the Company did not have any case of death or injury due to work.

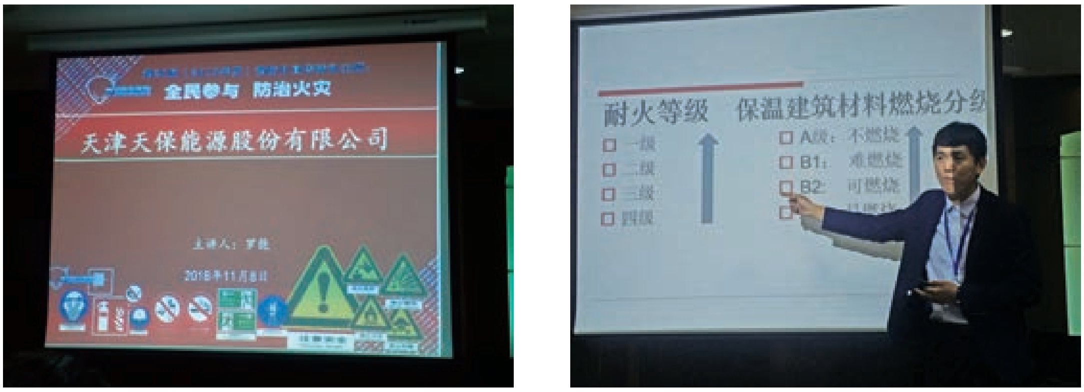



Figure: Tianbao Energy 2018 "Safety Fire Month" publicity training event site

## 4 PUT PEOPLE FIRST AND HELP EMPLOYEES REALIZE THEIR VALUE OF LIFE

Tianbao Energy always believes that employees are a driving force for realizing an enterprise's sustainable development. By taking respecting employees and creating an equal, diversified, anti-discriminatory, healthy and safe working environment as our first priority, we build a platform for employees' growth and development to help them realize their value of life. In addition, the Company regularly analyses its human resources situation, including age structure, knowledge background and professional capacity for the draft of human resources plan to ensure a fair and equitable treatment towards staff of different gender, age, birthplace, race and cultural background, thus avoiding any discrimination.

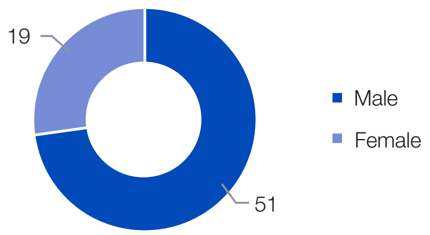
### 4.1 Recruitment

Tianbao Energy takes the enlargement of the Company's professional team as an important step to achieve sustainable development. Based on its actual business requirements, the Company introduces talented people to support key personnel, thereby providing an inexhaustible driving force for the sustainable robust growth of the Company.

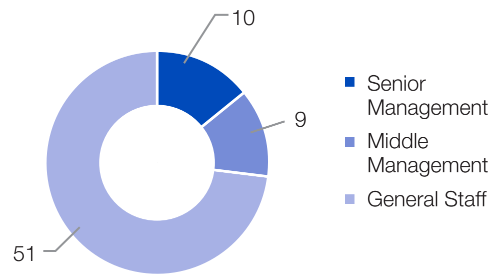
During the Reporting Period, the Company observed the Labor Law of the PRC, the Employment Contract Law of the PRC ("Labor Contract Law"), the Implementing Regulations of the Employment Contract Law of the PRC, and other laws and regulations, and developed the Integrated Administrative Measures for Human Resources as per the Labor Contract Law to regulate labor relations built with employees and to sign, perform, terminate and revise labor contracts. In addition, while strictly abiding by the Provisions of Prohibition on Child Labor, we carefully check the personal information of applicants during our recruitment and verify their identity data via multiple approaches like examining their ID card, graduation certificate and etc. Anyone who provides false materials will not be hired.

As for December 31, 2018, there were 70 employees in total, all holding registered residences of Tianjin, and its relevant statistics are as follows:

**Number of employees by gender**




**Number of employees by staff category**




**Number of employees by age group**

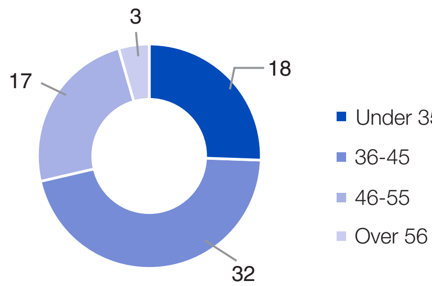



Figure: The number of employees by gender, staff category and age group[1]

## 4.2 Talent Management

Good talent management is an important way to promote the harmonious and stable development of an enterprise as well as attract and keep employees. We endeavor to protect employees' rights and interests, lay stress on their requirements and create an inclusive, equal and collaborative working environment with mutual trust. To better play the role of talents, the Company has set clear management procedures for post settings, promotion, recruitment, dismissal, distribution of salaries and benefits in the Integrated Administrative Measures for Human Resources to guarantee employees' rights and interests like legal labor remuneration, benefits and holidays, thus creating a stable and equal relation between labour and capital.

We buy our employees social insurance, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, according to the Social Insurance Law of the People's Republic of China. To enhance and regulate the management of employees' attendance and vacation, the Company develops the Administrative Measures for Attendance and Vacation to implement 5-day work days per week as well as welfare holidays like national statutory holidays, paid annual leave, sick leave, marriage leave, bereavement leave, maternity leave, paternity leave and etc. Furthermore, overtime working is not advocated in the Company in principle. However, in case of any exceptions, employees shall be given corresponding compensation in accordance with overtime working treatment regulations and such overtime working shall not be over 36 hours within a month. If any violations or forced labor occur, the Company will pursue the accountability of relevant personnel as per relevant legal provisions and its policies.

[1] Senior Management includes the chairman of the Board; in 2018, the Company lost one female employee under 35, and the employee turnover rate was 1.4%.

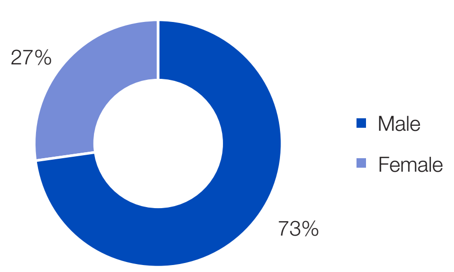
### 4.3 Growing Together

Tianbao Energy places significant emphasis on staff training and development and invests in continuing education and training programs for our employees with a view to constantly enhancing their skills and knowledge. Our staff training is either conducted internally by the management and various department heads of the Company or conducted by external trainers for professional training. We want to ensure that our staff remains equipped with the necessary skills to stay professional in their respective areas of work as this in turn helps the Company to maintain its competitiveness in the market.

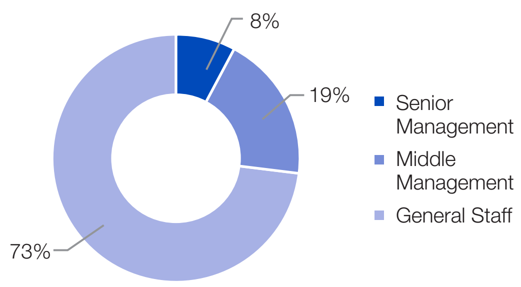
To enhance employees' overall quality and inspire their enthusiasm and creativity to better adapt to the requirements of market changes and internal management, the Company specially formulated the Administrative Measures for Staff Training, which stipulates the management responsibility, procedure and scope of staff training, the enforcement and assessment of training programs and other contents, laying a foundation for the effective implementation and regulation of staff training. This year, we organized various training activities including professional skills training, safe production and management training, quality management training and etc., greatly improving the professional skills and safe production management level of employees.

During the Reporting Period, the related statistics of staff training in the Company was as follows:

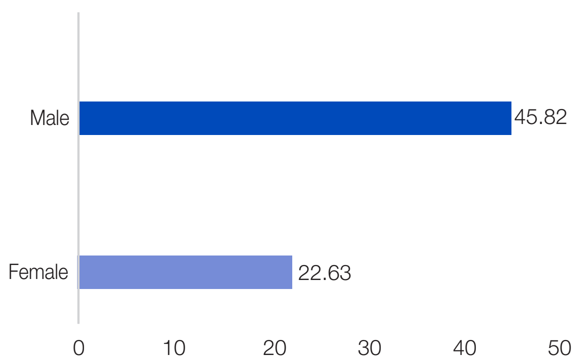
**Number of employees trained by gender**




**Number of employees trained by employee category**




**Average training hours per employee by gender**




**Average training hours per employee by employee category**

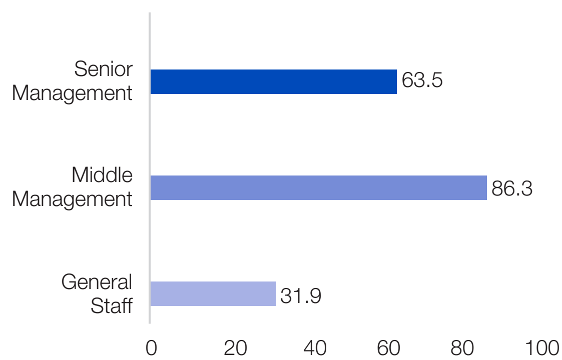



Figure: Statistics of staff training in 2018

### 4.4 Incorruptibility

We are fully aware of the profound significance of the construction of a clean and honest administration in an enterprise, so strengthening the construction of business integrity and honesty has always been a major task in Tianbao Energy. During the Reporting Period, we observed the Company Law of the PRC, the Criminal Law of PRC, the Anti-Money Laundering Law of PRC, the Provisions on the Honesty and Integrity of Leading Personnel in State-owned Enterprises, and other relevant laws and regulations, and formulated the Administrative Measures for Building an Honest and Clean Party, asking officers in middle management and above to sign the Letter of Undertaking the Main Responsibility of Building an Honest and Clean Party so as to implement a responsibility system for such building. To consolidate the control and prevention of integrity risks, the Company conducts post integrity investigation by combining with actual situation in work, and timely enable risk assessment and disposal procedure in case of any emergencies or major events.

We also formulated the Code of Conduct for Employees to supervise the execution of such behavioral norms and standards as well as timely conduct training education and inspection. Meanwhile, the Company strengthened integrity and honesty education via watching warning and educating videos, visiting educating exhibitions, launching classes on integrity and other forms to enhance the awareness of integrity risks. We earnestly played the supervisory role of all employees in the Company via opening reporting channels, setting complaint mailboxes in conspicuous positions around working areas plus exposing tip-off phone numbers and email addresses to create a clean and righteous working environment.

During the Reporting Period, the Company never received any whistle-blowings or investigations concerning corruption cases.

## 5 ENERGY SAVING AND ENVIRONMENTAL PROTECTION – A LEADING DOMESTIC POWER SUPPLY ENTERPRISE

Tianbao Energy focuses on green production and ultra-low emissions in its energy production and supply business. Unlike conventional power generation plants, we have adopted coal-fired cogeneration technology utilizing backpressure turbines, which provides us with the synergies of generating steam, electricity, heating and cooling simultaneously, enabling us to achieve a thermal efficiency rate that is higher than the PRC industry average and a coal consumption rate that is lower than the PRC industry average. We further established systematic environmental protection management system, making continuous efforts to save energy and reduce emissions.

## 5.1 Environmental Protection Management System

During the Reporting Period, we observed the Environmental Protection Law of the PRC, which stipulates that all units and individuals have the obligation to protect the environment, and shall prevent and reduce environmental pollution and ecological destruction. The Company continues to pay close attention to the impact of its own business activities on environment and natural resources, including the use of energy (such as coal, electricity and etc.) and water resources, the emission of pollutants (such as $SO_2$, $NO_x$, smoke, waste water and etc.) and greenhouse gas plus the generation of hazardous and non-hazardous waste during the process of producing steam and electricity. To reduce such impacts, the Company set environmental protection management system as well as developed and implemented Detailed Implementation Rules of Environmental Protection Management, specifically defining the duties and implementation procedures of each post in environmental protection actions.

| Contents of Detailed Implementation Rules of Environmental Protection Management | |
|---|---|
| Contents of environmental protection management:<br>• Detailed implementation rules of air pollutant control and management<br>• Detailed implementation rules of wastewater drainage control and management<br>• Detailed implementation rules of solid waste management<br>• Household waste treatment<br>• Detailed implementation rules of noise control and management | Contents of technical supervision on environmental protection:<br>• Supervision on fuel and raw materials<br>• Technical supervision on dust remover<br>• Technical supervision on desulphurization and de-nitrification facilities<br>• Supervision on wastewater treatment facilities<br>• Supervision on noise control facilities<br>• Technical supervision on ash (slag) storage sites and comprehensive utilization facilities<br>• Supervision on flue gas online detectors<br>• Supervision on pollutant discharge<br>• Supervision on wastewater drainage<br>• Monitoring of noise<br>• Supervision on ashes and slags |

In addition, Tianbao Energy established an Emergency Environmental Protection Agency and set an Emergency Environmental Protection Office led by the chairman of the Board plus 5 emergency working teams, with emergency rescue tasks being completed by the inter-coordination of various functional departments.

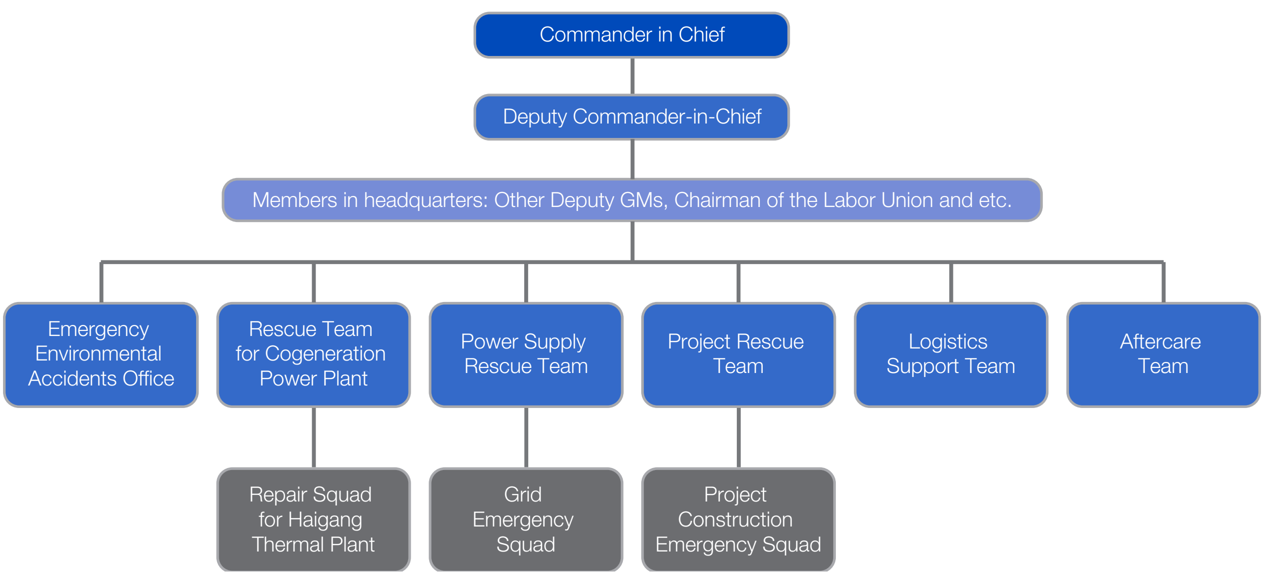



Figure: Organization system of the emergency environmental protection agency in Tianbao Energy

### 5.2 Management of Pollutants and Wastes

The Thermal Plant in Tianbao Energy generate air pollutants, wastewater, oil, ashes, slags and other wastes during its production process. In 2018, the Company strictly observed the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Environmental Noise Pollution, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, the Law of the PRC on Prevention and Control of Water Pollution, the Environmental Protection Tax Law of the PRC, the Interim Provisions for the Administration of Pollutant Discharge License, the Measures for Pollutant Pischarge Licensing (Provisional) and other relevant laws and regulations, as well as controlled and reduced the discharge of pollutants and wastes by controlling the quality of coal we use, utilizing automated coal crushing technology and strict desulphurization, de-nitrification and de-dusting procedures.

The Environmental Protection Tax Law of the PRC implemented since January 1, 2018 stipulates that enterprises shall pay taxes on air pollutants, water pollutants, solid wastes and noise pollution generated by them. In order to ensure a stable and standard-compliant hourly emission concentration of flue gas pollutants generated by its Thermal Plant plus the reduction of environmental protection tax paid on such basis, the Company revised and implemented the Reward and Punishment Plan for Environmental Protection in Tianjin Tianbao Energy Co., Ltd. (Trial) (hereinafter referred to as the "Reward and Punishment Plan") in January 2018. For the Thermal Plant outsourced to external units, this Reward and Punishment Plan examines the emissions of smoke, $SO_2$ and $NO_x$ from these plants during the operation period under the charge of those units. Besides, assessment criteria, plans, reward and punishment systems are also regulated in this plan in a detailed way.

In 2018, the Company's discharge volume of polluting substances met the Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008), the Emission Standard of Air Pollutants for Thermal Power Plants (GB13223-2011), the Integrated Wastewater Discharge Standard (GB8978-1996) and the Integrated Wastewater Discharge Standard (DB12/356-2008) and other national and local technical standards about pollution emissions. Our pollution emissions during the Reporting Period were much lower than the standards of ultra-low emission of $SO_2$, $NO_x$ and smoke of 35/50/10 mg/$m^3$ to be achieved by 2020 set by the Implementation Plan of the Standards of Ultra-Low Emissions and Energy-saving Equipment Upgrade for Coal-Fired Power Plants jointly issued by the MEE, the NDRC and the NEA in December 2015, meeting the ultra-low emission requirements set by the State.

The Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste sets related provisions on the prevention and control of environmental pollution by hazardous wastes and that by solid wastes respectively. In 2018, the Company observed the above mentioned legal regulations and implemented the Detailed Implementation Rules of Environmental Protection Management to conform to the separate collection and safe disposal of solid wastes. As for the hazardous wastes of waste mineral oil and waste oil tanks generated during its production process, the Company, in accordance with the Administrative Measures for Hazardous Waste Transfer Forms and other related regulations, hired a third party with the qualification of collecting, storing and disposing hazardous wastes issued by government environmental protection department for the collection, safe transport and proper disposal of waste oil and waste oil tanks. As for stove ashes, slags, MgO residues and other non-hazardous waste generated during its production process, the Company signed cooperative agreements with qualified third parties to collect, transport, recycle and harmlessly dispose such ashes and slags and apply reusable parts for building material production to reduce the generation of wastes.

## 5.3 Energy Saving and Emission Reduction of Greenhouse Gases

The main powers consumed by the Company are electricity, raw coal and diesel oil. The greenhouse gas emissions generated during the Company's business are mainly derived from coal combustion, desulphurizer application and the indirect emissions generated during the production process of purchased electricity; therefore, the Company saves energy consumption while reduces greenhouse gas emissions through enhancing scientific management of powers, increasing energy efficiency and other measures.

The Company made its energy saving goals in 2020 by actively responding to the Integrated Plans for Energy Saving and Emission Reduction in the 13th Five Year Plan and the Notice on Matters about Carrying out Assessment in One Hundred Key Energy-using Units with Highest Consumption, One Thousand Key Energy-using Units with Higher Consumption and Other Key Energy-using Units issued by the State Council of PRC. To achieve its goals, the Company constantly improves its energy management structure construction and implements three-level management of company, department and team:

| | |
|---|---|
| Energy-saving Leading Team | • The general manager of the Company is its leader, the heads of each department and the energy management personnel are its members.<br>• An energy-saving meeting is held in every quarter to summarize the implementation of energy-saving work and existing problems, analyze and discuss new technical measures for energy-saving, exchange energy-saving experiences, and deploy the next major tasks in energy-saving. |
| Full-time Energy-saving Management Department | • Be responsible for the allocation and assessment of energy-saving targets, control of power consumption, formulation of product energy consumption quota, submission of energy statistical reports, planning of power-related work and etc. |
| Energy-saving Team in All Departments | • Implement power management plan, promote the publicity of energy saving and consumption reduction among front-line staff, and execute evaluation criterion.<br>• Check the daily energy waste situation in their respective departments and supervise staff to work in accordance with energy management process.<br>• The allocation, standing books, maintenance, inspection report and other related work of energy monitoring equipment in each department. |

Figure: Energy management structure of the Company

Based on the construction and operation of the energy management system, the Company regularly issues the Energy-saving Situation Analysis Report of Tianjin Tianbao Energy Co., Ltd. to summarize, record and analyse its energy-saving management and results.

In 2018, the Company completed its energy saving target[2] of reduction of integrate energy consumption by 558 tons of standard coals via actively carrying out the following energy-saving reconstruction during the Reporting Period, achieved the goal of 340 tons of standard coal energy savings set at the beginning of the year.

- A circulation motor in power line frequency in the desulphurization tower was changed into frequency conversion control, saving electricity consumption;
- The UF and RO membrane in chemical water workshop were changed to increase water production rate, thus reducing equipment startup time and saving electricity;

[2] The energy-saving amount was calculated according to the Calculating Methods of Energy Saved for Enterprises (GB/T13234-2009)

- The minimum flow valves in feed water pumps and the recirculation valves of feed water pumps were changed to reduce the cross flow during the operation of such pumps, thus increasing their output power and reducing electricity consumption;

- Generators were maintained to improve their power generation efficiency;

- Feed water pumps and motors were maintained to reduce electricity consumption.

All of the above measures lowered the electricity consumption during production and operation process in varying degrees, thus further reducing the emission of greenhouse gases generated during the production process of the electricity used by the Company.

The Company also focused on the saving and recycling of water resources during its production and operation. During its advancing and upgrading period of flue gas emission governance, the Company added spray equipment and residual heat removal system in its flue gas curing process, recycling the residual heat of saturated wet flue gas after being denitrated, de-dusted and desulphurized. After the completion of such upgrade, a large amount of vapors cooled and collected in daily flue gas emissions were reused as intermediate water, reducing the Company's water consumption on the basis of maintaining the same water displacement. Since this project was put into service in October 2017, almost 30,000 tons of condensed water was recycled from flue gas. In addition, the Company recycled condensed water from heat interchangers and conducted UF recycling of chemical wastewater from desulphurization system during its daily operation with over 210,000 tons water being recycled in total during the Reporting Period.

## 5.4 Environmental Performance Indicators

Air pollutants[3]

| Indicator | Value |
|---|---|
| $SO_2$ | 16.79 tons |
| $NO_x$ | 35.55 tons |
| Particulate Matter | 3.01 tons |

Water resources

| Indicator | Value |
|---|---|
| Total water consumption | 1,166,866 tons |
| Water consumption of unit power supply | 1.78 kg/kWh |
| Water consumption of unit heat supply | 0.40 tons/GJ |
| Wastewater discharge | 188,170 tons |
| Recycling of industrial water | 212,304 tons |

[3] Monitoring data are from the Company.

Wastes[4]

| Indicator | Value |
|---|---|
| Hazardous waste generation | 1.13 tons |
| Hazardous waste generation of unit power supply | 17.28 g/10MWh |
| Hazardous waste generation of unit heat supply | 0.39 g/GJ |
| Non-hazardous waste generation | 21,968 tons |
| Non-hazardous waste generation of unit power supply | 33.59 g/kWh |
| Non-hazardous waste generation of unit heat supply | 7.55 kg/GJ |

Emission of greenhouse gases[5]

| Indicator | Value |
|---|---|
| Scope 1 | |
| Emissions of fossil fuel combustion | 271,589.72 tons $CO_2$ |
| Emissions during desulphurization | 207.50 tons $CO_2$ |
| Scope 2 | |
| Emissions from electricity purchased by the Thermal Plant | 8,623.30 tons $CO_2$ |
| Emissions from electricity purchased by working area | 85.36 tons $CO_2$ |
| Total | |
| Greenhouse gas emissions | 280,505.90 tons $CO_2$ |
| Greenhouse gas emissions of unit power supply | 4.29 tons $CO_2$/10MWh |
| Greenhouse gas emissions of unit heat supply | 96.34 kg $CO_2$/GJ |

[4] Hazardous wastes include waste oil and waste oil tanks; non-hazardous waste cover stove ashes and slags, recycled by a third party.

[5] The calculating method refers to the Guidelines on Accounting and Reporting of Greenhouse Gas Emissions from China's Power Generation Enterprises (provisional) issued by NDRC.

Resource Utilization

| Indicator | Value |
| --- | --- |
| Coal consumption | 149,066.3 tons |
| Coal consumption of unit power supply | 179.09g standard coal/kWh |
| Coal consumption of unit heat supply | 40.23g standard coal/GJ |
| Electricity consumption in comprehensive plants | 24,535,153 kWh |
| Electricity consumption in working areas | 96,533 kWh |
| Electricity consumption of unit power supply | 0.04 kWh/10MWh |
| Electricity consumption of unit heat supply | 8.46 kWh/GJ |
| Diesel oil consumption | 37.93 tons |
| Diesel oil consumption of unit power supply | 0.58 kg/10MWh |
| Diesel oil consumption of unit heat supply | 13.03 g/GJ |

## 6 WILLING TO CONTRIBUTE AND ACTIVELY FULFILL CORPORATE SOCIAL RESPONSIBILITY

On the basis of providing efficient and comprehensive power services to the society, Tianbao Energy actively fulfills its corporate social responsibility, actively seeks opportunities to help local communities and encourages employees to actively participate in activities such as poverty alleviation and improvement in community environment.

In 2018, the Organization Department of Tianjin Binhai New District's District Committee issued the Notice on Selecting Short-Term Professional and Technical Personnel for Paired Support Counties (Cities) in Gansu Province, seeking professional and technical personnel to go to Zhangjiachuan County (national poverty-stricken county) in Gansu Province for support work. The Company responded actively, organized the employees to sign up and participate, and after several elections by the superior, an employee of the electricity supply department joined the support team. In November 2018, the Company responded to the "10,000 Party Members Connecting 10,000 Families" activity in Tianjin and started the support work by interconnected with one poor family in Tang Town Fishery Village in Binhai New District.

In addition to poverty alleviation, we encourage employees to participate in community voluntary labor activities. In March 2018, the Company launched the "Learning from LEI Feng" community service activities, and organized employees to go to the Huarongli Community at Hangzhou Street, Binhai New District to clean up the community garbage voluntarily and beautify the community environment.


Figure: Company employees participated in community service activities

## 7 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT CONTENT INDEX

| A. Environmental | | | |
|---|---|---|---|
| **General Disclosures and KPIs** | **Description** | | **Chapter in Which Discourse is Made** |
| **Aspect A1: Emissions** | | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | | 5 Energy saving and environmental protection – a leading domestic power supply enterprise |
| KPI | A1.1 | The types of emissions and respective emissions data. | 5.4 Environmental performance indicators |
| | A1.2 | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 5.4 Environmental performance indicators |
| | A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 5.4 Environmental performance indicators |
| | A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 5.4 Environmental performance indicators |
| | A1.5 | Description of measures to mitigate emissions and results achieved. | 5.3 Energy saving and emission reduction of greenhouse gases<br>5.2 Management of pollutants and wastes |
| | A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | 5.2 Management of pollutants and wastes |

| | | | |
|---|---|---|---|
| **Aspect A2: Use of Resources** | | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | | 5.1 Environmental protection management system<br>5.3 Energy saving and emission reduction of greenhouse gases |
| KPI | A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | 5.4 Environmental performance indicators |
| | A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | 5.4 Environmental performance indicators |
| | A2.3 | Description of energy use efficiency initiatives and results achieved. | 5.3 Energy saving and emission reduction of greenhouse gases |
| | A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | 5.3 Energy saving and emission reduction of greenhouse gases[6] |
| | A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Not applicable [7] |
| **Aspect A3: The Environment and Natural Resources** | | | |
| General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources. | | 5.1 Environmental protection management system |
| KPI | A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | 5.1 Environmental protection management system |
| **B. Social** | | | |
| **General Disclosures and KPIs** | **Description** | | **Chapter in Which Discourse is Made** |
| **Aspect B1: Employment** | | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | | 4 Put people first and help employees realize their value of life |
| KPI | B1.1 | Total workforce by gender, employment type, age group and geographical region. | 4.1 Recruitment |
| | B1.2 | Employee turnover rate by gender, age group and geographical region. | 4.1 Recruitment |

[6] The Company's place of operation is located in the urban area of Tianjin. The majority of water used for production is taken from the municipal pipe network and the reclaimed water purchased from independent third parties. Therefore, there is no issue in sourcing water that is fit for purpose;

[7] In the power generation and supply business, we provide steam, electricity, heating and cooling for our customers. Based on the nature of this business, the relevant indicators for packaging material used for finished products are not applicable.

| | | | |
|---|---|---|---|
| **Aspect B2: Health and Safety** | | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | | 3.4 Guarantee of safe production |
| KPI | B2.1 | Number and rate of work-related fatalities. | 3.4 Guarantee of safe production |
| | B2.2 | Days that one can't work due to work injury. | 3.4 Guarantee of safe production |
| | B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | 3.4 Guarantee of safe production |
| **Aspect B3: Development and Training** | | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | | 4.3 Growing together |
| KPI | B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | 4.3 Growing together |
| | B3.2 | The average training hours completed per employee by gender and employee category. | 4.3 Growing together |
| **Aspect B4: Labour Standards** | | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | | 4.1 Recruitment<br><br>4.2 Talent management |
| KPI | B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 4.1 Recruitment<br><br>4.2 Talent management |
| | B4.2 | Description of steps taken to eliminate such practices when discovered. | 4.1 Recruitment<br><br>4.2 Talent management |
| **Aspect B5: Supply Chain Management** | | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | | 3.3 Procurement risk management |
| KPI | B5.1 | Number of suppliers by geographical region. | 3.3 Procurement risk management |
| | B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | 3.3 Procurement risk management |

| | | | |
|---|---|---|---|
| **Aspect B6: Product Responsibility[8]** | | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer Relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | | 3.1 Quality management system<br><br>3.2 Quality customer service<br><br>3.4 Guarantee of safe production |
| KPI | B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Not applicable |
| | B6.2 | Number of products and service related complaints received and how they are dealt with. | 3.2 Quality customer service |
| | B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 3.1 Quality management system |
| | B6.4 | Description of quality assurance process and recall procedures. | 3.1 Quality management system |
| | B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | 3.2 Quality customer service |
| **Aspect B7: Anticorruption** | | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | | 4.4 Incorruptibility |
| KPI | B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases. | 4.4 Incorruptibility |
| | B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | 4.4 Incorruptibility |
| **Aspect B8: Community Investment** | | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | | 6 Willing to contribute and actively fulfill corporate social responsibility |
| KPI | B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture and sport). | 6 Willing to contribute and actively fulfill corporate social responsibility |
| | B8.2 | Resources contributed (e.g. money or time) to the focus area. | 6 Willing to contribute and actively fulfill corporate social responsibility |

8 In the power generation and supply business, we provide steam, heating, cooling and electricity supply services for our customers. Based on the nature of this business, the relevant indicators for packaging material used for finished products are not applicable.

KPMG

**Independent auditor's report to the shareholders of Tianjin Tianbao Energy Co., Ltd.**
(Established in People's Republic of China with limited liability)

## OPINION

We have audited the consolidated financial statements of Tianjin Tianbao Energy Co., Ltd. ("the Company") and its subsidiary ("the Group") set out on pages 80 to 144, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

<table>
<tr><th colspan="2">Assessing indicators of impairment of property, plant and equipment</th></tr>
<tr><td colspan="2">Refer to Note 1(e) of the significant accounting policies and accounting estimates to the financial statements, and Note 10 to the consolidated financial statements.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As at 31 December 2018, the Group's property, plant and equipment principally comprised buildings and structure, power generation plant and electric utility in service, motor vehicles, construction in progress and others.<br><br>Management assessed whether there was any indication that the property, plant and equipment may be impaired as at 31 December 2018 for each smallest identifiable group of assets that generate independent cash flows (a cash-generating unit).<br><br>The assessment of whether there is any indication of potential impairment involves significant judgment, particularly in relation to changes in external environment, market interest rates and economic performance of asset, all of which can be inherently uncertain.<br><br>We identified the assessment of impairment indicators of property, plant and equipment assets as a key audit matter because of the significant judgement which could be subject to error or potential management bias.</td><td>Our audit procedures to assess potential impairment of property, plant and equipment included the following:<br><br>• assessing the Group's identification of the cash generating units ("CGUs") and the allocation of assets to each CGU with reference to our understanding of the Group's business and the requirements of the prevailing accounting standards;<br><br>• obtaining an understanding of the Group's process on the gathering of information to identify potential indications of impairment and on the analysis of whether any indicators of impairment exist; and<br><br>• evaluating management's assessment of the indications and considering whether there are any other indicator not already identified by management based on our knowledge of the business, and the current market conditions, our industry knowledge and other information obtained during the audit.</td></tr>
</table>

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

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

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

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Ying Man.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2018 – (Expressed in Renminbi "RMB")*

| | Note | 2018 RMB'000 | 2017 *(Note)* RMB'000 |
|---|---|---|---|
| **Revenue** | *3* | **431,113** | 452,467 |
| Cost of sales | | **(389,572)** | (393,788) |
| **Gross profit** | | **41,541** | 58,679 |
| Other net income | *4* | **21,297** | 6,616 |
| Administrative expenses | | **(18,718)** | (14,990) |
| **Profit from operations** | | **44,120** | 50,305 |
| Interest income | | **985** | 1,410 |
| Interest expense | | **(9,953)** | (11,346) |
| **Profit before tax** | *5* | **35,152** | 40,369 |
| Income tax | *6(a)* | **(8,805)** | (10,097) |
| **Profit for the year** | | **26,347** | 30,272 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **26,347** | 30,272 |
| **Profit for the year** | | **26,347** | 30,272 |
| **Earnings per share** | *9* | | |
| Basic (RMB) | | **0.18** | 0.26 |
| Diluted (RMB) | | **0.18** | 0.26 |

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 87 to 144 form part of these financial statements.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2018 – (Expressed in Renminbi "RMB")*

| | *Note* | **2018** **RMB'000** | *2017* *(Note)* RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **26,347** | 30,272 |
| **Other comprehensive income for the year** | | **–** | – |
| **Total comprehensive income for the year** | | **26,347** | 30,272 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **26,347** | 30,272 |
| **Total comprehensive income for the year** | | **26,347** | 30,272 |

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 87 to 144 form part of these financial statements.

# Consolidated Statement of Financial Position

*At 31 December 2018 – (Expressed in RMB)*

| | Note | At 31 December 2018 RMB'000 | At 31 December 2017 (Note) RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **352,504** | 351,583 |
| Lease prepayment | 13 | **15,320** | 15,651 |
| Intangible assets | 11 | **1,931** | 1,434 |
| | | **369,755** | 368,668 |
| **Current assets** | | | |
| Inventories | 14 | **5,181** | 6,363 |
| Trade and bill receivables | 16 | **34,575** | 41,910 |
| Contract assets | 15(a) | **304** | – |
| Other receivables and assets | 17 | **976** | 22,191 |
| Cash and cash equivalents | 18 | **140,400** | 116,071 |
| | | **181,436** | 186,535 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **42,925** | 44,258 |
| Receipt in advance | | **–** | 22,185 |
| Contract liabilities (current portion) | 15(b) | **25,305** | – |
| Salary and welfare payables | | **2,129** | 2,431 |
| Current taxation | 21 | **1,852** | 2,633 |
| Current portion of other non-current liabilities | 22 | **–** | 72,490 |
| | | **72,211** | 143,997 |
| **Net current assets** | | **109,225** | 42,538 |
| **Total assets less current liabilities** | | **478,980** | 411,206 |

The notes on pages 87 to 144 form part of these financial statements.

*At 31 December 2018 – (Expressed in RMB)*

| | Note | **At 31 December 2018 RMB'000** | At 31 December 2017 *(Note)* RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred income | *20* | **11,431** | 17,848 |
| Contract liabilities (non-current portion) | *15(b)* | **7,411** | – |
| Deferred tax liabilities | *21(b)* | **3,990** | 6,762 |
| Other non-current liabilities | *22* | **151,713** | 141,791 |
| | | **174,545** | 166,401 |
| **NET ASSETS** | | **304,435** | 244,805 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *23(b)* | **159,921** | 115,601 |
| Reserves | *23(c) (d)* | **144,514** | 129,204 |
| **TOTAL EQUITY** | | **304,435** | 244,805 |

Approved and authorised for issue by the board of directors on 26 March 2019.

Name: Gao Hongxin
Position: Director

Name: Xing Cheng
Position: Director

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 87 to 144 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2018 – (Expressed in RMB)*

| | Note | Share capital RMB'000 | Capital reserve RMB'000 | Statutory surplus reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| | | Attributable to equity shareholders of the Company | | | | |
| **Balance at 1 January 2017** | | 87,003 | 55,753 | 16,959 | 54,818 | 214,533 |
| **Changes in equity for 2017:** | | | | | | |
| Profit for the year | | – | – | – | 30,272 | 30,272 |
| Total comprehensive income | | – | – | – | 30,272 | 30,272 |
| Appropriation to reserves | *23(c)(d)* | – | – | 2,834 | (2,834) | – |
| Capitalization upon converting into a joint stock company | *23(b)* | 28,598 | 34,421 | (11,612) | (51,407) | – |
| **Balance at 31 December 2017 (Note) and 1 January 2018** | | **115,601** | **90,174** | **8,181** | **30,849** | **244,805** |
| **Changes in equity for 2018:** | | | | | | |
| Profit for the year | | **–** | **–** | **–** | **26,347** | **26,347** |
| Total comprehensive income | | **–** | **–** | **–** | **26,347** | **26,347** |
| Appropriation to reserves | *23(c)(d)* | **–** | **–** | **2,542** | **(2,542)** | **–** |
| Issuance of shares upon public offering, net of issuing expenses | *23(b)* | **44,320** | **(11,037)** | **–** | **–** | **33,283** |
| **Balance at 31 December 2018** | | **159,921** | **79,137** | **10,723** | **54,654** | **304,435** |

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 87 to 144 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2018 – (Expressed in RMB)*

| | Note | 2018<br>RMB'000 | 2017<br>(Note)<br>RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | **35,152** | 40,369 |
| Impairment loss of assets | | **433** | – |
| Depreciation in property, plant and equipment | | **23,669** | 23,515 |
| Amortization in intangible assets and lease prepayment | | **621** | 623 |
| Loss on disposal of property, plant and equipment | | **–** | 2 |
| IPO listing subsidies received from local government | | **(8,400)** | (2,400) |
| Interest expense | | **9,922** | 11,320 |
| Exchange gain | | **(5,284)** | – |
| Changes in working capital: | | | |
| Decrease in inventories | | **817** | 1,286 |
| Decrease/(increase) in contract assets and trade and bill receivables | | **6,963** | (4,432) |
| Increase in other receivables and assets | | **(65)** | (6,369) |
| Increase in trade and other payables | | **2,978** | 24,130 |
| Increase in contract liabilities and receipts in advance | | **3,119** | 5,049 |
| Decrease in salary and welfare payables | | **(302)** | – |
| Decrease in deferred income | | **(1,006)** | (1,044) |
| Cash generated from operations | | **68,617** | 92,049 |
| Income tax paid | | **(12,358)** | (15,849) |
| **Net cash generated from operating activities** | | **56,259** | 76,200 |
| **Investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | **–** | 2 |
| Proceeds from government grants related to assets | | **2,000** | 5,977 |
| Payment for the purchase of property, plant and equipment | | **(21,678)** | (2,032) |
| **Net cash (used in)/generated from investing activities** | | **(19,678)** | 3,947 |

The notes on pages 87 to 144 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2018 – (Expressed in RMB)*

| | Note | 2018<br>RMB'000 | 2017<br>(Note)<br>RMB'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Repayment of bank loans | | **–** | (24,000) |
| Dividends paid to equity owners/shareholders of the Company | | **–** | (21,000) |
| Payment for listing expenses | | **(21,039)** | (15,054) |
| Interest paid | | **–** | (673) |
| IPO listing subsidies received from local government | | **8,400** | 2,400 |
| Proceeds from issuance of shares under the public offering | | **67,593** | – |
| Payment to shareholders for capital reduction | | **(72,490)** | – |
| **Net cash used in financing activities** | | **(17,536)** | (58,327) |
| **Net increase in cash and cash equivalents** | | **19,045** | 21,820 |
| **Cash and cash equivalents at 1 January** | | **116,071** | 94,251 |
| **Effect of foreign exchange rate changes** | | **5,284** | – |
| **Cash and cash equivalents at 31 December** | *18* | **140,400** | 116,071 |

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 87 to 144 form part of these financial statements.

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiary (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

Non-current assets is stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

### (c) Changes in accounting policies

IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

#### *(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognized the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

*a. Classification of financial assets and financial liabilities*

IFRS 9 categories financial assets into three principal classification categories: measured at amortized cost, at FVOCI and at fair value through profit or loss (FVPL).

These supersede IAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The measurement categories for all financial assets and liabilities of the Group remain the same. The carrying amounts for all financial assets and liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

*b. Credit losses*

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables, loans to related parties and other financial assets).

Opening balance adjustment

Based on an assessment, this change in accounting policy does not have a significant impact on accumulated losses as compared with that recognized under IAS 39 and no additional ECLs has been recognized by the Group at 1 January 2018.

For further details on the Group's accounting policy for accounting for credit losses, see note 1(h)(i).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

#### *(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation* (continued)

c. *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except if, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognized for that financial instrument.

#### *(ii) IFRS 15, Revenue from contracts with customers*

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 15:

| | At 31 December 2017 RMB'000 | **Impact on initial application of IFRS 15 RMB'000** | **At 1 January 2018 RMB'000** |
|---|---|---|---|
| Trade and bill receivables | 41,910 | **(4,747)** | **37,163** |
| Contract assets | – | **4,747** | **4,747** |
| **Total current assets** | 41,910 | **–** | **41,910** |
| Receipts in advance | 22,185 | **(22,185)** | **–** |
| Contract liabilities (current portion) | – | **22,185** | **22,185** |
| **Total current liabilities** | 22,185 | **–** | **22,185** |
| **Net current assets** | 19,725 | **–** | **19,725** |
| Deferred income | 17,848 | **(7,898)** | **9,950** |
| Contract liabilities (non-current portion) | – | **7,898** | **7,898** |
| **Total non-current liabilities** | 17,848 | **–** | **17,848** |
| **Net assets** | 1,877 | **–** | **1,877** |
| **Total equity** | 1,877 | **–** | **1,877** |

Further details of these changes are set out in sub-sections (b) of this note.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

#### *(i) Presentation of contract assets and liabilities*

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to construction contracts in progress were presented in the statement of financial position under "trade and bill receivables", the advance payment from customers for non-cancellable contracts of goods and services were presented in the statement of financial position under "receipts in advance" or "deferred income".

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

a. "Gross amounts due from customers for construction and maintenance contract work" amounting to RMB4,747,000 which were previously included in trade and bill receivables are now included under contract assets.

b. "Advances received" amounting to RMB22,185,000 which were previously included in receipts in advance are now included under contract liabilities.

c. "Prepaid facility usage fees" amounting to RMB7,898,000 which were previously included in deferred income are now included under contract liabilities.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

#### *(ii) IFRIC 22, Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)):

- Buildings and structure;
- Power generation plant and electric utility in service;
- Motor vehicles;
- Construction in progress ("CIP"); and
- Other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write-off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| – Buildings and structure | 30 years |
| – Power generation plant and electric utility in service | 5 – 30 years |
| – Motor vehicles | 5 – 10 years |
| – Others | 4 – 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(t)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | | |
|---|---|---|
| – | Software and others | 3 – 10 years |

Both the period and method of amortisation are reviewed annually.

### (g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale (see note 1(i)(ii)).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets

#### *(i) Credit losses from financial instruments and contract assets*

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);

– contract assets as defined in IFRS 15 (see note 1(j));

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### *(i) Credit losses from financial instruments and contract assets* *(continued)*

(A) Policy applicable from 1 January 2018 *(continued)*

In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when (i) 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 (ii) the financial asset is 90 days past due. The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### *(i) Credit losses from financial instruments and contract assets* *(continued)*

(A) Policy applicable from 1 January 2018 *(continued)*

*Significant increases in credit risk (continued)*

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

*Write-off policy*

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### *(i) Credit losses from financial instruments and contract assets* *(continued)*

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### *(ii) Impairment of other non-current assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

– investments in subsidiaries, associates and joint ventures in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated:

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### *(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(h)(i)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (i) Inventories and other contract costs

#### *(i) Inventories*

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

– Electronic manufacturing

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Inventories and other contract costs *(continued)*

#### *(ii) Other contract costs*

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 1(i)(i)), property, plant and equipment (see note 1(e)) or intangible assets (see note 1(f)).

Incremental costs of obtaining a contract are those costs that the group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 1(r).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (j) Contract assets and contract liabilities

A contract asset is recognised when the group recognises revenue (see note 1(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(k)).

A contract liability is recognised when the customer pays consideration before the group recognises the related revenue (see note 1(r)). A contract liability would also be recognised if the group has an unconditional right to receive consideration before the group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(k)).

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(r)).

*Policy prior to 1 January 2018*

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "gross amount due from customers for contract work" (as an asset) or the "gross amount due to customers for contract work" (as a liability), as applicable, under "trade and other receivables" or "trade and other payables" respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "trade debtors and bills receivable". Amounts received before the related work was performed were presented as "advances received" under "trade and other payables". These balances have been reclassified on 1 January 2018 as shown in note 15 (see note 1(c)).

### (k) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(h)(i)).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(h)(i).

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the group's accounting policy for borrowing costs (see note 1(t)).

### (o) Employee benefits

***Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (q) Provisions and contingent liabilities

Provisions are recognised when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (r) Revenue and other income

Income is classified by the group as revenue when it arises from the sale of goods, the provision of services or the use by others of the group's assets under leases in the ordinary course of the group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, 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.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Revenue and other income *(continued)*

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. 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. The group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the group's revenue and other income recognition policies are as follows:

(i) Supply of electricity and power

Revenue from supply of electricity and power represents the fair value of the consideration received or receivable for electricity and power sold in the ordinary course of the activities of the Group (net of VAT). Revenue is earned and recognized upon transmission of electricity and power to the customers or the power grid controlled and owned by the respective regional or provincial grid companies.

(ii) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(iii) Service revenue

Service revenue refers to amounts received from service of electricity infrastructure. The Group recognize revenue when the relevant service is provided.

(iv) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimate total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Revenue and other income *(continued)*

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Government grants

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and are subsequently recognised in profit or loss over the useful life of the related asset.

### (s) Translation of foreign currencies

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

### (t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

### (u) Related parties

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

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

(ii) has significant influence over the group; or

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Related parties *(continued)*

(b) An entity is related to the group if any of the following conditions applies:

(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 employees of either the group or an entity related to the group.

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

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the 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 group's parent.

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.

### (v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2 ACCOUNTING JUDGEMENT AND ESTIMATES

### (a) Critical accounting judgements in applying the group's accounting policies

In the process of applying the group's accounting policies, management has made the following accounting judgements:

Deferred tax assets

When assessing whether there will be sufficient future taxable profits available against which the deductible temporary differences can be utilised, the Group recognises deferred tax assets to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, using tax rates that would apply in the period when the asset would be utilised. In determining the amount of deferred tax assets, the Group exercises judgements about the estimated timing and amount of taxable profits of the following periods, and of the tax rates applicable in the future according to the existing tax policies and other relevant regulations. Differences between such estimates and the actual timing and amount of future taxable profits and the actual applicable tax rates affect the amount of deferred tax assets that should be recognised.

### (b) Sources of estimation uncertainty

Notes 24 contain information about the assumptions and their risk factors relating to valuation of financial instruments. Other key sources of estimation uncertainty are as follows:

#### *(i) Revenue recognition*

As explained in policy note 1(r), revenue from sales of electronic products manufactured under made-to-order arrangements and from construction contracts are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the group's recent experience and the nature of the manufacturing and construction activities undertaken by the group, the group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in note 20 do not include profit which the group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

In the comparative period, revenue from made-to-order manufacturing arrangements was recognised when the products were delivered to the customer and therefore only revenue from construction contracts was subject to such estimation uncertainty. In addition, the contract assets arising from construction contracts were included in trade and other receivables as amounts due from customers for contract work and were disclosed in note 16, rather than note 15.

#### *(ii) Warranty provisions*

The group makes provisions under the warranties it gives on sale of its electronic products taking into account the group's recent claim experience. As the group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

## 3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organized by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes or resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Electricity dispatch and sale business: selling electricity purchased from the local branch of State Grid to end-users in various industries in Tianjin Port Free Trade Zone (Seaport).
- Power generation and supply business: selling electricity to the local branch of State Grid, and providing steam, heating and cooling to the industrial and commercial customers in Tianjin Port Free Trade Zone (Seaport).
- Others: construction and operation maintenance of industrial facilities and trading of electronic components.

### (a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

| | **2018**<br>**RMB'000** | 2017<br>*(Note)*<br>RMB'000 |
|---|---|---|
| Revenue from contracts with customers within the scope of IFRS 15 | | |
| – Electricity dispatch and sale | **202,817** | 207,812 |
| – Power generation and supply | **185,946** | 185,461 |
| – Others | **42,350** | 59,194 |
| | **431,113** | 452,467 |

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11 (see note 1(c)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

## 3 REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current. Segment liabilities include trade and other payables, contract liabilities, salary and welfare payables and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment profit includes the Group's share of profit arising from the activities of the Group's subsidiary. However, other than reporting inter-segment sales of electricity dispatch and sale.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning inter segment sales, the Group's share of the joint venture's profit, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Disaggregation of revenue form contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

## 3 REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment results, assets and liabilities *(continued)*

| For the year ended 31 December | Electricity dispatch and sale | | Power generation and supply | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Disaggregated by timing of revenue recognition** | | | | | | | | |
| Point in time | **202,817** | 207,812 | **185,946** | 185,461 | **32,056** | 40,287 | **420,819** | 433,560 |
| Over time | **–** | – | **–** | – | **10,294** | 18,907 | **10,294** | 18,907 |
| **Revenue from external customers** | **202,817** | 207,812 | **185,946** | 185,461 | **42,350** | 59,194 | **431,113** | 452,467 |
| Inter-segment revenue | **2,530** | 1,877 | **–** | – | **–** | – | **2,530** | 1,877 |
| **Reportable segment revenue** | **205,347** | 209,689 | **185,946** | 185,461 | **42,350** | 59,194 | **433,643** | 454,344 |
| **Reportable segment profit (adjusted EBITDA)** | **15,940** | 22,507 | **44,333** | 51,649 | **5,284** | 8,412 | **65,557** | 82,568 |
| Depreciation and amortisation for the year | **5,868** | 5,925 | **18,080** | 17,842 | **68** | 122 | **24,016** | 23,889 |
| **Reportable segment assets** | **57,581** | 64,074 | **333,862** | 328,487 | **17,960** | 23,627 | **409,403** | 416,188 |
| Additions to non-current segment assets during the year | **471** | 499 | **24,717** | 6,085 | **6** | 193 | **25,194** | 6,777 |
| **Reportable segment liabilities** | **32,002** | 30,702 | **30, 339** | 28,877 | **24,822** | 16,620 | **87,163** | 76,199 |

## 3 REVENUE AND SEGMENT REPORTING *(continued)*

### (c) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | **433,643** | 454,344 |
| Elimination of inter-segment revenue | **(2,530)** | (1,877) |
| Consolidated revenue | **431,113** | 452,467 |

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Profit** | | |
| Reportable segment profit | **65,557** | 82,568 |
| Other net income | **21,297** | 6,616 |
| Interest income | **985** | 1,410 |
| Finance expenses | **(9,953)** | (11,346) |
| Depreciation and amortisation | **(24,290)** | (24,140) |
| Unallocated head office and corporate expenses | **(18,444)** | (14,739) |
| Consolidated profit before tax | **35,152** | 40,369 |

| | At 31 December<br>2018<br>RMB'000 | At 31 December<br>2017<br>RMB'000 |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | **409,403** | 416,188 |
| Unallocated head office and corporate assets | **141,788** | 139,015 |
| Consolidated total assets | **551,191** | 555,203 |

## 3 REVENUE AND SEGMENT REPORTING *(continued)*

### (c) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(continued)*

| | At 31 December 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| **Liabilities** | | |
| Reportable segment liabilities | **87,163** | 76,199 |
| Unallocated head office and corporate liabilities | **159,593** | 234,199 |
| Consolidated total liabilities | **246,756** | 310,398 |

### (d) Geographic information

Since all the revenue from customers is derived from the customers located in Tianjin and the non-current assets are located in Tianjin, there is no information separated by different geographical locations provided to the Group's management.

## 4 OTHER NET INCOME

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Government grants | **15,807** | 6,518 |
| Net foreign exchange gains | **5,284** | – |
| Others | **206** | 98 |
| | **21,297** | 6,616 |

## 5 PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

| | | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| (a) | **Finance costs** | | |
| | Deemed interest expense on payables due to shareholders | **9,922** | 10,647 |
| | Interest expense on bank loans | **–** | 673 |
| | Other interest expense | **31** | 26 |
| | | **9,953** | 11,346 |
| (b) | **Staff costs** | | |
| | Contributions to defined contribution retirement plan | **2,625** | 2,448 |
| | Salaries, wages and other benefits | **17,006** | 17,097 |
| | | **19,631** | 19,545 |
| (c) | **Other items** | | |
| | Amortisation | | |
| | – land lease premium | **331** | 331 |
| | – intangible assets | **290** | 292 |
| | | **621** | 623 |
| | Depreciation | **23,669** | 23,515 |
| | Operating lease charges | **509** | 583 |
| | Auditor's remuneration | **1,024** | 252 |
| | Purchase of electricity | **180,358** | 176,408 |
| | Fuel | **87,158** | 81,990 |
| | Outsourcing operation | **17,707** | 16,605 |
| | Net foreign exchange gains | **(5,284)** | – |

## 6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

### (a) Taxation in the consolidated statements of profit or loss represents:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Current tax** | | |
| Provision for the year | **11, 577** | 12,942 |
| **Deferred tax** | | |
| Reversal of temporary differences | **(2,772)** | (2,845) |
| | **8,805** | 10,097 |

The Group was subject to the statutory income tax rate of 25% for the year ended 31 December 2018 (2017:25%).

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Profit before tax | **35,152** | 40,369 |
| Notional tax on profit before tax | **8,788** | 10,092 |
| Tax effect of non-deductible expenses | **17** | 5 |
| Actual tax expenses | **8,805** | 10,097 |

## 7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | **2018 Total RMB'000** |
|---|---|---|---|---|---|
| **Chairmen** | | | | | |
| Gao Hongxin | – | 322 | 139 | 76 | **537** |
| **Executive directors** | | | | | |
| Xing Cheng | – | 290 | 122 | 68 | **480** |
| Fang Wei | – | 226 | 53 | 58 | **337** |
| Peng Chong | – | 209 | 59 | 57 | **325** |
| **Non-executive directors** | | | | | |
| Wu Tao | – | – | – | – | **–** |
| Yu Yang | – | – | – | – | **–** |
| **Independent non-executive directors** | | | | | |
| Lau Tsz Bun (appointed on 4 April 2018) | 60 | – | – | – | **60** |
| Han Xiaoping (appointed on 4 April 2018) | 60 | – | – | – | **60** |
| Yang Ying (appointed on 4 April 2018) | 60 | – | – | – | **60** |
| **Supervisors** | | | | | |
| Yang Kui | – | 210 | 60 | 59 | **329** |
| Xue Xiaofang | – | – | – | – | **–** |
| Shao Guoyong | – | – | – | – | **–** |
| | 180 | 1,257 | 433 | 318 | **2,188** |

During the year, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals as set out in Note 8 below as an inducement to joint or upon joining the Group or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 7 DIRECTORS' EMOLUMENTS *(continued)*

| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | 2017 Total RMB'000 |
|---|---|---|---|---|---|
| **Chairmen:** | | | | | |
| Gao Hongxin | – | 374 | 113 | 68 | 555 |
| **Directors** | | | | | |
| Xing Cheng (appointed on 24 Mar 2017) | – | 340 | 99 | 64 | 503 |
| Fang Wei (appointed on 24 Mar 2017) | – | 264 | 41 | 54 | 359 |
| Peng Chong (appointed on 24 Mar 2017) | – | 234 | 50 | 55 | 339 |
| Wu Tao (appointed on 24 Mar 2017) | – | – | – | – | – |
| Yu Yang (appointed on 22 Nov 2017) | – | – | – | – | – |
| Zhou Shanzhong (appointed on 24 Mar 2017, resigned on 22 Nov 2017) | – | – | – | – | – |
| Yin Ning (resigned on 19 Jan 2017) | – | – | – | – | – |
| Gao Fei (resigned on 19 Jan 2017) | – | – | – | – | – |
| Yang Jing (resigned on 19 Jan 2017) | – | – | – | – | – |
| Fan Peiming (resigned on 19 Jan 2017) | – | – | – | – | – |
| **Supervisors:** | | | | | |
| Yang Kui | – | 253 | 51 | 54 | 358 |
| Xue Xiaofang | – | – | – | – | – |
| Shao Guoyong (appointed on 19 Jan 2017) | – | – | – | – | – |
| Sun Jingyu (resigned on 19 Jan 2017) | – | – | – | – | – |
| | – | 1,465 | 354 | 295 | 2,114 |

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four are directors (2017: two) whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2017:three) individuals are as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Salaries and other emoluments | **258** | 821 |
| Discretionary bonuses | **110** | 211 |
| Retirement scheme contributions | **68** | 170 |
| | **436** | 1,202 |

The emoluments of the 1 (2017: 3) individuals with the highest emoluments are within the following bands:

| | **2018**<br>**Number of**<br>**individuals** | 2017<br>Number of<br>individuals |
|---|---|---|
| HK$ Nil – HK$1,000,000 | **1** | 3 |

## 9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the year ended 31 December 2018 of RMB26,347,000 (2017: RMB30,272,000) and the weighted average of 147,417,000 ordinary shares (2017: 115,600,907) in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

| | **2018**<br>**'000** | 2017<br>'000 |
|---|---|---|
| Issued ordinary shares at 1 January | **115,601** | 115,601 |
| Weighted effect of H shares issued under initial public offering | **31,816** | – |
| Weighted average number of ordinary shares at 31 December | **147,417** | 115,601 |

There was no difference between basic and diluted earnings per share as there were no potential dilutive shares during the period.

## 10 PROPERTY, PLANT AND EQUIPMENT

| | Buildings and structure RMB'000 | Power generation plant and electric utility in service RMB'000 | Motor vehicles RMB'000 | Others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| **At 1 January 2017** | 16,733 | 599,702 | 488 | 22,761 | – | 639,684 |
| Additions | – | 4,839 | – | 701 | 962 | 6,502 |
| Disposals | – | – | – | (51) | – | (51) |
| **At 31 December 2017** | 16,733 | 604,541 | 488 | 23,411 | 962 | 646,135 |
| Additions | – | 2,235 | – | 2,059 | 20,296 | 24,590 |
| Transfer from CIP | – | 11,458 | – | – | (11,458) | – |
| **At 31 December 2018** | **16,733** | **618,234** | **488** | **25,470** | **9,800** | **670,725** |
| **Accumulated depreciation:** | | | | | | |
| **At 1 January 2017** | (5,723) | (255,912) | (346) | (9,103) | – | (271,084) |
| Charge for the year | (454) | (21,727) | (17) | (1,317) | – | (23,515) |
| Written back on disposal | – | – | – | 47 | – | 47 |
| **At 31 December 2017** | (6,177) | (277,639) | (363) | (10,373) | – | (294,552) |
| Charge for the year | (454) | (21,905) | (17) | (1,293) | – | (23,669) |
| **At 31 December 2018** | **(6,631)** | **(299,544)** | **(380)** | **(11,666)** | **–** | **(318,221)** |
| **Net book value:** | | | | | | |
| At 31 December 2018 | **10,102** | **318,690** | **108** | **13,804** | **9,800** | **352,504** |
| At 31 December 2017 | **10,556** | **326,902** | **125** | **13,038** | **962** | **351,583** |

## 11 INTANGIBLE ASSETS

| | Software and others RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2017 | 1,906 |
| Additions | 488 |
| At 31 December 2017 | 2,394 |
| At 1 January 2018 | **2,394** |
| Additions | **787** |
| At 31 December 2018 | **3,181** |
| **Accumulated amortisation:** | |
| At 1 January 2017 | (668) |
| Charge for the year | (292) |
| At 31 December 2017 | (960) |
| At 1 January 2018 | **(960)** |
| Charge for the year | **(290)** |
| At 31 December 2018 | **(1,250)** |
| **Net book value:** | |
| At 31 December 2018 | **1,931** |
| At 31 December 2017 | 1,434 |

## 12 INVESTMENTS IN SUBSIDIARY

As at 31 December 2018 and 2017, the Company had one subsidiary, which is wholly owned by the Company.

| | | | | Proportion of ownership interest | | |
|---|---|---|---|---|---|---|
| Name of company | Place of incorporation and business | Type of company | Particulars of issued and paid up capital RMB'000 | Group's effective interest | Held by the Company | Principal activity |
| Tianjin Baorun International Trading Electrical Engineering Co., Ltd. 天津保潤國際貿易電氣工程有限公司 | Tianjin, PRC | Limited liability company | 1,709 | 100% | 100% | Electricity infrastructure construction and sales of electronic component |

* The English translation of the Company's name is for reference only. The official name of the Company is in Chinese.

## 13 LEASE PREPAYMENTS

| | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|
| **Cost:** | | |
| At the beginning of the year | **16,568** | 16,568 |
| Additions | **–** | – |
| At the end of the year | **16,568** | 16,568 |
| **Accumulated amortisation:** | | |
| At the beginning of the year | **(917)** | (586) |
| Amortisation for the year | **(331)** | (331) |
| At the end of the year | **(1,248)** | (917) |
| **Net book value:** | | |
| At the end of the year | **15,320** | 15,651 |

Lease prepayments of the Group and the Company mainly represent the prepayments for the land use premium held under operating leases.

## 14 INVENTORIES

Inventories in the consolidated statements of financial position and statements of financial position of the Company comprise:

| | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|
| Fuel | **1,126** | 2,550 |
| Goods and supplies | **4,055** | 3,813 |
| | **5,181** | 6,363 |

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Cost of fuel used | **87,158** | 81,990 |
| Cost of goods and supplies sold | **29,538** | 37,260 |
| Write down of inventories | **365** | – |
| | **117,061** | 119,250 |

## 15 CONTRACT ASSETS AND CONTRACT LIABILITIES

### (a) Contract assets

| | *Notes* | **31 December 2018 RMB'000** | **1 January 2018 (i) RMB'000** | 31 December 2017 (i) RMB'000 |
|---|---|---|---|---|
| **Contract assets** | | | | |
| Arising from performance under construction contracts, net loss of allowance | *(ii)* | **304** | **4,747** | – |

Notes:

(i) The Group has initially applied IFRS 9 and IFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 1(r)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

## 15 CONTRACT ASSETS AND CONTRACT LIABILITIES *(continued)*

### (b) Contract liabilities

| | Notes | **31 December 2018 RMB'000** | **1 January 2018 (i) RMB'000** | 31 December 2017 (i) RMB'000 |
|---|---|---|---|---|
| **Contract liabilities** | | | | |
| Electricity and power supply contracts | | | | |
| Billings in advance of performance | *(ii)* | **25,305** | **22,185** | – |

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of IFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis

## 16 TRADE AND BILL RECEIVABLES

| | **At 31 December 2018 RMB'000** | **At 1 January 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|---|
| Accounts receivable, net loss allowance | **32,975** | **37,163** | 41,910 |
| Bills receivable | **1,600** | **–** | – |
| | **34,575** | **37,163** | 41,910 |

Notes:

(i) Upon the adoption of IFRS 9, due to the insignificant amount, no opening adjustments were made on January 1, 2018 to recognize the additional expected credit losses on trade receivables and notes receivable.

(ii) Upon the adoption of IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 1(r)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

## 16 TRADE AND BILL RECEIVABLES *(continued)*

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable, based on the invoice date and net of loss allowance, is as follows:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Within 3 months | **31,976** | 36,157 |
| 4 to 6 months | **2,394** | 5,080 |
| 7 to 9 months | **71** | 17 |
| 10 to 12 months | **–** | – |
| Over 12 months | **134** | 656 |
| | **34,575** | 41,910 |

Trade receivables are generally due within 30 – 90 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 24(a).

## 17 OTHER RECEIVABLES AND ASSETS

| | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|
| Deposits with third parties | **846** | 676 |
| Advance to suppliers | **130** | 276 |
| Listing expenses prepayments | **–** | 21,239 |
| | **976** | 22,191 |

## 18 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

| | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|
| Cash at bank | **140,400** | 116,071 |

## 18 CASH AND CASH EQUIVALENTS *(continued)*

### (b) Reconciliation of liabilities arising from financing activities

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

| | Loans and borrowings RMB'000 | Dividends payable RMB'000 | Interest payables RMB'000 | (Listing expenses prepayments)/ Payables for listing expenses RMB'000 | Payment to shareholders for capital reduction RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2016** | 24,000 | 21,000 | – | – | 203,634 |
| Cash flows | (24,000) | (21,000) | (673) | (15,054) | – |
| *Non-cash changes* | | | | | |
| Interest incurred | – | – | 673 | – | 10,647 |
| Listing expenses prepayments and accruals (net) | – | – | – | 1,783 | – |
| **At 31 December 2017** | – | – | – | (13,271) | 214,281 |
| Cash flows | – | – | – | (21,039) | (72,490) |
| *Non-cash changes* | | | | | |
| Interest incurred | – | – | – | – | 9,922 |
| Listing expenses deducted from capital reserve and charged to profit and loss | – | – | – | 34,310 | – |
| **At 31 December 2018** | **–** | **–** | **–** | **–** | **151,713** |

## 19 TRADE AND OTHER PAYABLES

| | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|
| Trade payable to third parties | **36,547** | 33,078 |
| Deposit received | **1,045** | 900 |
| Payables for value added tax and other taxes | **539** | 1,730 |
| Payables for purchase of property, plant and equipment | **4,087** | 537 |
| Payables for listing expenses | **–** | 7,968 |
| Others | **707** | 45 |
| | **42,925** | 44,258 |

All of the other trade and other payables (including amounts due to related parties), apart from those mentioned in note 20, are expected to be settled or recognised as income within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Within 3 months | **40,821** | 42,712 |
| 4 to 6 months | **675** | 801 |
| 7 to 12 months | **789** | 121 |
| Over 12 months | **640** | 624 |
| | **42,925** | 44,258 |

The balance of trade payables that over 1 year mainly represent of quality guarantee deposit for construction.

## 20 DEFERRED INCOME

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Prepaid facility usage fees *(a)* | **–** | 7,898 |
| Government grants *(b)* | **11,431** | 9,950 |
| | **11,431** | 17,848 |

(a) The Company received prepaid facility usage fees for power grid facilities specifically constructed for certain external customers, which have been recognised as deferred income and amortised over the service period to profit or loss.

Upon the adoption of IFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(b) The Group received subsidies from the local government on the construction and acquisition of related property, plant and equipment for denitrification systems in the Haigang thermal plant, which have been recognised as deferred income and amortised over the useful life of the related assets to profit or loss.

The Group received grants from the local government on the construction and upgrade of the heating pipelines and discharge facilities in 2017 and 2018 which have been recognised as deferred income and are subsequently recognised in profit or loss over the useful life of the related assets.

## 21 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### (a) Current taxation in the consolidated statement of financial position represents:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Provision for Tax for the year | **11,577** | 12,942 |
| Provisional Profits Tax paid | **(12,358)** | (15,849) |
| | **(781)** | (2,907) |
| Balance of Profits Tax provision relating to prior years | **2,633** | 5,540 |
| | **1,852** | 2,633 |

## 21 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(continued)*

### (b) Deferred tax assets and liabilities recognised:

#### *(i) Movement of each component of deferred tax assets and liabilities*

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

| Deferred tax arising from: | Property, plant and equipment RMB'000 | Credit loss allowance RMB'000 | Provision of Inventories RMB'000 | Infrastructure compensation RMB'000 | Interest-free payable to equity owner RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2017 | (2,394) | – | – | 2,097 | (9,310) | (9,607) |
| Credited/(charged) to profit or loss | 303 | – | – | (121) | 2,663 | 2,845 |
| At 31 December 2017 | (2,091) | – | – | 1,976 | (6,647) | (6,762) |
| Credited/(charged) to profit or loss | 303 | 17 | 91 | (121) | 2,482 | 2,772 |
| At 31 December 2018 | **(1,788)** | **17** | **91** | **1,855** | **(4,165)** | **(3,990)** |

#### *(ii) Reconciliation to the consolidated statement of financial position*

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Net deferred tax liability recognised in the consolidated statement of financial position | **(3,990)** | (6,762) |

## 22 OTHER NON-CURRENT LIABILITIES

In October 2016, the Company reduced its equity by RMB240,874,000 and recorded the capital to be returned as non-current payables to Tianjin Tianbao Holdings Limited and Tianjin Free Trade Zone Investment Company Limited (the "Shareholders") of RMB228,384,000 and RMB12,490,000, respectively.

According to the supplementary agreement between the Company and the Shareholders entered into in December 2016, the Group scheduled the payment terms as follows: (1) payment to Tianjin Free Trade Zone Investment Company Limited of RMB12,490,000 before June 2018; (2) payment to Tianjin Tianbao Holdings Limited of RMB60,000,000 before December 2018; (3) payment to Tianjin Tianbao Holdings Limited of RMB80,000,000 before December 2020; (4) payment to Tianjin Tianbao Holdings Limited of RMB88,384,000 before December 2021. The payables to Shareholders are interest-free.

## 22 OTHER NON-CURRENT LIABILITIES *(continued)*

The difference between the amount of total payments and their present value (net of income tax) amounted to RMB27,903,000 was recorded in capital reserve as capital contribution from Shareholders for the year ended 31 December 2016.

During the year ended 31 December 2018, the Company paid to Tianjin Free Trade Zone Investment Company Limited of RMB12,490,000, and Tianjin Tianbao Holdings Limited of RMB60,000,000. As of 31 December 2018, the total undiscounted payable to the Shareholders was RMB168,384,000 (2017: RMB240,874,000), and the corresponding present value of the payments was RMB151,713,000 (2017: RMB214,281,000), including Nil (2017: RMB72,490,000) was recorded as current portion of other non-current liabilities.

## 23 CAPITAL AND RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Paid-in capital/ Share capital RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2017** | 87,003 | 55,753 | 16,959 | 51,074 | 210,789 |
| Total comprehensive income | – | – | – | 28,339 | 28,339 |
| Appropriation to reserves | – | – | 2,834 | (2,834) | – |
| Capitalization upon converting into a joint stock company | 28,598 | 34,421 | (11,612) | (51,407) | – |
| **At 31 December 2017** | 115,601 | 90,174 | 8,181 | 25,172 | 239,128 |
| **At 1 January 2018** | **115,601** | **90,174** | **8,181** | **25,172** | **239,128** |
| Total comprehensive income | **–** | **–** | **–** | **25,421** | **25,421** |
| Appropriation to reserves | **–** | **–** | **2,542** | **(2,542)** | **–** |
| Issuance of shares upon public offering, net of issuing expenses | **44,320** | **(11,037)** | **–** | **–** | **33,283** |
| **At 31 December 2018** | **159,921** | **79,137** | **10,723** | **48,051** | **297,832** |

## 23 CAPITAL AND RESERVES *(continued)*

### (b) Share capital

| | **2018 No. of shares ('000)** | **RMB'000** | 2017 No. of shares ('000) | RMB'000 |
|---|---|---|---|---|
| **Ordinary shares, issued and fully paid:** | | | | |
| At 1 January | **115,601** | **115,601** | 87,003 | 87,003 |
| Capitalization upon converting into a joint stock company | **–** | **–** | 28,598 | 28,598 |
| Issuance of shares upon public offering | **44,320** | **44,320** | – | – |
| At 31 December | **159,921** | **159,921** | 115,601 | 115,601 |

On 28 February 2017, the Company was converted from a limited liability company into a joint stock limited company. Based on the approval obtained from authorities, the Company issued and allotted 115,600,907 ordinary shares with par value of RMB1.00 each to the respective then shareholders of the Company in accordance with the proportion of their paid-in capitals to the Company as at 28 February 2017. The remaining net assets of the Company as at the base date 30 November 2016 were converted into capital reserve.

In April 2018, the Company issued an aggregation of 44,320,000 H shares with a par value of RMB1.00, at a price of HKD1.90 per each H share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

### (c) Capital reserve

The capital reserve comprises the capital premium, contributions from shareholders, the impacts of capital injections and capital reductions.

In April 2018, the Company issued an aggregation of 44,320,000 H shares with a par value of RMB1.00, at a price of HKD1.90 per H share. The difference between the total amount of the par value of shares issued and the amount of the proceeds received from the IPO with the amount of RMB23,273,000 were credited to the Company's capital reserve.

The listing expenses directly attributable to the IPO with the amount of RMB34,310,000 were deducted from capital reserve.

## 23 CAPITAL AND RESERVES *(continued)*

### (d) Statutory surplus reserves

According to the Company Law of the PRC, the Company's articles of association, the Company appropriates 10% of each year's net profit under Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China ("PRC GAAP") to the statutory surplus reserve. The Company has the option to cease provision for such reserve when it reaches 50% of the registered paid-in capital. Upon the approval from relevant authorities, this reserve can be used to make up any losses incurred or to increase paid-in capital. Except for offsetting against losses, this reserve cannot fall below 25% of the registered share capital after being used to increase share capital.

### (e) Distributable reserves

Payment of future dividends will be determined by the Company's Board of Directors. The payment of the dividends will depend upon, the future earnings, capital requirements and financial conditions and general business conditions of the Company. As the controlling owner, Tianjin Tianbao Holdings Limited will be able to influence the Company's dividend policy. As at 31 December 2018, the aggregate amount of reserves available for distribution to the shareholders of the Company is RMB48,051,000.

Following the establishment of the Company, under the Company Law of the PRC and the Company's Articles of Association, net profit after tax as reported in the statutory financial statements prepared in accordance with the accounting rules and regulations of the PRC can only be distributed as dividends after allowances have been made for the following:

(i) Making up prior years' cumulative losses, if any;

(ii) Allocations to the reserve fund; and

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

After the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("HKSE"), in accordance with the Articles of Association of the Company, the net profit after tax of the Company for the purpose of dividends payment will be lesser of (i) the net profit determined in accordance with the accounting rules and regulations of the PRC; and (ii) the net profit determined in accordance with IFRS.

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder 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 Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and obligations under finance leases but excludes redeemable preference shares) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

## 23 CAPITAL AND RESERVES *(continued)*

### (f) Capital management *(continued)*

The Group's adjusted net debt-to-capital ratio at 31 December 2018 and 2017 was as follows:

| | *Note* | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|---|
| Current liabilities: | | | |
| Current portion of other non-current liabilities | *22* | **–** | 72,490 |
| Non-current liabilities: | | | |
| Other non-current liabilities | *22* | **151,713** | 141,791 |
| Less: Cash and cash equivalents | | **(140,400)** | (116,071) |
| **Adjusted net debt** | | **11,313** | 98,210 |
| Total equity | | **304,435** | 244,805 |
| **Adjusted capital** | | **304,435** | 244,805 |
| **Net debt-to-capital ratio** | | **4%** | 40% |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

### (g) Dividends

Dividends payable to equity shareholders of the Company attributable to the year

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Final dividend proposed after the end of the reporting period of RMB0.08 per ordinary share | **12,794** | – |
| | **12,794** | – |

The final dividend proposed after the end of the reporting year has not been recognised as a liability at the end of the reporting year.

## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and bill receivables and contract assets.

#### *Trade and bill receivables and contract assets*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 22% (2017: 26%) and 53% (2017: 41%) of the trade and bill receivables and contract assets was due from the Group's largest customer and the five largest customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade and bill receivables and contract assets are due within 30 days to 90 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade and bill receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

***Trade and bill receivables and contract assets*** *(continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bill receivables and contract assets as at 31 December 2018:

| | Expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|---|---|---|---|
| Current (not past due) | 0.02% | 31,976 | 6 |
| 1 to 3 months past due | 0.37% | 2,603 | 9 |
| 4 to 6 months past due | 3.95% | 75 | 3 |
| 7 to 9 months past due | 4.00% | – | – |
| 10 to 12 months past due | 17.10% | 293 | 50 |
| | | 34,947 | 68 |

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade and bill receivables and contract assets during the year is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Balance at January 1 | – | – |
| Impairment loss recognised during the Reporting Period | 68 | – |
| Balance at December 31 | 68 | – |

## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

| | **2018** | | | | | |
|---|---|---|---|---|---|---|
| | **Contractual undiscounted cash outflow** | | | | | |
| | **Within 1 year or on demand RMB'000** | **More than 1 year but less than 2 years RMB'000** | **More than 2 years but less than 5 years RMB'000** | **More than 5 years RMB'000** | **Total RMB'000** | **Carrying amount RMB'000** |
| Trade and other payables | **42,925** | **–** | **–** | **–** | **42,925** | **42,925** |
| Salary and welfare payables | **2,129** | **–** | **–** | **–** | **2,129** | **2,129** |
| Other non-current liabilities | **–** | **80,000** | **88,384** | **–** | **168,384** | **151,713** |
| **Total** | **45,054** | **80,000** | **88,384** | **–** | **213,438** | **196,767** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Contractual undiscounted cash outflow | | | | | |
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Carrying amount RMB'000 |
| Trade and other payables | 44,258 | – | – | – | 44,258 | 44,258 |
| Salary and welfare payables | 2,431 | – | – | – | 2,431 | 2,431 |
| Current portion of other non-current liabilities | 72,490 | – | – | – | 72,490 | 72,490 |
| Other non-current liabilities | – | – | 168,384 | – | 168,384 | 141,791 |
| **Total** | 119,179 | – | 168,384 | – | 287,563 | 260,970 |

## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Currency risk

The Group is exposed to currency risk primarily through Issuance of shares upon public offering which give rise to cash balances that are denominated in a foreign currency. The currencies giving rise to this risk are primarily Hong Kong dollars. The Group manages this risk as follows:

#### *(i) Exposure to currency risk*

The following table details the Group's exposure at the end of each reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | **Exposure to foreign currencies** | |
|---|---|---|
| | **2018** | 2017 |
| | **Hong Kong Dollars** | Hong Kong Dollars |
| | **RMB'000** | RMB'000 |
| Cash and cash equivalents | **61,073** | – |
| Gross exposure arising from recognised assets and liabilities | **61,073** | – |

#### *(ii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the RMB and the Hong Kong dollar would be materially unaffected by any changes in movement in value of the Hong Kong dollar against other currencies.

| | **At 31 December 2018** | | At 31 December 2017 | |
|---|---|---|---|---|
| | **Increase/(decrease) in foreign exchange rates** | **Effect on loss after tax and accumulated losses** | Increase/(decrease) in foreign exchange rates | Effect on loss after tax and accumulated losses |
| | | **RMB'000** | | RMB'000 |
| Hong Kong Dollars | **10%** | **4,580** | 10% | – |
| | **(10%)** | **4,580** | (10%) | – |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

### (d) Fair value measurement

As at 31 December 2018 and 2017, the carrying amounts of trade and bill receivables, contract assets, other receivables and assets, trade and other payables and contract liabilities were not materially different from their fair values.

## 25 COMMITMENTS

### (a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

| | At 31 December 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Contracted for | – | 7,078 |
| Authorised but not contracted for | 5,748 | 24,142 |
| | 5,748 | 31,220 |

### (b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Within 1 year | 623 | 617 |
| After 1 year but within 5 years | 54 | 41 |
| | 677 | 658 |

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under operating leases. The leases typically run for an initial period of 1 to 2 years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every 1 years to reflect market rentals. None of the leases includes contingent rentals.

## 26 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Short-term employee benefits | 3,550 | 2,238 |
| Post-employment benefits | 684 | 356 |
| | 4,234 | 2,594 |

Total remuneration is included in "staff costs" (see note 5(b)).

## 26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) Related party balances and transactions

The related parties of the Company and its subsidiary that had transactions with the Company and its subsidiary are as follows:

| Names of related parties | Nature of relationship |
|---|---|
| Tianjin Free Trade Zone Investment Company Limited<br>天津保稅區投資有限公司 | a subsidiary of Tianjin Free Trade Zone Investment Holdings Group Co., Ltd. ("Tianbao Group") |
| Tianjin Tianbao Construction Development Co., Ltd.<br>天津天保建設發展有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao Finance Company Ltd.<br>天津天保財務有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao Municipal Co., Ltd.<br>天津天保市政有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao International Logistics Co., Ltd.<br>天津天保國際物流集團有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao Century Trade Development Co. Ltd.<br>天津天保世紀貿易發展有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao Hongxin Logistics Center Co., Ltd.<br>天津天保宏信物流中心有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao Real Estate Co., Ltd.<br>天津天保置業有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao Asset Management Co., Ltd.<br>天津天保資產經營管理有限公司 | a subsidiary of Tianbao Group |
| Tianjin International Logistics Park Co., Ltd.<br>天津國際物流園有限公司 | a subsidiary of Tianbao Group |
| Tianbao Mingmen (Tianjin) International Cargo Agent Co., Ltd.<br>天保名門（天津）國際貨運代理有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianjian Vehicle Inspection Service Co., Ltd.<br>天津天檢汽車檢測服務有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao Science and Technology Development Co., Ltd.<br>天津天保科技發展有限公司 | a subsidiary of Tianbao Group |

## 26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) Related party balances and transactions *(continued)*

| Names of related parties | Nature of relationship |
|---|---|
| Tianjin Free Trade Zone Import Vehicle Inspection Co., Ltd. 天津港保稅區天保進口機動車檢測有限公司 | a subsidiary of Tianbao Group |
| Tianjin Tianbao Holdings Limited 天津天保控股有限公司 | parent company |
| Tianjin Free Trade Zone Investment Holdings Group Co., Ltd. 天津保稅區投資控股集團有限公司 | ultimate controlling company |

* The English translation of the Company's name is for reference only. The official name of the Company is in Chinese.

### (c) Related party balances

#### *(i) Cash deposits in a related party*

| | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|
| Deposits in Tianjin Tianbao Finance Company Ltd. | **–** | 102,294 |

#### *(ii) Other receivables and assets comprised the following balances due from related parties:*

| | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|
| Due from Tianbao Group and its subsidiaries | **378** | 1,588 |

#### *(iii) Other payables and liabilities comprised the following balances due to related parties:*

| | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|
| Due to Tianjin Tianbao Holdings Limited | **168,384** | 228,384 |
| Due to Tianjin Free Trade Zone Investment Company Limited | **–** | 12,490 |
| Advance received from Tianbao Group's subsidiaries | **2,772** | 2,047 |
| | **171,156** | 242,921 |

As of 31 December 2018, the balance including the undiscounted payments value to the Shareholders for capital reduction of RMB168,384,000 (2017: RMB240,874,000).

## 26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (d) Related party transactions

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Sales of goods to** | | |
| Subsidiaries of Tianbao Group | **10,994** | 8,677 |
| **Purchase of goods from** | | |
| Subsidiaries of Tianbao Group | **425** | 365 |
| **Services provided to** | | |
| Subsidiaries of Tianbao Group | **5,904** | 6,635 |
| **Interest income** | | |
| Subsidiaries of Tianbao Group | **279** | 1,359 |
| **Payment for refund of capital** | | |
| Tianbao Group | **72,490** | – |

### (e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of purchase of goods and providing services above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected transaction" of the Report of the Directors. The related party transactions in respect of sales of goods, interest income and payment for refund of capital above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are conducted on normal commercial terms that are comparable to or no more favourable than those offered to independent third parties and it is not secured by the assets of our Group.

## 27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | At 31 December 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **352,428** | 351,496 |
| Investments in subsidiaries | | **6,258** | 6,258 |
| Lease prepayment | | **15,320** | 15,651 |
| Intangible assets | | **1,777** | 1,250 |
| | | **375,783** | 374,655 |
| **Current assets** | | | |
| Inventories | | **2,145** | 3,549 |
| Trade and bill receivables | | **24,885** | 30,644 |
| Contract assets | | **304** | – |
| Other receivables and assets | | **844** | 24,004 |
| Cash and cash equivalents | | **135,919** | 112,585 |
| | | **164,097** | 170,782 |
| **Current liabilities** | | | |
| Trade and other payables | *19* | **38,471** | 40,505 |
| Receipt in advance | | **–** | 22,069 |
| Contract liabilities (current portion) | | **25,252** | – |
| Salary and welfare payables | | **1,764** | 2,256 |
| Current taxation | | **1,924** | 2,588 |
| Current portion of other non-current liabilities | *22* | **–** | 72,490 |
| | | **67,411** | 139,908 |
| **Net current assets** | | **96,686** | 30,874 |
| **Total assets less current liabilities** | | **472,469** | 405,529 |

## 27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(continued)*

| | *Note* | **At 31 December 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred income | | **11,431** | 17,848 |
| Contract liabilities (non-current portion) | | **7,411** | – |
| Deferred tax liabilities | | **4,082** | 6,762 |
| Other non-current liabilities | | **151,713** | 141,791 |
| | | **174,637** | 166,401 |
| **NET ASSETS** | | **297,832** | 239,128 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **159,921** | 115,601 |
| Reserves | | **137,911** | 123,527 |
| **TOTAL EQUITY** | | **297,832** | 239,128 |

Approved and authorised for issue by the Board of Directors on 26 March 2019.

Name: Gao Hongxin
Position: Director

Name: Xing Cheng
Position: Director

(Expressed in RMB unless otherwise indicated)

## 28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting year the directors proposed a final dividend. Further details are disclosed in note 23(g).

## 29 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

## 30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate parent and ultimate controlling party of the Group to be Tianjin Tianbao Holdings Limited, which is incorporated in Tianjin. This entity does not produce financial statements available for public use.

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| IFRS 16, *Leases* | 1 January 2019 |
| IFRIC 23, *Uncertainty over income tax treatments* | 1 January 2019 |
| Annual Improvements to IFRSs 2015-2017 Cycle | 1 January 2019 |
| Amendments to IAS 28, *Long-term interest in associates and joint ventures* | 1 January 2019 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has not identified any aspects of the IFRS 16 which may have a significant impact on the consolidated financial statements. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

### IFRS 16, Leases

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)*

### IFRS 16, Leases *(continued)*

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognize the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 25(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB677,000, the majority of which is payable within 1 year after the reporting date.

The Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could not have a material impact on the Group's financial statement from 2019 onwards.

| | |
|---|---|
| "Articles of Association" | the articles of association of the Company |
| "Board" or "Board of Directors" | the board of directors of the Company |
| "CASBE" | China Accounting Standards for Business Enterprises |
| "Company", "our Company", "we" or "us" | Tianjin Tianbao Energy Co., Ltd. (天津天保能源股份有限公司) |
| "Controlling Shareholder(s)" | has the meaning ascribed to it under the Listing Rules and in this report refers to Tianbao Holdings and TFIHC |
| "Director(s)" | director(s) of the Company |
| "Domestic Shares" | the ordinary shares issued in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB |
| "Group" or "our Group" | the Company and its subsidiary |
| "Haigang Thermal Plant" | The power plant located in Tianjin Port Free Trade Zone (Seaport) is currently held by the Group |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong dollars" or "HK$" or "HK dollars" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong Stock Exchange" or "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "H Shares" | the ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the main board of Stock Exchange of Hong Kong Limited |
| "IFRS" | International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board, and International Accounting Standards and Interpretations issued by the International Accounting Standards Board |
| "Konggang Thermal Plant" | The power plant located in Tianjin Airport Economic Zone which is currently held by Tianbao Holdings, the controlling shareholder of the Company, which operates energy production and supply business. |
| "Latest Practicable Date" | April 15, 2019, being the latest practicable date prior to the printing of this Annual Report for ascertaining certain information contained herein |
| "Listing Date" | April 27, 2018 |

| | |
|---|---|
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited |
| "PRC" or "China" | the People's Republic of China, unless otherwise specified, for the purpose of this Annual Report and geographical reference, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan |
| "Prospectus" | the prospectus of the Company dated on April 16, 2018 |
| "Reporting Period" | from January 1, 2018 to December 31, 2018, being the financial year of this Annual Report |
| "RMB" or "Renminbi" | the lawful currency of the PRC |
| "Securities and Futures Ordinance" or "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) in the share capital of our Company, with a nominal value of RMB1.00 each |
| "Shareholders" | holder(s) of the Share(s), including the holders of H Shares and Domestic Shares of the Company |
| "Supervisor(s)" | supervisors of the Company |
| "Supervisory Board" | the board of Supervisors |
| "TFIHC" | Tianjin Free Trade Zone Investment Holdings Group Co., Ltd. (天津保税區投資控股集團有限公司), a wholly-owned subsidiary of Tianjin Port Free Trade Zone State-owned Assets Administration Bureau (天津港保税區國有資產管理局) established in the PRC, one of our Controlling Shareholders |
| "Tianbao Group" | collectively, TFIHC and its subsidiaries (excluding our Company and Tianjin Baorun) |
| "Tianbao Holdings" | Tianjin Tianbao Holdings Limited (天津天保控股有限公司), a limited liability company established in the PRC on January 28, 1999 and a wholly-owned subsidiary of TFIHC, one of our Controlling Shareholders |
| "Tianbao Investment" | Tianjin Free Trade Zone Investment Company Limited (天津保税區投資有限公司), a state-owned enterprise established in the PRC on January 18, 2002 and a wholly-owned subsidiary of TFIHC, one of our Shareholders |
| "Tianjin Baorun" | Tianjin Baorun International Trading Electrical Engineering Co., Ltd. (天津保潤國際貿易電氣工程有限公司), a limited liability company established in the PRC on November 21, 1994, a wholly-owned subsidiary of our Company |

## REGISTERED NAME

Tianjin Tianbao Energy Co., Ltd.

## DIRECTORS

### EXECUTIVE DIRECTORS

Mr. GAO Hongxin (高洪新) *(Chairman of the Board)*
Mr. XING Cheng (邢城) *(General manager)*
Mr. PENG Chong (彭沖)
Ms. FANG Wei (房瑋) *(resigned on February 28, 2019)*

### NON-EXECUTIVE DIRECTORS

Mr. YU Yang (于暘)
Mr. WU Tao (武韜)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Tsz Bun (劉子斌)
Mr. HAN Xiaoping (韓曉平)
Ms. YANG Ying (楊瑩)

## AUDIT COMMITTEE

Mr. LAU Tsz Bun (劉子斌) *(Chairperson)*
Ms. YANG Ying (楊瑩)
Mr. WU Tao (武韜)

## REMUNERATION COMMITTEE

Mr. LAU Tsz Bun (劉子斌) *(Chairperson)*
Ms. YANG Ying (楊瑩)
Mr. PENG Chong (彭沖)

## NOMINATION COMMITTEE

Mr. GAO Hongxin (高洪新) *(Chairperson)*
Ms. YANG Ying (楊瑩)
Mr. HAN Xiaoping (韓曉平)

## BOARD OF SUPERVISORS

Ms. XUE Xiaofang (薛曉芳) *(Chairperson)*
Mr. SHAO Guoyong (邵國永)
Mr. YANG Kui (楊逵)

## COMPANY SECRETARIES

Mr. LAU Kwok Yin (劉國賢) *(appointed on May 30, 2018)*
Ms. FANG Wei (房瑋) *(resigned on February 28, 2019)*
Mr. WONG Yat Tung (黃日東) *(resigned on May 30, 2018)*

## AUTHORIZED REPRESENTATIVE

Mr. PENG Chong (彭沖) *(appointed on February 28, 2019)*
No. 35 Haibinba Road
Tianjin Port Free Trade Zone
Tianjin City
PRC

Mr. LAU Kwok Yin (劉國賢) *(appointed on May 30, 2018)*
40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

Ms. FANG Wei (房瑋) *(resigned on February 28, 2019)*
Mr. WONG Yat Tung (黃日東) *(resigned on May 30, 2018)*

## REGISTERED OFFICE AND HEAD OFFICE

No. 35 Haibinba Road
Tianjin Port Free Trade Zone
Tianjin City
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

## PRINCIPAL BANKERS

Bank of China (Tianjin Pilot Free Trade Zone Branch)
No. 88 Haibinjiu Road
Tianjin Port Free Trade Zone
Tianjin, PRC

Industrial and Commercial Bank of China Limited (Tianjin Tianbao Branch)
No. 176 Tianbao Avenue
Tianjin Port Free Trade Zone
Tianjin, PRC

## AUDITOR

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

# Corporate Information

## HONG KONG LEGAL ADVISER

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

## PRC LEGAL ADVISER

King & Wood Mallesons
No.17-18, East Office Building, World Financial Center
Building 1, No. 1, East Third Ring Road
Chaoyang District, Beijing, PRC

## COMPLIANCE ADVISOR

Orient Capital (Hong Kong) Limited
Shops 2701 and 06-08, 27/F
Wing On House
71 Des Voeux Road Central
Central, Hong Kong

## H SHARE REGISTRAR

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

## STOCK CODE

1671

## COMPANY'S WEBSITE

www.tjtbny.com

## PLACE OF LISTING

The Stock Exchange of Hong Kong Limited