欣融 shineroad

Shineroad International Holdings Limited
欣融國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code : 1587

ANNUAL REPORT

2019

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Huang Haixiao *(Chairman of the Board)*
Ms. Huang Xin Rong *(Chief Executive Officer)* (redesignated from non-executive Director with effect from 14 January 2019)
Mr. Dai Yihui (appointed with effect from 2 December 2019)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tan Wee Seng
Mr. Chan Ka Kit
Mr. Meng Yuecheng

COMPANY SECRETARY

Mr. Tse Yin Fung (appointed with effect from 23 September 2019)

AUTHORISED REPRESENTATIVES

Mr. Huang Haixiao
Mr. Tse Yin Fung (appointed with effect from 23 September 2019)

AUDIT COMMITTEE

Mr. Tan Wee Seng *(Chairman)*
Mr. Chan Ka Kit
Mr. Meng Yuecheng

REMUNERATION COMMITTEE

Mr. Tan Wee Seng *(Chairman)*
Mr. Chan Ka Kit
Mr. Meng Yuecheng

NOMINATION COMMITTEE

Mr. Huang Haixiao *(Chairman)*
Mr. Tan Wee Seng
Mr. Meng Yuecheng

REGISTERED OFFICE

P.O. Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

AUDITORS

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER

Cinda International Capital Limited

LEGAL ADVISERS

as to Hong Kong laws
Loong & Yeung

HEADQUARTERS IN THE PRC

25th Floor South
Block 1 Zhongyou Building
Lane 1040 Caoyang Road
Putuo District
Shanghai China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 6, 16/F, K. Wah Centre
191 Java Road, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
P.O. Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation Shanghai Fengxian Branch

COMPANY WEBSITE

http://www.shineroad.com

STOCK CODE

1587

Dear Shareholders,

For and on behalf of the board (the "**Board**") of directors (the "**Directors**") of Shineroad International Holdings Limited (hereinafter referred to as "**we**", "**us**" or the "**Company**") and its subsidiaries (collectively the "**Group**"), I would like to present to the shareholders of the Company (the "**Shareholders**") the annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

RESULT ANALYSIS AND BUSINESS REVIEW

The shares of the Company (the "**Shares**") were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong (the "**Stock Exchange**") on 27 June 2018 (the "**Listing Date**"). The Listing marked a meaningful and significant milestone of the Group. As stated in the prospectus of the Company dated 14 June 2018 (the "**Prospectus**"), the Group will continue to enhance our Group's competitiveness in the food ingredients and additives distribution industry and capture the potential growth of food industry in the People's Republic of China (the "**PRC**" or "**China**").

Our research and development capacity has distinguished us from other competitors in the food ingredients and additives distribution industry and provides us with a unique edge to develop our reputation and our diversified customer networks. By leveraging our research and development capability on food ingredients and food additives application solutions, we stick with our mission of "To be the Most Reliable Partner in Food Industry".

For the year ended 31 December 2019, our Group recorded a revenue of approximately RMB579.9 million, representing an increase of approximately 10.3% as compared to the corresponding period last year (2018: RMB525.6 million). The profit for the year ended 31 December 2019 was approximately RMB30.0 million, representing an increase of approximately 6.8% compared with the corresponding period of last year (2018: RMB28.1 million); while our Group's basic earnings per share was RMB0.04, a decrease of RMB0.01 compared with the corresponding period of last year (2018: RMB5 cents).

Our Group has followed the planned use of proceeds as stated in the section headed "Future Plans and Use of Proceeds" of the Prospectus. We successfully set up four new branches in the PRC, employed nine more professionals enhancing our product management centre and technology centre, and participated in six exhibitions in 2019.

PROSPECTS

As we enter 2020, the novel coronavirus pneumonia ("**COVID-19**") spread widely in China. Facing the grim situation of COVID-19 outbreak, the Group has, in a timely manner, adopted various anti-epidemic measures to protect the safety and health of all its employees in different regions as top priority. The Group is taking proactive measures and making active responses in an effort to minimise the losses caused by the epidemic.

With the Group's mission to be the most reliable partner for both food manufacturers and suppliers in food industry, our focus will be on maintaining operational resilience in times of unpredictability and challenges. We will continue implementing our business strategies by consolidating market with the new branches, enhancing our research and development capabilities, diversifying product portfolio with more secured distribution rights, and enlarging brand influence by participating in promotional and marketing activities. Moreover, we are setting up new subsidiaries in South East Asian countries to further diversify, build and strengthen our capabilities in food market connectivity.

Looking forward, we have faith to diversify and accommodate into this ever changing market.

APPRECIATION

I take this opportunity to represent the Board and express our sincere gratitude to the contributions made by all of our Directors, the management team and all staff of the Group for their dedication and valuable contribution over the past year. Thank you for your contribution and for your growth with our Group!

At the same time, we are deeply grateful to our customers, suppliers, business partners and Shareholders for their continued support and trust. Our Group will continue to focus on the development of quality and efficiency so as to achieve satisfactory results and thereby bring sustainable returns to our Shareholders.

Shineroad International Holdings Limited
Chairman
Huang Haixiao

Hong Kong, 30 March 2020

BUSINESS REVIEW

Overview

The Group is a distributor in the food ingredients and additives distribution industry with a focus on supplying food ingredients and food additives to food manufacturers. Our research and development capacity has distinguished us from other competitors in the industry and provides us a unique edge to develop our reputation and our diversified customer networks. By leveraging our research and development capability on food ingredients application solutions, we strive "To be the Most Reliable Partner in Food Industry".

The Shares have been listed on the Main Board of the Stock Exchange on 27 June 2018 when 170,000,000 ordinary Shares (comprising a public offer of 68,000,000 Shares and a placing of 102,000,000 Shares) have been offered for subscription at an offer price of HK$0.75 per Share.

The Group will continue to engage in the food ingredients and additives distribution industry. We successfully set up four new branches in the PRC, employed nine more professionals enhancing our product management centre and technology centre, and participated in six exhibitions in 2019.

FINANCIAL REVIEW

For the year ended 31 December 2019 (the "**FY2019**"), the Group's revenue was RMB579.9 million (2018: RMB525.6 million). For the FY2019, the Group recorded profit of RMB30.0 million (2018: RMB28.1 million).

Revenue

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. The Group derives its revenue mainly from the distribution of food ingredients, food additives and packaging materials in the PRC. The Group's revenue for the FY2019 was RMB579.9 million, representing an increase of 10.3% as compared to that of RMB525.6 million for the year ended 31 December 2018 (the "**FY2018**"). Despite an unstable overall macro-environment, the Group achieved double-digit revenue growth in 2019 driven by the continued development of new customers and growth in effective strategies taken by the Group.

An analysis of revenue, net is as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
REVENUE		
Food ingredients	**317,443**	292,914
Food additives	**243,669**	227,390
Packaging materials	**18,773**	5,274
	579,885	525,578

Cost of sales

The Group's cost of sales solely represents cost of goods sold, which mainly represents the cost of food ingredients and food additives purchased from suppliers. The Group's cost of sales for the FY2019 was RMB479.6 million, representing an increase of approximately 12.1% as compared to RMB427.7 million for the FY2018. The increase in cost of sales was primarily due to the increase of sales volume in food ingredients.

Gross profit and gross profit margin

Gross profit of the Group for the FY2019 rose by RMB2.3 million to RMB100.2 million (FY2018: RMB97.9 million), and the gross profit margin decreased to 17.3% (FY2018: 18.6%). The decrease in the gross profit margin was mainly due to the increase of sales volume in packaging materials with lower gross profit margin and the increase of import cost from exchange rate fluctuation.

Other income and gains

Other income and gains primarily consist of bank interest income, government grants, interest income from structured deposits, consultancy service income and others. Other income decreased by RMB0.9 million or 12.7% from RMB7.1 million for the FY2018 to RMB6.2 million for the FY2019 mainly due to the decrease in government grants and consultancy service income.

An analysis of other income and gains, net is as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Other income and gains, net		
Bank interest income	**2,579**	1,400
Interest income from structured deposits	**1,180**	—
Government grants*	**2,089**	4,866
Consultancy service income	**155**	641
Others	**181**	210
	6,184	7,117

* There were no unfulfilled conditions and other contingencies attaching to government grants that had been recognised.

Selling and distribution expenses

Selling and distribution expenses primarily consist of staff salaries and benefits, transportation expenses, travelling expenses, rent and rates and others. The selling and distribution expenses increased by RMB3.7 million, a 13.9% increase to RMB30.3 million for the FY2019 from RMB26.6 million for the FY2018. The increase was mainly attributed to the increase in transportation expenses.

Administrative expenses

Administrative expenses primarily consist of depreciation, entertainment, rent and rates, research and development, staff salaries and benefits and others. Since there is no Listing expense incurred for the FY2019, the administrative expenses decreased by RMB2.0 million, a 5.7% decrease to RMB33.2 million for the FY2019 from RMB35.2 million for the FY2018.

Finance costs

The finance costs represent interest on other loans. Finance costs decreased by RMB0.5 million to RMB0.4 million for the FY2019 from RMB0.9 million for the FY2018. The decrease was mainly due to the decrease in principal amount of other loans during the FY2019.

Income tax expenses

The Group's income tax expenses decreased by RMB1.6 million from RMB12.7 million for the FY2018 to RMB11.1 million for the FY2019. The decrease was mainly due to the decrease in the administrative expense. In specific, there is no non-deductible listing expense according to PRC corporate income tax incurred in the FY2019.

The major components of income tax expense of the Group in the condensed consolidated statement of profit or loss are:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax in the PRC	**11,151**	12,957
Deferred income tax expense relating to origination and reversal of temporary differences	**(98)**	(285)
Total tax charge for the period	**11,053**	12,672

Profit for the year

As a result of the foregoing, the profit for the year increased by RMB1.9 million, or 6.8%, from RMB28.1 million for the FY2018 to RMB30.0 million for the FY2019. The Group remains in a healthy and sound liquidity position during the year ended 31 December 2019.

CORPORATE FINANCE AND RISK MANAGEMENT

Liquidity, Financial and Capital Resources

Cash Flows

The following table is a condensed summary of the combined statements of cash flows of the Group for the years indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash flow generated from/(used in) operating activities	**(2,863)**	33,662
Net cash flow generated from/(used in) investing activities	**2,884**	692
Net cash flow generated from/(used in) financing activities	**(3,763)**	56,716
Cash and cash equivalents at end of year	**177,924**	181,235

Cash flows used in operating activities

For the FY2019, the company had net cash used in operating activities of approximately RMB2.9 million, which was primarily contributed by our profit before tax of approximately RMB41.1 million, an increase in inventories approximately RMB30.6 million, an increase in trade and bills receivables RMB24.9 million. These cash outflow was partially offset by an decrease in pledged deposits of approximately RMB12.9 million, an increase in prepayments, other receivables and other assets of approximately RMB9.3 million and an decrease in trade payables of approximately RMB19.8 million.

Cash flows from investing activities

For the FY2019, net cash from investing activities amounted to RMB2.9 million which was primarily attributable to the interest received from our cash at our bank of approximately RMB3.8 million. The cash inflow was partially offset by the purchases of items of property, plant and equipment of approximately RMB0.9 million.

Cash flows used in financing activities

For the FY2019, the net cash used in financing activities amounted to RMB3.8 million. These cash outflow was primarily attributable to the principal portion of lease payments of approximately RMB3.8 million.

Net current assets

The following table sets forth the current assets and current liabilities as at the years and dates indicated:

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
	(Audited)	(Audited)
Current assets		
Inventories	**69,222**	38,756
Trade and bills receivables	**93,531**	70,206
Prepayment, deposits and other receivables	**19,692**	10,400
Amounts due from related parties	**959**	575
Structured deposits	**33,800**	—
Pledged deposits	**12,861**	25,760
Cash and bank balances	**144,124**	181,235
Total current assets	**374,189**	326,932
Current liabilities		
Trade and bills payables	**47,708**	30,293
Other payables and accruals	**16,460**	18,997
Amounts due to related parties	**4,117**	1,736
Lease Liabilities	**2,724**	—
Tax payable	**3,928**	3,959
Total current liabilities	**74,937**	54,985
Net current assets	**299,252**	271,947

The net current assets increased from RMB271.9 million as at 31 December 2018 to RMB299.3 million as at 31 December 2019. The increase was primarily due to an increase in inventories of approximately RMB30.4 million.

Cash Position

The Group's cash and bank balances as at 31 December 2019 amounted to RMB144.1 million, representing a decrease of RMB37.1 million as compared to RMB181.2 million as at 31 December 2018, which was attributable to the increase of inventory.

As at 31 December 2019, the gearing ratio, calculated as debt divided by total assets, was 20.1%, as compared with 16.7% as at 31 December 2018.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the FY2019. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign Currency Risk

The Group's operational activities are mainly denominated in RMB. The Group is exposed to foreign currency risk primarily arising from purchase of goods by foreign currencies and bank deposits denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy but it monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2019 (2018: Nil).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group did not have any significant capital commitments (2018: Nil).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during FY2019. The capital of the Company was RMB304 million as at 31 December 2019, representing an increase of RMB31 million as compared to RMB273 million as at 31 December 2018, which was attributable to the growth of profits.

USE OF PROCEEDS

The Company successfully listed its Shares on the Main Board of the Stock Exchange on 27 June 2018 and issued a total of 170,000,000 Shares by way of share offer at the offer price of HK$0.75 per Share. The net proceeds from the share offer in association with the Listing amounted to HK$93.7 million (equivalent to RMB76.8 million).

	Net proceeds (RMB million)		
	Available	**Utilised**	**Unutilised**
(i) Setting up seven branch offices at different provinces in the PRC	35.8	35.8	0
(ii) Repaying the entrusted loans with an outstanding amount of RMB15 million	15.0	15.0	0
(iii) Procuring the required level of inventories for the distribution of the relevant products	12.0	12.0	0
(iv) Expanding technology centre	4.1	2.1	2.0 *(Note 1)*
(v) Participating in promotional and marketing activities	2.0	1.6	0.4 *(Note 2)*
(vi) General working capital	7.9	7.9	0
Total	**76.8**	**74.4**	**2.4**

Notes:

1. As to approximately RMB2.0 million will be used for expanding technology centre and recruiting professionals in or around 2020.

2. As to approximately RMB0.4 million will be used for participating in promotional and marketing activities in or around 2020.

As at the date of this annual report, the Directors are not aware of material change to the planned use of the proceeds as stated in the Prospectus.

Charges on the Group's Assets

As at 31 December 2019, there were no charges on the Group's assets (2018: Nil).

Material Acquisitions and Disposals

During the FY2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Significant Investments held

The Group did not have any significant investments held as at 31 December 2019.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 148 employees as at 31 December 2019. Remuneration is determined by reference to prevailing market terms and in accordance with the job scope, responsibilities, and performance of each individual employee.

The Company has adopted a share option scheme, pursuant to which the Directors and employees of the Group are entitled to participate. The local employees are also entitled to discretionary bonus depending on their respective performances and the profitability of the Group.

SHARE OPTION SCHEME

On 31 May 2018, the then sole shareholder of the Company approved and conditionally adopted a share option scheme (the "**Share Option Scheme**") to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. The principal terms of the Share Option Scheme were summarised in the section headed "Share Option Scheme" in Appendix IV to the Prospectus. No option has been granted during the FY2019.

DIVIDEND

The Board takes into account the Group's overall results of operation, financial position and capital requirements, among other factors, in considering the declaration of dividends. The Board does not recommend payment of any dividend in respect of the FY2019 (FY2018: Nil).

DEVELOPMENT STRATEGY AND PROSPECTS

As the beginning of 2020, the COVID-19 spread widely in China. The outbreak of COVID-19 has adversely affected the Group's business in the first quarter of 2020 due to the national operational delays after Chinese New Year holiday, and the transportation and logistics restriction and quarantine arrangements for the epidemic control. The situation remains fluid and may stall the business growth of 2020. Facing the grim situation of COVID-19 outbreak, the Group has put in place contingency measures to lower the impact caused by the epidemic. The Group has, in a timely manner, adopted various anti-epidemic measures to protect the safety and health of all its employees in different regions. Moreover, our management has taken operational initiatives on promoting overseas business, sourcing competitive food ingredients and additives worldwide, developing new customers and evolving new applications and solutions for food manufacturers.

With the Group's mission to be the most reliable partner for both food manufacturers and suppliers in food industry, our focus will be on maintaining operational resilience in times of unpredictability and challenges. We will continue implementing our business strategies by consolidating market with the new branches, enhancing our research and development capabilities, diversifying product portfolio with more secured distribution rights, and enlarging brand influence by participating in promotional and marketing activities. Moreover, we are setting up new subsidiaries in South East Asian countries to further diversify, build and strengthen our capabilities in food market connectivity.

Looking forward, we have faith to diversify and accommodate into this ever changing market.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintain high standards of corporate governance to protect the interests of its Shareholders and to enhance corporate value and accountability. The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all code provisions of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the FY2019. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the FY2019.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company, and setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant operational and financial matters. The management was delegated the authority and responsibility by the Board for the daily management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this corporate governance report.

Composition

As at the date of this annual report, the Board comprises six Directors and their respective roles are as follows:

Executive Directors

Mr. Huang Haixiao *(Chairman of the Board)*
Ms. Huang Xin Rong *(Chief Executive Officer)*
Mr. Dai Yihui

Independent Non-executive Directors

Mr. Tan Wee Seng
Mr. Chan Ka Kit
Mr. Meng Yuecheng

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Save for Mr. Huang Haixiao, being the father of Ms. Huang Xin Rong, the Board members have no relationship (whether financial, business, family or other material or relevant relationships) amongst members of the Board, senior management or substantial shareholder or controlling shareholder of the Company.

The composition of the Board is well balanced with each Director having extensive corporate and strategic planning experience, sound industry knowledge and/or professional expertise. All independent non-executive Directors have offered sufficient time and efforts to serve the business affairs of the Company. They also possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinion. The Board believes that the participation of independent non-executive Directors shall offer their independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all Shareholders and the Group are considered and safeguarded.

Role and Function

The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group and to ensure the availability of resources as well as the effectiveness of its internal control system.

Implementation and execution of the policies and strategies formulated by the Board and the daily operations are delegated from the Board to the management of the Company. In addition, an audit committee (the "**Audit Committee**"), a remuneration committee (the "**Remuneration Committee**") and a nomination committee (the "**Nomination Committee**") have been set up to assist the Board in fulfilling certain responsibilities. Further details of these committees are set out in the paragraph headed "Board Committees" of this annual report.

Chairman and Chief Executive

In accordance to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Currently, Mr. Huang Haixiao, the Chairman, is responsible for the overall management, strategic and major decisions on the development and planning and operation of our Group. Ms. Huang Xin Rong, the chief executive officer, is responsible for the overall management and daily operation of the Group. Ms. Huang Xin Rong is the daughter of Mr. Huang Haixiao.

Independence of Independent Non-executive Directors

Pursuant to the requirement of Rules 3.10 and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, two of whom have appropriate professional qualification in accounting and financial management expertise. All independent non-executive Directors have confirmed their independence, as set out in Rule 3.13 of the Listing Rules, to the Company and the Board considers that all independent non-executive Directors have satisfied their independence of the Group.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors, officers and senior management of the Company arising out of corporate activities.

Board Meetings

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results. The Directors had participated in the Board meetings as indicated below. For those Directors who could not attend these meetings in person, they participated through electronic media.

The company secretary of the Company (the "**Company Secretary**") assists the Chairman to prepare the agenda of the meetings and each Director may request to include any relevant matters on the agenda. Generally, at least 14 days' notice is given for the regular meetings by the Company. All substantive agenda items have comprehensive briefing papers, which are, in general, circulated three days before convening each Board meeting.

All Directors are able to seek advice and services from the Company Secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. Draft minutes of Board meetings and meetings of the Board committees are circulated to all Directors for comment and approval as soon as practicable after the meetings. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and all Board members are given a copy of the minutes for their record. Should a matter being considered involve a potential conflict of interest of a Director, the Director involved in the transaction would be requested to leave the boardroom and abstain from voting. The matter would be discussed and resolved by other Directors. Policy is in place that Directors, upon reasonable request, may seek independent professional advice on issues related to the Group's business at the Company's expenses.

The attendance record of the individual Directors at the Board and committee meetings, and general meeting(s) held during the FY2019 is set out below:

Number of meetings attended/eligible to attend during the year ended 31 December 2019

	Board	Audit committee	Remuneration committee	Nomination committee	Annual general meeting
Executive Directors					
Mr. Huang Haixiao	5/5	–/–	–/–	1/1	1/1
Mr. Li Junkui (resigned with effect from 14 January 2019)	1/1	–/–	–/–	–/–	–/–
Ms. Huang Xin Rong	5/5	–/–	–/–	–/–	1/1
Mr. Dai Yihui (appointed with effect from 2 December 2019)	–/–	1/1	–/–	–/–	–/–
Independent Non-executive Directors					
Mr. Tan Wee Seng	5/5	3/3	1/1	1/1	1/1
Mr. Chan Ka Kit	5/5	3/3	1/1	–/–	1/1
Mr. Meng Yuecheng	5/5	3/3	1/1	1/1	1/1

COMPANY SECRETARY

Mr. Tse Yin Fung ("**Mr. Tse**") from O TSE & Co., an external service provider, has been appointed as our Company Secretary with effect from 23 September 2019 to support the Board by ensuring good information flow within the Board and that the Board policy and procedures are followed.

Mr. Tse has confirmed that he has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

DIRECTORS' TERMS OF APPOINTMENT

All Directors are appointed for a term of three years and are subject to the requirement of retirement by rotation and re-election at the annual general meeting at least once every three years in accordance with the amended and restated articles of association of the Company (the "**Articles of Association**").

DIRECTORS' TRAINING

Code provision A.6.5 of the CG Code provides that Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remain informed and relevant.

All Directors are encouraged to participate in continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities. A summary of professional training received by Directors for the year ended 31 December 2019 according to the records provided by the Directors is as follows:

	Attending seminar(s)/programme(s)/ conference(s) and/or reading materials relevant to the business or directors' duties
Mr. Huang Haixiao	✓
Ms. Huang Xin Rong	✓
Mr. Dai Yihui	✓
Mr. Tan Wee Seng	✓
Mr. Chan Ka Kit	✓
Mr. Meng Yuecheng	✓

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

NOMINATION POLICY

The Board has adopted a director nomination policy (the "**Nomination Policy**") on 28 December 2018 in relation to the nomination, appointment, re-appointment of new Directors and the nomination procedure of the Company, which provides that in evaluating and selecting any candidate for directorship, the Nomination Committee shall consider the candidates' character and integrity, professional qualifications, skills, knowledge and experience, independence, diversity on the Board, willingness to devote adequate time to discharge duties as a Board member and such other criteria that are appropriate to the business of the Company.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "**Dividend Policy**") on 28 December 2018. A summary of the Dividend Policy is disclosed as below.

Subject to the approval of the Shareholders and requirement of the relevant law, the Company shall pay annual dividends to the Shareholders if the Group is profitable, operations environment is stable and there is no significant investment or commitment made by the Group, after taking into account the factors as detailed below and determined by the Board from time to time. The remaining net profits will be used for Group's development and operations. The Dividend Policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

In proposing any dividend payout, the Board shall also take into account, inter alia, (i) the Company's actual and expected financial performance; (ii) retained earnings and distributable reserves of the Group; (iii) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants; and (iv) the general economic conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of our Company.

Any final dividends declared by the Company must be approved by an ordinary resolution of Shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Dividend Policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee with specific terms of reference.

Audit Committee

Audit Committee was established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are, among other things, to review and supervise our financial reporting process and internal control and risk management system, nominate and monitor external auditors, provide advice and comments to the Board on matters related to corporate governance and perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of three independent non-executive Directors, namely Mr. Tan Wee Seng, Mr. Chan Ka Kit and Mr. Meng Yuecheng. Mr. Tan Wee Seng currently serves as the chairman of the Audit Committee. During the meeting of the Audit Committee held on 30 March 2020, the Audit Committee reviewed, among other things, the audited financial statements of the Group for the year ended 31 December 2019 with recommendations to the Board for approval and discussed with the management and the external auditor the accounting policies and practices which may affect the Group, the report prepared by the external auditor covering major findings in the course of the audit and the accounting and financial reporting matters.

The Audit Committee held three meetings during the FY2019. Individual attendance of each committee member at the meetings during the year ended 31 December 2019 is as follows:

	Attendance
Mr. Tan Wee Seng	3
Mr. Chan Ka Kit	3
Mr. Meng Yuecheng	3
Mr. Dai Yihui (appointed with effect from 2 December 2019 and resigned with effect from 3 April 2020)	1

The annual results of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee before submission to the Board for approval.

Remuneration Committee

The Remuneration Committee was established with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The primary duties of the Remuneration Committee are, among other things, to make recommendations to the Board on the Company's policy for human resource management as well as establish and review policies and structure in relation to remuneration for our Directors and senior management.

The Remuneration Committee consists of three independent non-executive Directors, namely Mr. Tan Wee Seng, Mr. Chan Ka Kit and Mr. Meng Yuecheng. Mr. Tan Wee Seng currently serves as the chairman of the Remuneration Committee. During the meeting of the Remuneration Committee held on 30 March 2020, the Remuneration Committee has assessed the performance of the Directors and senior management of the Company for the FY2019 and reviewed and recommended to the Board the remuneration policy and structure relating to the Directors and senior management of the Company.

The Remuneration Committee held one meeting during the Period. Individual attendance of each committee member at the meeting during the year ended 31 December 2019 is as follows:

	Attendance
Mr. Tan Wee Seng	1
Mr. Chan Ka Kit	1
Mr. Meng Yuecheng	1

The remuneration for the Directors and senior management comprises basic salary, retirement benefits and discretionary bonus. Details of the amount of emoluments of Directors paid for the year ended 31 December 2019 are set out in note 8 to the consolidated financial statements.

The remuneration of members of the senior management (excluding Directors) by band for the year ended 31 December 2019 is set out below:

Remuneration bands	Number of person(s)
HK$500,001 to HK$1,000,000	2
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	—
HK$2,000,001 to HK$3,000,000	1

Nomination Committee

The Nomination Committee was established with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are, among other things, to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management, to assess the independence of the independent non-executive Directors, to review the time commitment required of the Directors and to evaluate whether the Directors have committed adequate time to discharge their responsibilities to review and implement the Nomination Policy and to consider related matters.

The Nomination Committee consists of one executive Director Mr. Huang Haixiao, and two independent non-executive Directors, Mr. Tan Wee Seng and Mr. Meng Yuecheng. Mr. Huang Haixiao currently serves as the chairman of the Nomination Committee. During the meeting of the Nomination Committee held on 30 March 2020, the Nomination Committee has reviewed and considered, among other things, the Nomination Policy, the structure, size and composition of the Board and assessed independence of the independent non-executive Directors for the FY2019.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the balance of expertise, skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the requirements of the business of the Group and other relevant statutory requirements and regulations. Further, pursuant to the terms of reference of the Nomination Committee and the Nomination Policy, the Nomination Committee, when reviewing the composition of the Board, will have regard to the Company's Board Diversity Policy and the progress on achieving the objectives set for implementing the said policy. The Company recognises and embraces the benefits of diversity of Board members.

The Nomination Committee held one meeting during the FY2019. Individual attendance of each committee member at the meeting during the year ended 31 December 2019 is as follows:

	Attendance
Mr. Huang Haixiao	1
Mr. Tan Wee Seng	1
Mr. Meng Yuecheng	1

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code, namely: (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and (v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report in the Company's annual report.

During the Board meeting held on 30 March 2020, the Board reviewed the Company's policies and practices on corporate governance and legal and regulatory compliance, training and continuous professional development participations of the Directors, as well as the Company's compliance with the CG Code for the FY2019.

The Board acknowledges its responsibility in maintaining a sound and effective internal control and risk management systems for the Group to safeguard Shareholders' investments and assets of the Company at all times.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company conducts an annual review on whether there is a need for an internal audit department. Given the Group's simple operating structure, as opposed to a separate internal audit department, the Board is directly responsible for the establishment, maintenance and review of the Group's system of internal controls and risk management throughout the year ended 31 December 2019 and their effectiveness. The Audit Committee has been authorised under its terms of reference to review the Company's financial reporting, financial controls, risk management and internal control systems. The Company has engaged an internal control consultant (the "**Internal Control Consultant**") to review the effectiveness of the internal control measures relating to our business operations. The Internal Control Consultant is planning to conduct an overall review of the Group in three years. Thus, for the year ended 31 December 2019, the Internal Control Consultant had reviewed and analysed working capital management, property, plant and equipment management, and taxation management. The relevant reports from the Internal Control Consultant were presented to and reviewed by the Audit Committee and the Board.

The Board considered the risk management and internal control systems of the Group were adequate and effective for the year ended 31 December 2019. The Board also conducted a review of the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget which are considered to be adequate for the year ended 31 December 2019.

The Board wishes to emphasize that the risk management and internal control systems are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group strictly follows the requirements of the Securities and Futures Ordinance of (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") and the Listing Rules and ensures that inside information is disclosed to the public as soon as reasonably practicable unless the information falls within any of the safe harbours of the SFO. Before inside information is fully disclose to the public, such information is kept strictly confidential. In addition, the Group adopted the policy of disclosing relevant information only to appropriate staff within the Group.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2019 and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements.

The statement of the external auditor of the Company with regard to their reporting responsibilities on the Company's consolidated financial statements, is set out in the Independent Auditor's Report on pages 70 to 71 of this annual report.

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Company not to continue as a going concern. Therefore, the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

AUDITOR'S STATEMENT

For the year ended 31 December 2019, services provided to the Company by its external auditor, Ernst & Young, and the fees paid were:

	2019 ***RMB'000***
Audit services	**1,050**

INVESTOR RELATIONS

The Board puts great emphasis on investor relationship in particular fair disclosure and comprehensive report of the Company's performance and activities.

Shareholders are encouraged to attend the general meetings of the Company and the Directors always make efforts to fully address any questions raised by the Shareholders at the annual general meetings (the "**AGM**") and the extraordinary general meetings (the "**EGM**") of the Company. In addition, Shareholders have the right to nominate a person to stand for election as a director at any general meeting by lodging a written notice to the Company.

The forthcoming AGM of the Company will be held on 19 May 2020, the notice of which shall be sent to the Shareholders in accordance with the Articles of Association, the Listing Rules and other applicable laws and regulations.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING AND TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

The Shareholders may put forward proposals at general meetings by requisitioning an EGM. Pursuant to article 64 of the Articles of Association, EGM may be convened by the Board on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid-up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to article 113 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the Company's principal place of business in Hong Kong (as shown below) provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgement of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

The Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Shineroad International Holdings Limited
Unit 6, 16/F, K. Wah Centre
191 Java Road Hong Kong
Tel No.: (852) 3612 5717
Fax No.: (852) 3612 5718

CONSTITUTIONAL DOCUMENTS

There had been no changes in the memorandum and articles of association of the Company during the FY2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

As required by the Listing Rules, the Company is required to report ESG information of the Group on an annual basis and regarding the same period covered in this annual report. Please refer to the section headed "Environmental, Social and Governance Report" on pages 43 to 66 of this annual report.

Biographical Details of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Huang Haixiao (黃海曉) ("Mr. Huang"), aged 49, is the founder of the Group, an executive Director and the Chairman and one of the controlling Shareholders of the Company. He was appointed as a Director on 26 November 2015, and redesignated as the Chairman and an executive Director on 30 October 2017. He is responsible for the overall management, strategic and major decisions on the development and planning and operation of the Group. Mr. Huang is a director of each of Shineroad Holdings Limited, Shineroad Food Holdings Limited ("**Shineroad Food**"), 上海欣融食品原料有限公司 (Shanghai Shineroad Food Ingredients Co., Ltd.*) ("**Shanghai Shineroad**"), 北京申欣融食品配料有限公司 (Beijing Shineroad Food Additives Co., Ltd.*) ("**Beijing Shineroad**") and 廣州捷洋食品科技有限公司 (Guangzhou Jieyang Food Technology Company Limited*) ("**Guangzhou Jieyang**"). Mr. Huang is also the chairman of the Nomination Committee.

Mr. Huang obtained the diploma with the major in food science and engineering (baking) professional education from Jiangnan University* (江南大學), the PRC in February 2006 and the master degree in executive business administration from Fudan University* (復旦大學), the PRC in January 2011.

Mr. Huang has more than 27 years' experience in management of food ingredients and additives companies. Mr. Huang started up his own businesses in food ingredients and additives since 1993 where he was primarily in charge of the general operations of the businesses of the companies which allowed him to input his experience into the Group. He founded 上海欣融實業發展有限公司 (Shanghai Shineroad Industries Development Co., Ltd.*) ("**Shineroad Industries**"), which was then principally engaged in distribution of food ingredients and food additives in the PRC, in January 1996 and acted as legal representative and director, responsible for its daily operation and management. Since the establishment of Guangzhou Jieyang in 2010, Shanghai Shineroad and Beijing Shineroad in 2011, Mr. Huang has been responsible for overseeing their overall management. Mr. Huang is one of the founder and currently the chairman of board of directors of 上海海融食品科技股份有限公司 (Shanghai Hi-Road Food Technology Co., Ltd.*).

Ms. Huang Xin Rong (黃欣融) ("Ms. Huang"), aged 26, was appointed as a non-executive Director on 30 October 2017 and redesignated as an executive Director and the chief executive officer of the Company on 14 January 2019. She is primarily responsible for the overall management and daily operation of the Group. She is the daughter of Mr. Huang, who is the founder of the Group, an executive Director and the Chairman, and one of the controlling Shareholders.

Ms. Huang obtained the degree of honours bachelor of science from the University of Toronto, Canada in November 2016. She worked as an intern in Shanghai Shineroad from February 2017 to September 2017 and has become the general manager of Shineroad Food since September 2017.

Mr. Dai Yihui (戴毅輝) ("Mr. Dai"), aged 39, was appointed as an executive Director on 2 December 2019. Mr. Dai is responsible for advising the Group on capital operations, financial management and overseas development.

Mr. Dai obtained a bachelor degree in accounting from Tongji University, the PRC in July 2002 and a master degree in accounting from Deakin University, Australia in October 2005. He has been a member of CPA Australia since 2008. Mr. Dai has more than 15 years of professional experience in financial management, capital operation and corporate governance of listed companies. He was the manager of Ernst & Young China Branch, the business analyst of CITIC Pacific Mining and the manager of Deloitte Touche Tohmatsu China Branch.

Independent Non-executive Directors

Mr. Tan Wee Seng (陳偉成) ("Mr. Tan"), aged 64, was appointed as an independent non-executive Director on 31 May 2018. He is responsible for supervising and providing independent advice on the operation and management of the Group. He is also the chairman of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee.

Mr. Tan is a fellow of The Chartered Institute of Management Accountants in United Kingdom and of The Hong Kong Institute of Directors.

Mr. Tan has over 30 years of experience in financial management, corporate finance, merger and acquisition, business management and strategy development and specialising in initial public offerings management, investors relationship management and corporate governance. Mr. Tan has held various management and senior management positions in a number of multi-national corporations. He was previously the managing director of AFE Computer Services Limited, a Reuters subsidiary located in Hong Kong which was mainly engaged in domestic equity and financial information services, director of Infocast Australia Pty Limited, a Reuters subsidiary in Australia, and the regional finance manager of Reuters East Asia Region. From January 1999 to June 2002, Mr. Tan was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. From January 2003 to November 2008, Mr. Tan was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2331).

Mr. Tan is an independent non-executive director and the chairman of remuneration committee of Health and Happiness (H&H) International Holdings Limited (formerly known as Biostime International Holdings Limited) (Stock Code: 1112), and an independent non-executive director and the chairman of audit committee of each of Xtep International Holdings Limited (Stock Code: 1368), Sa Sa International Holdings Limited (Stock Code: 178), CIFI Holdings (Group) Co. Limited (Stock Code: 884) and Sinopharm Group Co. Limited (Stock Code: 1099), the shares of all of which are listed on the Main Board of the Stock Exchange. He is also an independent director and chairman of the audit committee of Renesola Ltd (Stock Code: SOL), the shares of which are listed on the New York Stock Exchange (the "**NYSE**"). Mr. Tan was an independent director and chairman of the audit committee of 7 Days Group Holdings Limited (which was listed on the NYSE) between November 2009 and July 2013 until it was privatised. He was the chairman of the special committee for the privatisation of 7 Days Group Holdings Limited from October 2012 to July 2013.

Mr. Chan Ka Kit (陳家傑) ("Mr. Chan"), aged 45, was appointed as an independent non-executive Director on 31 May 2018. He is responsible for supervising and providing independent advice on the operation and management of the Group. He is also a member of each of the Audit Committee and the Remuneration Committee.

Mr. Chan obtained his bachelor degree in accountancy from the City University of Hong Kong in November 1997. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since October 2005 and a member of Taxation Institute of Hong Kong since February 2015.

Mr. Chan has over 18 years of experience in handling various projects with companies in Hong Kong and the PRC, including accounting and taxation as well as setting up and modifying internal control system of group companies. He previously worked as an auditor in Deloitte Touche Tohmatsu from September 1997 to September 2004. Mr. Chan was the chief financial officer and company secretary of Sparkle Roll Group Limited (Stock code: 970) from January 2008 to August 2010, the chief financial officer of North Asia Resources Holdings Limited (now known as Green Leader Holdings Group Limited) (Stock code: 61) from August 2010 to March 2011 and the chief financial officer and company secretary of Lijun International Pharmaceutical (Holding) Co., Limited (now known as SSY Group Limited) (Stock code: 2005) from May 2013 to April 2015, all of whose shares are listed on the Main Board of the Stock Exchange. Mr. Chan was the independent non-executive director of Roma Group Limited (Stock code: 8072) from September 2011 to March 2016, the shares of which are listed on the GEM of the Stock Exchange. Since November 2008, he has been the director of Smartact (Hong Kong) Limited (智謀(香港)有限公司), the principal activities of which are handling the taxation matters, companies daily operations, financial management and internal control management for enterprises in Hong Kong and the PRC.

Mr. Meng Yuecheng (孟岳成) ("Mr. Meng"), aged 56, was appointed as an independent non-executive Director on 31 May 2018. He is responsible for supervising and providing independent advice on the operation and management of the Group. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Meng obtained a degree of bachelor (major in animal husbandry) from Zhejiang A&F University* (浙江農業大學), the PRC in July 1984 and a degree of master (major in livestock processing) from Northeast Agricultural University* (東北農業大學), the PRC in July 1987. He also obtained a doctoral degree in science (major in food science) from Northeast Agricultural University, the PRC in December 1999.

Mr. Meng has over 30 years of experience in food science field. After graduation with the master degree from the Northeast Agricultural University, Mr. Meng had worked as teaching assistant, lecture and associate professor and studied as a doctoral student in the Food Science Faculty of the Northeast Agricultural University from August 1987 to June 1995. From July 1995 to July 2002, he worked as the director of the research centre, director of the products control department and an assistant general manager of Hangzhou Wahaha Group Corporation* (杭州娃哈哈集團公司), a corporation principally engaged in research and development, manufacturing and sales of food and beverage. Mr. Meng was the director of the Food Research Institute of Zhejiang University of Technology* (浙江工業大學), the PRC from August 2002 to February 2004 and has been the director of the Food Science and Engineering Faculty and a tutor of doctoral students in Zhejiang Gongshang University* (浙江工商大學), the PRC since March 2004.

SENIOR MANAGEMENT

Mr. Wang Jingui (王金貴) ("Mr. Wang"), aged 48, has been the chief financial officer of Shanghai Shineroad since 3 March 2014. He is primarily responsible for the formulation of the financial strategies and management and internal control, and implementation of the corporate financial plan of the PRC subsidiaries of the Group. Mr. Wang was an accountant certified by the Ministry of Finance of the PRC in May 1998. He obtained a bachelor degree (part-time) in accountancy from Adult Education School of Shanghai Jiao Tong University* (上海交通大學), the PRC in February 2010.

Mr. Wang previously worked as chief financial officer of Shanghai Qiangjing Industry Development Investment Holding Company Limited* (上海強勁產業發展投資控股有限公司) from March 2010 to February 2014 and investment consultant of Tebon Securities Company Limited* (德邦證券有限責任公司) from August 2007 to September 2009. He was financial manager of Shineroad Industries from December 1999 to July 2006.

* The English names are for identification purpose only

Report of the Directors

The Directors are pleased to present to the Shareholders their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group is a distributor in the food ingredients and additives distribution industry with a focus on supplying food ingredients and food additives to food manufacturers. The Company acts as an investment holding company. The principal business of the Group are carried out through Shanghai Shineroad Food Ingredients Co., Ltd., Guangzhou Jieyang Food Technology Company Limited and Beijing Shineroad Food Additives Company Limited. Particulars of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 72 to 73 of this annual report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019.

BUSINESS REVIEW

A fair review of the business of the Group during the FY2019 and a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 5 to 12 of this annual report. Discussions on the social, labour and environmental policies and performance are set out in the section headed "Environmental, Social and Governance Report" on pages 43 to 66 of this annual report.

The above discussions form part of this directors' report.

PRINCIPAL RISKS AND UNCERTAINTY

Various risks and uncertainties that the Group may face: (i) we rely on our major suppliers for the supply of our products, and any shortage of, or delay in, the supply may significantly impact on our business and results of operation; (ii) our food ingredients and additives involve an inherent risk of injury to consumers if they do not meet the required health and safety standards. These injuries may result from tampering by unauthorised third parties or product contamination, including the presence of foreign contaminants, bacteria, chemicals, pesticides, preservatives or other agents or residues during farming, harvesting, transportation and storage; (iii) our Group's operating results may fluctuate due to seasonality. Generally, demand for our Group's products is higher during the three to four months prior to Chinese New Year. These seasonal consumption patterns may cause our Group's results of operations to fluctuate from period of period; and (iv) the food ingredients and additives business may be subject to increasingly stringent licencing requirements, environmental protection regulations and hygiene standards, which can increase our operating costs. Moreover, the outbreak of COVID-19 has adversely affected the Group's business in the first season of 2020: the national operational delays after Chinese New Year holiday and the transportation and logistics restriction and quarantine arrangements for the epidemic control. The Group has put in place contingency measures to lower the impact caused by the epidemic. In view of the risks associated with financial instruments, the objectives and policies of Group are set out in note 33 to the consolidated financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

Strenuous efforts are exerted to ensure compliance with the laws and regulations of the jurisdictions in which the Company operates.

1. In relation to social security insurance and housing provident fund contributions, the Group has adopted the following measures since November 2017: (i) adopting internal policies to ensure compliance with all regulatory requirements in the PRC in relation to social insurance fund and housing provident fund contribution, including the procedures to require our administration and human resources centre to review periodically that all our existing and incoming employees have made social insurance fund and housing provident fund contributions and report to our Board should any material non-compliance occurs; and (ii) enhancing the awareness of our employees with respect to the importance of participation in social insurance fund and housing provident fund by regularly reminding them to make their part of contributions.

2. In relation to inter-company loans, the Group has adopted the following measures to comply with relevant laws:

   a. adopting internal policies in relation to loan advancements to ensure compliance with the relevant laws and requirements in the PRC;

   b. enhancing the awareness of our Directors, finance staff and other staff in relation to the laws and regulations regarding the General Principles of Loans of the PRC* (《貸款通則》);

   c. arranging staff to conduct regular internal audit on our Group's borrowings and report to the Directors.

At the corporate level, the Group complies with the requirements under the Listing Rules and the SFO for, among other things, the disclosure of information and corporate governance, and the Group has adopted the Model Code set out in Appendix 10 to the Listing Rules.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

Employees are regarded as important and valuable assets of the Group. The Group had 148 employees as at 31 December 2019. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group's major customers are food ingredients and additives processing companies, manufacturers and trading companies. The Group supplied food ingredients and additives to over 1,400 customers in the PRC which varied in terms of size and business nature.

Suppliers

The Group firmly believes that its success is largely driven by its ability to source quality products from reputable food ingredients and additives manufacturers and to provide an extensive product portfolio for the customers. The Group emphasises the importance of selecting its suppliers as it believes the supply of quality products is one of the key factors for the Group to succeed in the food ingredients and additives distribution industry. The management typically selects the suppliers based on a number of criteria such as brand reputation, on-going compliance with relevant food safety laws, product quality, price competitiveness and supply capabilities. The Group has its approved list of suppliers. Before engaging a new supplier or including the new supplier into the approved supplier list, the Group performs background checks on the National Enterprise Credit Information Publicity System regarding the relevant supplier.

ENVIRONMENTAL MATTERS

Due to the nature of the Group's business, the Group is not required to apply for environmental related licences and permits. During the FY2019, the Group did not come across any material non-compliance issues in respect of any applicable laws and regulations on environmental protection.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2019 are set out in note 25 to the consolidated financial statement.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2019 are set out in note 26 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the FY2019 and details of the Group's property, plant and equipment are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the FY2019 in the share capital of the Company are set out in note 24 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to the "Share Option Scheme", no equity-linked agreements were entered into during the year ended 31 December 2019 or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

A directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors

Mr. Huang Haixiao *(Chairman of the Board)*
Ms. Huang Xin Rong *(Chief Executive Officer)*
(redesignated from non-executive Director with effect from 14 January 2019)
Mr. Dai Yihui (appointed with effect from 2 December 2019)

Independent Non-Executive Directors

Mr. Tan Wee Seng
Mr. Chan Ka Kit
Mr. Meng Yuecheng

In accordance with Article 108 of the Articles of Association, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years and, being eligible, offer themselves for re-election for the forthcoming year. Mr. Tan Wee Seng and Mr. Meng Yuecheng will retire at the forthcoming AGM and will offer themselves for re-election.

In accordance with Article 112 of the Articles of Association, any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election. Mr. Dai Yihui shall be subject to re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for election at the forthcoming AGM has or is proposed to have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation, other than the statutory compensation.

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

As at 31 December 2019, the interests and short positions of Directors and/or the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange Limited pursuant to Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code were as follows:

(i) Long position in the Shares

Name of Director	Capacity/Nature	Number of Shares held/ interested in	Percentage of interest
Mr. Huang Haixiao (Mr. Huang) *(Note)*	Interest in controlled corporation	510,000,000	75%

(ii) Long position in the ordinary shares of associated corporations

Name of Director	Name of associated corporation	Capacity/Nature	Number of Shares held/ interested in	Percentage of interest
Mr. Huang *(Note)*	Ocean Town Company Limited ("**Ocean Town**")	Beneficial owner	1	100%
Mr. Huang *(Note)*	Shineroad Group Limited ("**Shineroad Group**")	Interest in controlled corporation	1	100%

Note: Mr. Huang beneficially owns the entire issued share capital of Ocean Town, which beneficially owns the entire issued share capital of Shineroad Group. Therefore, each of Mr. Huang and Ocean Town is deemed to be interested in 510,000,000 Shares held by Shineroad Group for the purpose of the SFO.

Save as disclosed in the foregoing, as at 31 December 2019, none of the Directors or chief executive of the Company or their respective close associates had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the FY2019 was the Company, its holding company, or its subsidiaries a party to any arrangements to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

On 31 May 2018, the then shareholders of the Company approved and conditionally adopted a share option scheme (the "**Share Option Scheme**") to enable the Company to grant options to eligible participants (the "**Eligible Participants**") as incentives and rewards for their contribution to the Group.

The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine to the following persons: (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group. The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, where required under the Listing Rules, our independent non-executive Directors) from time to time on the basis of the participant's contribution or potential contribution to the development and growth of the Group.

The maximum number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 68,000,000 Shares, being 10% of the total number of the Shares in issue as at the Listing Date.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other scheme of our Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the total number of the Shares in issue for the time being. Any further grant of options in excess of the 1% limit shall be subject to Shareholders' approval in general meeting with such participant and his associates abstaining from voting.

An offer for the grant of option must be accepted within seven days from the offer date. Options granted shall be taken up upon payment of HK$1.00 as consideration for the grant of option. Options may be exercised at any time from the date which option is deemed to be granted and accepted and expired on the date as the Board in its absolute discretion determine and which shall not exceeding a period of 10 years from the date on which the share options are deemed to be granted and accepted but subject to the provisions for early termination thereof contained in the Share Option Scheme.

The subscription price for the ordinary shares under the Share Option Scheme shall be determined by the Board and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing from 31 May 2018.

No share option has been granted by the Company under the Share Option Scheme during the FY2019.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, so far as the Directors are aware, the interest and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO are as follows:

Name	Capacity/Nature of interest	Number of Shares held/ Interested in	Percentage of interest
Ocean Town *(Note 1)*	Interest in controlled corporation	510,000,000	75%
Shineroad Group *(Note 1)*	Beneficial owner	510,000,000	75%
Ms. Chen Dongying *(Note 2)*	Interest of spouse	510,000,000	75%

Notes:

1. Such 510,000,000 Shares are held by Shineroad Group as a registered holder. The entire issued share capital of Shineroad Group is wholly-owned by Ocean Town. Therefore, Ocean Town is deemed to be interested in 510,000,000 Shares held by Shineroad Group for the purpose of the SFO.

2. Ms. Chen Dongying is the spouse of Mr. Huang and is therefore deemed to be interested in 510,000,000 Shares in which Mr. Huang has, or is deemed to have, for the purpose of the SFO.

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any other persons or corporations (other than the Directors and chief executive of the Company) who/which had any interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Continuing Connected Transactions" and the related party transactions as disclosed in note 30 to the consolidated financial statements, there were no other transactions, arrangements or contracts that are significant in relation to the business of the Group to which the Company or any of its subsidiary was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at any time during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

RELATED PARTY TRANSACTIONS

Save as disclosed in the paragraph headed "Continuing Connected Transactions", the significant related party transactions that did not constitute connected transactions under the Listing Rules made during the year ended 31 December 2019 were disclosed in note 30 to the consolidated financial statements.

COMPETING INTEREST

There was no competing business of which any Directors or their respective close associates had a material interest, whether directly or indirectly, subsisted as at 31 December 2019 or at any time during the year ended 31 December 2019.

DEED OF NON-COMPETITION

In order to avoid any possible future competition between the Group and the controlling Shareholders, each of Mr. Huang, Ocean Town and Shineroad Group (collectively, the "**Covenantors**") entered into a deed of non-competition (the "**Deed of Non-competition**") on 31 May 2018 in favour of the Company (for itself and for the benefit of each other member of the Group). Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of each other member of the Group) that, during the term of the Deed of Non-competition, he/it shall not, and shall procure his/its close associates (other than the members of the Group) not to, directly or indirectly engage, participate, invest or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or any business activity to be conducted by any member of the Group in the future from time to time within the PRC, Hong Kong and such other parts of the world (excluding the Excluded Businesses (as defined in the Prospectus)), save for the holding of not more than 5% shareholding interests (individually or with his/its close associates) in any company listed on the Stock Exchange or a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with her/his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with his/its close associates).

When business opportunities which may compete with the business of the Group arise, the respective Covenantor(s) shall, and shall procure their respective close associates (other than the members of the Group) to, give the Company notice in writing and the Company shall have a right of first refusal to take up such business opportunities. The Company shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such proposed transactions). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The Company has received the annual confirmation of the Covenantors in respect of their compliance with the non-competition undertakings under the Deed of Non-competition during the year ended 31 December 2019. The independent non-executive Directors also reviewed the Covenantors' compliance with the non-competition undertakings.

The independent non-executive Directors confirmed that the Covenantors were not in breach of the non-competition undertakings during the year ended 31 December 2019.

REMUNERATION POLICY

The remuneration policy of the Group is set up by the Remuneration Committee by reference to prevailing market terms and in accordance with the job scope, responsibilities and performance of each individual employee.

The Company has adopted the Share Option Scheme pursuant to which the Directors and employees of the Group are entitled to participate. The local employees are also entitled to discretionary bonus depending on their respective performances and the profitability of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

None of the Company or any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holding of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group had the following connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

1. Master Purchase Agreements with 上海海融食品科技股份有限公司 (Shanghai Hi-Road Food Technology Co., Ltd.*) ("Hi-Road") and 浙江頂亨生物科技有限公司 (Zhejiang Teaheals Bio-tech Co., Ltd.*) ("Teaheals")

On 4 June 2018, Shanghai Shineroad, Beijing Shineroad and Guangzhou Jieyang (as purchasers) and Hi-Road and 上海海象食品配料有限公司 (Shanghai Hi-morse Food Additives Co., Ltd.*) ("**Hi-morse Food**") (as sellers) entered into a master purchase agreement (the "**Hi-Road Master Purchase Agreement**") in order to govern the purchase of food flavourings, chocolate and other food ingredients and additives by the Group upon the Listing. The term of the Hi-Road Master Purchase Agreement commenced on 1 January 2018 and expired on 31 December 2018. A new master purchase agreement (the "**New Hi-Road Master Purchase Agreement**") dated 9 October 2018 has been entered into among Shanghai Shineroad, Beijing Shineroad and Guangzhou Jieyang (as purchasers) and Hi-Road and Hi-morse Food (as sellers) for another term of three years starting from 1 January 2019 and ending 31 December 2021. Pursuant to the New Hi-Road Master Purchase Agreement, the purchasers may purchase food flavourings, chocolate and other food ingredients and additives from the sellers. The purchase price, payment time and method, and other specific terms or conditions (if any) shall be fixed by relevant parties in the purchase order on a case-by-case basis. For details, please refer to the announcement of the Company dated 9 October 2018.

On 4 June 2018, Shanghai Shineroad, Beijing Shineroad and Guangzhou Jieyang (as purchasers) and Teaheals (as seller) entered into a master purchase agreement (the "**Teaheals Master Purchase Agreement**") in order to govern the purchase of tea powder, herbal powder and fruit powder products by the Group upon the Listing. The term of the Teaheals Master Purchase Agreement commenced on 1 January 2018 and expired on 31 December 2018. A new master purchase agreement (the "**New Teaheals Master Purchase Agreement**") dated 9 October 2018 has been entered into among Shanghai Shineroad, Beijing Shineroad and Guangzhou Jieyang (as purchasers) and Teaheals (as seller) for another term of three years starting from 1 January 2019 and ending 31 December 2021. Pursuant to the New Teaheals Master Purchase Agreement, the purchasers may purchase tea powder, herbal powder and fruit powder products from the seller. The purchase price, payment time and method, and other specific terms or conditions (if any) shall be fixed by relevant parties in the purchase order on a case-by-case basis. For details, please refer to the announcement of the Company dated 9 October 2018.

Mr. Huang is interested in 75% of the total issued share capital of the Company and is a connected person of the Company pursuant to Rule 14A.07(1) of the Listing Rules. As Hi-Road is owned as to 57.6% by Mr. Huang and 38.4% by Mr. Huang Haihu (a brother of Mr. Huang), Teaheals is wholly-owned by Mr. Huang, each of Hi-Road and Teaheals is a connected person of the Company within the meaning of the Listing Rules, the transactions under the New Hi-Road Master Purchase Agreement and the New Teaheals Master Purchase Agreement constitute continuing connected transactions of the Company.

Since the terms and nature of the New Hi-Road Master Purchase Agreement and the New Teaheals Master Purchase Agreement are substantially the same, and the counterparties and/or the ultimate beneficial owner of the counterparties under both master purchase agreements are the same, the transactions contemplated under both master purchase agreements should be aggregated pursuant to the Listing Rules.

It was expected that the annual transaction amounts for purchases incurred by the Group from Hi-Road, Hi-Road's subsidiaries and Teaheals for the year ended 31 December 2019 would not exceed RMB3,130,000 and RMB39,000,000, respectively. In arriving at the annual cap of the New Hi-Road Master Purchase Agreement, the Directors had considered (i) historical purchase amounts; and (ii) the expected increase in the demand of the relevant food flavourings, chocolate and other food ingredients and additives from the customers with reference to discussion with the customers on their expected purchase amount for 2018. In arriving at the annual cap of the New Teaheals Master Purchase Agreement, the Directors had considered (i) historical purchase amounts; and (ii) the expected increase in the demand of the tea powder, herbal powder and fruit powder products from the customers, with reference to the discussion with the customers on their expected purchase amount for 2019.

The aggregate annual transaction amounts for purchases incurred by the Group from Hi-Road and its subsidiaries and Teaheals for the year 2019 was RMB1.8 million and RMB23.5 million respectively, which did not exceed the respective annual cap for the year ended 31 December 2019.

2. Master Supply Agreement with Hi-Road

On 4 June 2018, Shanghai Shineroad, Beijing Shineroad and Guangzhou Jieyang (as sellers) and Hi-Road and its subsidiaries (as purchasers) entered into a master supply agreement (the "**Master Supply Agreement**") in order to govern the sale of sucrose esters (蔗糖酯), vanillin (香蘭素) and other food ingredients and additives by the Group upon the Listing. The term of the Master Supply Agreement commenced on 1 January 2018 and expired on 31 December 2018. A new master supply agreement (the "**New Master Supply Agreement**") dated 31 October 2018 has been entered into among Shanghai Shineroad, Beijing Shineroad and Guangzhou Jieyang (as sellers) and Hi-Road and Hi-morse Food (as purchasers) for another term of three years ending 31 December 2021. Pursuant to the New Master Supply Agreement, the sellers may sell sucrose esters (蔗糖酯), vanillin (香蘭素) and other food ingredients and additives to the purchasers. The selling price, payment time and method, and other specific terms or conditions (if any) shall be fixed by relevant parties in the purchase order on a case-by-case basis. For details, please refer to the announcement of the Company dated 31 October 2018.

Mr. Huang is interested in 75% of the total issued share capital of the Company and is a connected person of the Company pursuant to Rule 14A.07(1) of the Listing Rules. As Hi-Road is owned as to 57.6% by Mr. Huang and 38.4% by Mr. Huang Haihu (a brother of Mr. Huang), it is a connected person of the Company within the meaning of the Listing Rules, thus the transactions under the New Master Supply Agreement constitute continuing connected transactions of the Company.

It was expected that the annual transaction amounts for supply of food ingredients and additives by the Group to Hi-Road and its subsidiaries for the year ended 31 December 2019 would not exceed RMB11,660,000. In arriving at the annual cap of the New Master Supply Agreement, the Directors had considered (i) historical sale amounts; and (ii) the expected demand of food ingredients and additives from Hi-Road and Hi-morse Food.

The aggregate transaction amounts for supply of food ingredients and additives by the Group to Hi-Road and its subsidiaries was RMB10.9 million for the year ended 31 December 2019, which did not exceed the annual cap for the year ended 31 December 2019 for this transaction.

Annual review and confirmation in pursuance of Rules 14A.55 and 14A.56 of the Listing Rules

The independent non-executive Directors have reviewed and confirmed in pursuance of Rule 14A.55 of the Listing Rules that the continuing connected transactions of the Group during the FY2019 were carried out (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms at which the transactions are either on an arm's length basis or on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

To comply with Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has provided a letter to confirm the followings in respect of the continuing connected transactions set out above:

(i) nothing has come to the attention of the auditor that causes them to believe that the continuing connected transactions have not been approved by the Board;

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

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

(iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the attention of the auditor that causes them to believe that the continuing connected transactions have exceeded the annual cap as set by the Company.

CORPORATE GOVERNANCE REPORT

Information on the corporate governance practice adopted by the Group for the year ended 31 December 2019 is set out in the section headed "Corporate Governance Report" on pages 13 to 23 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, sales to the Group's five largest customers accounted for 14.68% of the Group's sales for the year and sales to the Group's largest customer included therein accounted for 7.44%.

During the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for 62.06% of the Group's total purchases for the year and purchases from the Group's largest supplier included therein accounted for 39.78%.

None of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors own more than 5% of the number of issued Shares) had an interest in the major customers or suppliers noted above.

USE OF PROCEEDS FROM SHARE OFFER

The Company successfully listed its Shares on the Main Board of the Stock Exchange on 27 June 2018 and issued a total of 170,000,000 Shares by way of share offer at the offer price of HK$0.75 per Share. The net proceeds from the share offer in association with the Listing amounted to HK$93.7 million (equivalent to RMB76.8 million).

As of the date of this report, the Directors are not aware of material change to the planned use of the proceeds from the plan as stated in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

As at 31 December 2019, the net proceeds had been applied as follows:

Planned use of proceeds	Implementation progress
1. RMB35.8 million (equivalent to HK$43.6 million), representing 46.5% of the net proceeds will be utilised for setting up seven branch offices at different provinces in the PRC	RMB35.8 million (equivalent to HK$43.6 million) has been spent for setting up two branch offices in Chengdu and Zhengzhou.
2. RMB15.0 million (equivalent to HK$18.3 million), representing 19.5% of the net proceeds will be utilised for repaying the entrusted loans with an outstanding amount of RMB15 million	the entrusted loans has been repaid by using RMB15 million (equivalent to HK$18.3 million).
3. RMB12.0 million (equivalent to HK$14.6 million), representing 15.6% of the net proceeds will be utilised after acquiring new distribution rights	RMB12.0 million (equivalent to HK$14.6 million) has been spent for acquiring new distribution rights.
4. RMB4.1 million (equivalent to HK$5.1 million), representing 5.4% of the net proceeds will be utilised for expanding the technology centre	RMB2.1 million (equivalent to HK$2.6 million) has been spent for expanding the technology centre. *(Note 1)*
5. RMB2.0 million (equivalent to HK$2.5 million), representing 2.6% of the net proceeds will be utilised for participating in promotional and marketing activities	RMB1.6 million (equivalent to HK$2.0 million) has been spent for participating in promotional and marketing activities. *(Note 2)*
6. RMB7.9 million (equivalent to HK$9.6 million), representing 10.4% of the net proceeds will be utilised as general working capital	Nil

Notes:

1. As to approximately RMB2.0 million will be used for expanding technology centre and recruiting professionals in or around 2020.

2. As to approximately RMB0.4 million will be used for participating in promotional and marketing activities in or around 2020.

SUBSEQUENT EVENTS

The wide spread of COVID-19 in China since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has assessed the overall impact of the situation on the operation of the Group and taken contingency measures and responses to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future. The Group does not have other significant subsequent events.

PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 136.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the Shareholders' eligibility to attend and vote at the AGM of the Company to be held on Tuesday, 19 May 2020 (the "**2020 AGM**"), the register of members of the Company will be closed from Thursday, 14 May 2020 to Tuesday, 19 May 2020, both days inclusive. During the closure period, no transfer of Shares will be registered. To be eligible to attend and vote at the 2020 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 13 May 2020.

AUDITOR

The accompanying consolidated financial statements have been audited by Ernst & Young who shall retire and, being eligible, offer themselves for re-appointment at the 2020 AGM. Having approved by the Board upon the recommendation of the Audit Committee, a resolution to re-appoint Ernst & Young as the independent auditor of the Company and to authorise the Board to fix its remuneration will be proposed at the forthcoming 2020 AGM.

On behalf of the Board
Mr. Huang Haixiao
Chairman

Hong Kong, 30 March 2020

* The English names are for identification purpose only

ABOUT THIS REPORT

The Company is pleased to present the Environmental, Social and Governance Report in 2019 (the "**ESG Report**") to summarise the Group's policies, measures and performance on the key environmental, social and governance ("**ESG**") issues.

Reporting Period

The Report illustrates the overall performance of the Group regarding the environmental and social aspects for FY2019 (the "**Reporting Period**").

Reporting Scope and Boundaries

The information disclosed in the ESG Report covers the core and material business units of the Group in Shanghai, Beijing and Guangzhou, the PRC, including the operations of office, laboratory and warehouse. Apart from the addition of Environmental KPIs of Xiamen and Guangzhou operating units, there was no material change in the reporting scope in 2019. If the scope and boundaries of the specific contents vary, they are noted in the relevant section of the ESG Report.

Reporting Basis

The Report is prepared in accordance with the ESG Reporting Guide as set out in Appendix 27 "Environmental, Social and Governance Reporting Guide" ("**the Guide**") of the Listing Rules and on the basis of the four reporting principles — materiality, quantitative, balance and consistency.

The information contained herein is sourced from official documents and statistics of the Group, as well as the combined control, management and operations information provided by the subsidiaries in accordance with the Group's relevant policies. A complete content index is appended to the last chapter hereof for quick reference. The ESG Report is prepared and published in both Chinese and English. In the event of contradiction or inconsistency between the Chinese version and the English version, the Chinese version shall prevail.

Information and Feedbacks

The Group respects your view on the ESG Report. Should you have any opinions or suggestions, you are welcome to share with the Group at info@shineroad.com.

ABOUT THE GROUP

The Group is an established distributor in the food ingredients and additives distribution industry with the capabilities to provide food ingredients application solutions to our customers. With over 23 years of experience in the industry, we specialise in supplying our extensive portfolio of over 500 food ingredients and food additives to food manufacturers in the PRC in 2019. Our products can be classified into three categories, namely food ingredients, food additives and packaging materials.

The Group's research and development capacity has distinguished us from other competitors in the food ingredients and additives distribution industry and provides us with a unique edge to develop our reputation and diversified customer networks. Leveraging on our experience in the food ingredients and additives distribution industry, we have built strong business relationships with around 171 suppliers worldwide, and have supplied food ingredients and food additives to over 1,400 customers in the PRC in 2019.

ESG GOVERNANCE STRUCTURE

The Group is committed to integrating environmental, social and governance factors into its operations in order to create sustainable value for stakeholders and take up the responsibilities as a corporate citizen. The Group has established an Environmental, Social and Governance Working Group (the "**Working Group**"). The Working Group is composed of core members from different departments of the Group and is responsible for communicating with the external consultants and collecting information related to environmental, social and governance. The Working Group reports to the management on the implementation of environmental, social and governance initiatives and the performance of the business units regularly.

The Board is responsible for the evaluation and determination of the Group's ESG-related risks and ensuring that the Group has established an applicable and effective system to manage and internally control ESG-related risks. The management reviews the risks and the effectiveness of the internal control system of these aspects and provides confirmation to the Board.

Stakeholder Engagement

Stakeholders' opinions are the solid foundation for the Group's sustainable development and success. The stakeholder engagement helps the Group to develop a business strategy that meets the needs and expectations of stakeholders, enhances the ability to identify risk and strengthens important relationships. Stakeholders can express their opinions on ESG through various channels. The relevant stakeholders of the Group and their engagement platforms are as follows:

Stakeholder	Engagement Platform
Government and regulatory agencies	• Annual reports, interim reports, ESG reports and other public information
Shareholders and investors	• Annual general meetings and other general meetings of shareholders • Company website • Press releases/announcements • Annual reports, interim reports, ESG reports and other public information
Peer Industry	• Exhibitions
Employee	• Training • Meetings • Employee organisations • Performance evaluation • Leisure activities
Customer	• Fax, email and customer service hotline • Product and service feedback
Supplier	• Annual audit • Meetings • On-site visits

Materiality Assessment

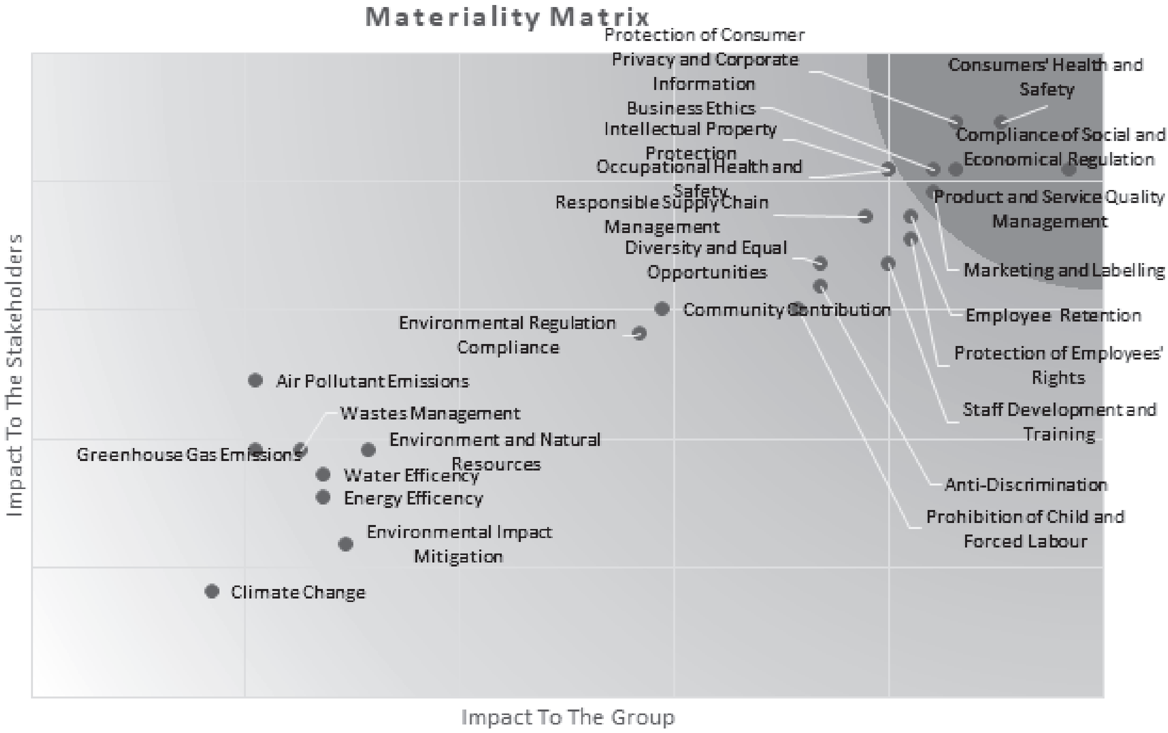
The Group identifies issues for disclosure in the ESG Report through internal and external materiality assessment. By considering the dependence and influence to the Group of the stakeholders and the availability of the resources for the Group, the management has identified key stakeholders and conducted survey with them. They have expressed their opinions and recommendation on the sustainability issues related to the Group's operation via a survey.

Consolidating the results of internal assessment and the survey, the Group has complied the materiality matrix (refer to the diagram below).

The issues that are identified with high importance are listed as follows:

- Product and Service Quality Management
- Consumers' Health and Safety
- Protection of Consumer Privacy and Corporate Information
- Compliance of Social and Economical Regulations
- Business Ethics
- Marketing and Labelling
- Occupational Health and Safety
- Intellectual Property

We determine the extent of disclosure for issues in the ESG Report based on the importance of the issue to the business and the stakeholders.



ENVIRONMENTAL ASPECTS

Emissions

Air Pollutant Emissions

Regarding the nature of the business, the Group does not generate a large amount of industrial pollutants or have a significant impact on the environment, including air pollutants, hazardous waste. Therefore, the Group is not required to apply for environmental licenses or permits, nor is there any environmental laws and regulations with significant impact on the Group. The Group closely monitors the development of relevant environmental regulations to ensure that the Group's operations are in line with the concept of environmental protection.

Carbon Emissions and Climate Change

In response to the community's gradual concern on greenhouse gas ("**GHG**") emissions, climate changes and other related issues, the Group has established the "Office Environmental Protection Guidelines" to encourage employees to adopt energy-saving measures in the offices to reduce GHG emissions. The measures are described in the section "Use of Resources". The GHG emission data[1] were as follows:

GHG Emission[2]	Unit	2019	2018[3]
Scope 1[4]	tonnes CO_2-equivalent	**14.02**	8.19
Scope 2[5]	tonnes CO_2-equivalent	**112.57**	101.28
Total GHG Emission	tonnes CO_2-equivalent	**126.59**	109.48
GHG Emission Intensity	tonnes CO_2-equivalent/m^2 [6]	**0.02**	0.02

Compared with the previous year, the GHG emissions of the Group remained at a consistent level. Purchased electricity was still the main source of GHG emissions. The Group will continue tracing the amount of GHG emissions and implement energy conservation measures.

Wastes Management

The general waste generated by the Group was mainly from the scrap products, they were all non-hazardous waste including food ingredients, additives, milk powder etc. In 2019, 9.1 tonnes of wastes are generated, collected by a third party company and treated by combustion.

1 The GHG emission calculation is estimated with reference to "GHG Protocol Corporate Accounting and Reporting Standard".
2 It includes the business units in Guangzhou, Xiamen, Shanghai and Beijing.
3 The total may not equal to the sum of the figures presented due to rounding differences.
4 Scope 1: The direct emission from the business operations owned or controlled by the Group, including the emission from the Group's vehicle fleet
5 Scope 2: The "indirect energy" emissions from the internal purchased electricity consumption by the Group
6 Guangzhou, Xiamen, Shanghai and Beijing business units had a total floor area of 5,127.40 m^2.

Use of Resources

The major resources consumed by the Group's operations are purchased electricity and domestic water. The goods from the suppliers do not require additional packaging materials, and the transportation of the goods is outsourced to third-party companies. The Group's vehicle fleet is not frequently used that it is only for the transportation of employees and customers. The business units have established the "Office Environmental Protection Guidelines" to provide guidance on the use of electricity, paper and company vehicles. Extracted measures are as follows:

1. Use of air conditioner

    - Avoid installing air conditioners at the location exposed to direct sunlight
    - Turn off the air conditioners when the room is not in use
    - Seal the gap between the doors and windows to prevent the loss of cool air
    - Clean or replace dust filters regularly
    - Check the volume of the refrigerants regularly to detect any possible leakage in advance

2. Use of other electrical appliance

    - Keep lighting equipment and light bulbs clean to achieve maximum lighting efficiency
    - Prefer compact fluorescent lamp (CFL) when purchasing new lighting equipment
    - Turn off computers, lightning, electrical appliances and air conditioners that are not in use or apply an energy-saving mode when appropriate
    - Use the power saving mode of the computer system
    - Use energy-efficient electrical appliances
    - Monitor electricity consumption records

3. Paper Saving

    - Communicate via email or electronic notice
    - Apply duplex printing setting for the printer
    - Collect used paper for reusing and recycling.
    - Encourage employees to use both sides of the paper, recycle envelopes and loose-leaf paper clips
    - Classify the wastes before recycling

4. Vehicles maintenance and repairment

    - Regular maintenance of vehicles to maintain their efficiency and extend their lifetime
    - Regular inspection of the tires to ensure the tire pressure reaches the level recommended by the manufacturer so as to reduce rolling resistance
    - Prohibit engine idling

The resources consumption of the Group was as follow:

		Unit	2019	2018
Energy Consumption[7]	**Direct Energy Consumption**[8]	kWh	**67,073.24**	34,281.69
	Indirect Energy Consumption[9]	kWh	**159,149.66**	142,586.31
	Total Energy Consumption	kWh	**226,222.90**	176,868.00
	Energy Consumption Intensity[10]	kWh/m²	**44.12**	36.15
Water Resource[11]	**Water Consumption**	tonnes	**1,423.00**	978.00
	Water Consumption Intensity	tonnes/employee[12]	**9.61**	8.29
Paper Consumption	**Paper Consumption**	kilograms	**1,347.19**	—

Energy Consumption

Compared with the previous year, Energy Consumption Intensity had increased by 22%. The reason for the increase in Energy Consumption was mainly due to an increase in electricity consumption (Indirect Energy Consumption) and usage of vehicle fuels (Direct Energy Consumption). In the future, the Group will continue tracing the Group's energy consumption and implement relevant energy conservation measures.

Water Resources

Water resource has no significant impact on the Group's business. Water consumption in the business units is mainly for domestic use and is provided by third-party suppliers. Therefore, there is no problem in finding the applicable water source. Business units put "Save Water" label in the washroom to remind employees to save water. During the Reporting Period, the water consumption intensity had an increase of 16%. The increase in water consumption was due to the increase in number of employees of the business unit in Shanghai. Moving forward, the Group will continue tracing the water consumption of the Group and implement relevant water conservation measures.

7 It includes the business units in Guangzhou, Xiamen, Shanghai and Beijing.
8 It includes the energy consumption from the fuel of Group's vehicles.
9 It includes the energy consumption from the purchased electricity of the Group.
10 Guangzhou, Xiamen, Shanghai and Beijing business units had a total floor area of 5,127.40 m².
11 It includes the business units in Xiamen, Shanghai and Beijing only.
12 As at the end of the Reporting Period, there was 148 employees.

The Environment and Natural Resources

The Group's operations did not have any direct impact on the environment and natural resources. However, indirect GHG emission would aggravate global warming. The Group strives to reduce indirect GHG emissions and its impact on the environment and natural resources through various measures mentioned in the sections "Emission" and "Use of resources".

SOCIAL ASPECTS

Employment and Labour Practices

Employment

The Group believes that employees are the most important asset of the company. As the business grows, the Group must establish sustainable human capital to attract and retain talents. The Group strictly abides by the labour laws of the PRC, including the Regulations on Payment of Wages, the Labor Law of the PRC, the Labor Contract Law of the PRC, Implementation Measures for Paid Annual Leave for Employees of Enterprises, Regulations on Populations and Family Planning, Special Rules on the Labor Protection of Female Employees and the Trade Union Law of the PRC, etc.

The Group has established the "Human Resources Management System", which sets out the recruitment, admission and employment management, attendance and leaves management, remuneration and benefits and assessment and termination management. We value the dignity and equality of employee. We ensure that they are treated fairly in matters including hiring, remuneration, training, and promotion. We prohibit any discrimination or differential treatment based on the race, social status, nationality, religion, gender and cultural background of the employee. During the Reporting Period, the Group did not have any non-compliance issues.

Remuneration and dismissal

The Group is committed to offering employees fair and reasonable remuneration and benefits. They are adjusted based on factors such as the local average wage, consumer price index, employee performance, job nature and seniority etc.

The "Termination management system" specifies the conditions for employee resignation and company dismissal, as well as the procedure for employee dismissal. In order to improve the human resources management system and reduce employee turnover, we conduct exit interviews with employees to understand the reasons for resignation.

Recruitment and promotion

The recruitment and promotion of employees is based on the "Employee Recruitment, Admission and Employment Management System", which sets out the general requirements for recruiting staff. We are committed to providing equal opportunities in the process of recruitment, hiring and employment. Recruitment followed the "Internal first then external" principle which means that the Group consider internal promotion before external recruitment. To encourage internal referrals, we have established an internal referral reward system to reward employees who successfully refer the talented candidates.

Working hours and rest periods

The Group implements standard working hours (applicable for administration staff) and irregular working hour system (applicable for salesperson and senior management). The former refers to the system of 40 working hours per week on average. The latter refers to the working hour system that cannot be determined by standard working hours or requires machines operations. The Group's statutory holidays are implemented in accordance with national regulations, including marriage leave, bereavement leave, maternity leave, paternity leave, lactation leave, work-related injury leave, etc.

Employee benefits and welfare

According to the applicable laws of PRC, the Group participates in social insurance and housing provident fund for applicable employees. Related social insurances include pension insurance, medical insurance, maternity insurance, unemployment insurance and work injury insurance. We also provide high-temperature allowances for frontline employees, cleaners and drivers according to the relevant regulations. Taking into account the needs of employees, the Group provides employees with lunch packs or mean allowance, commuter shuttle bus, protective equipment and communication allowance. If the employee's family encounters financial difficulties and eligible to receive the subsidy from the labour union, the company will report to the labour union so as to provide corresponding assistance. Applicable employees can also apply by themselves.

In order to cultivate employees' sense of belonging to the company, promote friendship among employees and build team spirit, the business units organised various activities regularly.

As at 31st December, the performance indicators related to employment are as follows:

		2019	2018[13]
Employee Number	**Total**	**148**	140
	By Gender		
	Male	**73**	66
	Female	**75**	74
	By Age Group		
	Below 30	**26**	27
	30-50	**110**	100
	50 or above	**12**	13
	By Employment Type		
	Full time	**148**	140
	Part-time	**0**	—
	By Geographical Regions		
	PRC	**147**	140
	Australia	**1**	0

13 Average employees turnover rate was not yet disclosed in 2018.

		2019	2018[13]
Average Employees Turnover Rate	**Overall**	**2%**	—
	By Gender		
	Male	**3%**	—
	Female	**1%**	—
	By Age Group		
	Below 30	**4%**	—
	30-50	**2%**	—
	50 or above	**2%**	—
	By Geographical Regions		
	PRC	**2%**	—
	Australia	**0%**	—

Health and Safety

The Group attaches great importance to the health of its employees and is committed to providing a safe and healthy working environment for them. The Group complies with relevant laws and regulations of the PRC, including the Food Safety Law of the PRC, the Labor Law of the PRC, and the Regulations on Industrial Injury Insurance, etc. During the Reporting Period, the Group did not have any non-compliance issues. The business units have developed internal guidelines and regulations, like the "Food Safety Management System". The Group ensures that each employee who makes contacts with food directly must obtain a valid medical certificate before work commencement. To guarantee a healthy, hygienic and safe working environment, the business units have implemented guidelines as follows, including but not limited to:

- Obstacles are not allowed on all pathways in the working area such as warehouses, all pathways should be kept clear.
- Smoking is strictly prohibited in the office and warehouses
- Sufficient lightings are provided in the working area and pathways
- All kinds of power cords, wiring of all kinds of electrical equipment should be bundled neatly
- Electrical equipment (including office electrical equipment) should be turned off before leaving office after work
- Maintenance of electrical equipment shall be carried out by qualified technicians. If necessary, a warning sign shall be put to warn other employees
- Fire-fighting equipment should be maintained in good conditions

[13] Average employees turnover rate was not yet disclosed in 2018.

- Employees should wear a safety helmet and protective clothing when working in the warehouse
- Employees should pay attention to the signs and warnings on the passage in the warehouse when operating the forklift.
- All technicians in the laboratory should wear suitable personal protective equipment
- A first-aid box is equipped in the laboratory

The Group has implemented internal training projects and workplace health and safety memoranda. Through these projects, the Group educates and reminds employees of the importance of workplace health and safety and proper operation procedures. The Administration and Human Resources Department have assigned staff to record and track any injuries that have occurred in the workplace to ensure effective insurance claims and treatment to protect employees and the Group's interests. During the Reporting Period, there was no case of work-related injury or death of employee.

Development and Training

The Group attaches great importance to the career development of its employees and provides training when necessary. To improve the overall quality of employee, the Group has established a "Training Management System". The Human Resource and Administration Centre conducts surveys about the demand for training on a quarterly and annually basis. Considering the training demand of each business unit, the centre sets out the company's annual business plan, employee promotion and career development as references, to establish an annual/quarterly training program and budget. The Group's training is divided into external and internal training, including pre-job training (i.e. new employee training) and on-the-job training. Related training descriptions are as follows:

Training Categories	Description
New employee training	The training for new employees includes company profile, corporate culture, human resource policy, remuneration and benefits, food safety, operational procedures and rules of various departments, product knowledge etc.
All Staff Trainings	General training for staff includes employees' quality and management skills enhancement, introduction to corporate strategies development, and systems and policies updates etc.
Training the Trainer (TTT) Training	Pieces of training for company internal instructors, which are delivered by external instructors, include the establishment of the training system, teaching skills, curriculum development and courseware production.
Department Training	Technical skills improvement training are provided by the department to its employees.
Expatriate Training	Expatriate training are provided for the management or recommended employees.

The Group provides on-the-job training for employees to enable them to equip with the appropriate skills. According to the training content, it can be divided into management (leadership) training, professional abilities training, general skills training, interpersonal skills training and so on.

After the completion of the training, the responsible department will assess the quality and effectiveness of the relevant training through the "Training Evaluation Form", staff assessment and post-training performance review.

The performance indicators related to training are as follows:

		2019	2018
Percentage of Trained Employee[14]	**Overall**	**89%**	86%
	By Gender		
	Male	**86%**	86%
	Female	**91%**	85%
	By Employment Categories		
	Assistant General Manager or Above	**83%**	71%
	Manager	**100%**	95%
	Assistant Manager	**91%**	92%
	General Staff	**85%**	83%
	Operating Staff	**100%**	100%
Average Training Hours[15] (hour/employee)	**Overall**	**35.11**	19.01
	By Gender		
	Male	**40.93**	20.27
	Female	**29.45**	17.89
	By Employment Categories		
	Assistant General Manager or Above	**31.03**	17.76
	Manager	**47.85**	30.84
	Assistant Manager	**47.65**	23.77
	General Staff	**30.25**	14.58
	Operating Staff	**1.00**	8.40

14 Percentage of trained employee = Number of employees received training during the Reporting Period/the number of employee at the end of the Reporting Period

15 Average Training Hours = Total training hours during the Reporting Period/Total number of employee at the end of the Reporting Period

Labour Standards

The Group strictly abides by the Labor Law of the PRC, the Law on the Protection of Minors and other relevant labour laws and regulations. The Group prohibits the employment of child labour and forced labour. The Human Resources Department reviews the applicant's personal data in accordance with relevant national laws and regulations and employment management procedures to ensure that the employee's age meets the requirements of the regulations, and conducts pre-job interviews to ensure there is no forced labour. During the Reporting Period, the Group did not employ child labour or forced labour, so there was no non-compliance issue.

Operating Practices

Supply Chain Management

The Group believes its success is largely driven by the ability to source high-quality products from reputable food ingredients and additives manufacturers and to provide an extensive product portfolio for customers. The Group emphasises the selection of suppliers as we believe the supply of high-quality products is one of the key factors for us to succeed in the food ingredients and additives distribution industry. The Group has formulated a "Procurement Management System". We typically select suppliers based on a number of criteria including brand reputation, on-going compliance with relevant food safety laws, product quality, price competitiveness and supply capabilities. We have established an approved supplier list. Before engaging a new supplier or including the new supplier into the approved supplier list, we perform background checks on the National Enterprise Credit Information Publicity System regarding the relevant supplier. During the Reporting Period, 66 suppliers were newly engaged.

We have implemented measures to safeguard the quality of the products provided by our suppliers. Please refer to the "Product Responsibility" section for details.

During the Reporting Period, suppliers provided us with food ingredients and additives, and transportation services respectively. The corresponding geographical distribution of the suppliers is as follows:

Supplier Categories	Location	2019	2018
Food Ingredients and Food Additives and Packaging Material	The mainland of the PRC	153	141
	Hong Kong, the PRC	1	1
	Asia	8	2
	North America	1	1
	Oceania	1	1
	Europe	0	1
Transportation Services	The mainland of the PRC	7	5
Total		171	152

Product Responsibility

Products distributed by the Group to the customers can be broadly categorised into the following types: (i) food ingredients; (ii) food additives; and (iii) packaging materials. The business unit sets up a food safety management team which is responsible for handling food safety issues and has the authority to conduct regular or irregular inspections and spot checks in various departments, and report the problems found to the general manager office. The office is responsible for ordering the responsible department to conduct work analysis, review and rectification of all discovered problems. We have established corresponding policies and measures for food safety and quality, after-sales service and complaint handling, intellectual property rights, product returns, and customer privacy. For details, please refer to the following sections.

The Group strictly abides by the relevant laws and regulations of the PRC on food hygiene and safety, including the Food Safety Law of the PRC, the Measures for the Administration of Food Production Licenses, the Regulations on the Administration of Food Labels, the Advertising Law of the PRC, and The Product Quality Law of the PRC, the Regulations on the Supervision and Administration of Dairy Product Quality and Safety, and the corresponding internal regulations. During the Reporting Period, the Group did not have any related non-compliance issues.

Food Safety and Quality Management

The quality of the supplier's goods is critical to the operation of the Group. We have implemented quality control measures of by conducting annual audits for suppliers and requiring them to provide us with the relevant certifications or qualifications (e.g. Hazard Analysis and Critical Control Points (HACCP) certification, ISO 9000 Quality Management System Certification) of the products before procurement. We also require suppliers to provide a certificate of analysis or import goods clearance slips from China Entry-Exit Inspection and Quarantine Bureau for each batch of products supplied.

Upon the receipt of products from suppliers, the inventory management and transportation department will inspect the products (such as checking if packaging appears to be swollen or leaked; if the product specifications are in line with the descriptions on the purchase orders) to ensure that the products received are in good condition and strictly comply with the food safety regulations. Further, we keep records of the products, including expiry date, suppliers' name and address, place of origin for importation, quantity and description of goods. Such record is made available after the procurement staff confirmed on the purchase invoice.

We also conduct evaluations on new suppliers (before procurement) and on existing suppliers. Evaluation criteria include timeliness of delivery of products, quality of products, pricing, rate of response and feedback from customers. Supplier evaluation reports are then prepared and approved by the director of the supply chain. If the performance of any supplier is not up to the standard of the Group, they would be considered as unqualified and removed from the approved supplier list.

In order to ensure the quality of the products during storage, the Group has implemented measures, including but not limited to:

- Separate storage of non-allergen and allergen products.
- Separate storage of raw materials and additives.
- Record the temperature and humidity of the warehouse on a daily basis. If it exceeds the standard range, they should be adjusted immediately and the new temperature and humidity should be recorded.

Before the products are delivered to customers, we conduct inspection again. Inventory management and transportation department staff will check the product specifications to make sure that they are in line with those stated on the purchase orders we received from customers. The information of our out-going products including the name of customer, product description, quantity and name of the transportation service provider will be recorded by the staff. In order to maintain the quality of the products during transportation, we require transportation service providers to provide a hygienic environment for the transport vehicles in accordance with the PRC Food Safety Law.

We have formulated "Technicians Project Working Guidelines" for the research and development works performed in the laboratory. It provides clear guidelines on the procedures of the operation of the laboratory, raw materials testing, product development and product promotion, etc.

Product Return Policy

After examination and upon approval of our general manager of our branch offices, we only accept returns or exchanges for (i) any defective products sold by us that were damaged during transportation and delivery; or (ii) products that did not match with the product specifications as specified on the purchase orders between the customers and us.

To ensure the customers are satisfied with our services, we have implemented product return policy to (i) exchange the defective or damaged products; or (ii) refund the customers the relevant purchase amount of the defective or damaged products. For any product that could potentially be returned, we would perform proper inspection and examination to the defective or damaged products. Products returned may be returned to the suppliers or destroyed.

After-sales Service and Complaint Handling

The business management centre is customer-oriented, responsible for supporting and monitoring tasks and also providing after-sales services to customers. Its duties include:

(i) collecting license and qualifications of customers before sales, verifying customers' credits and entering information of new customers into the company's system;

(ii) monitoring sales prices, customer's receivables, signing of the sales contracts, and travel expenses reimbursement for salesmen;

(iii) processing customer's order during the sales, coordinating both internal and external customers to place and process orders, and delivering quality goods to customers in time;

(iv) gathering feedback from customers about our products and services to ensure the quality of our food ingredients and additives and continuous improvement of our operations;

(v) providing assistance to customers after receiving complaints. Our business management centre has various sets of procedures and protocols followed by our staff while handling complaints and requests from our customers such as product return or exchange, technical support and product application solutions.

Feedbacks from the customers on the products supplied by the Group help us improve the services and product quality. The Group has established "Customer Complaint Handling Procedure" to provide guidelines on handling customer complaints and opinions with care. The business management centre collects customer complaints and opinions by fax, telephone and email, and is responsible for promptly responding to those complaints to the sales department and tracking the process of the entire case. During the Reporting Period, we received 49 complaints. They were mainly about delivery delays and attitude problem of the drivers etc.

	2019	2018
Number of complaint cases	**49**	47

Intellectual Property Protection

The Group's technology centre conducts food application testing and development of food formulations. We have established an "Intellectual Property Management System" to ensure that the interests of the Group and its customers are protected. Intellectual property is of paramount importance to our research and development. The Group strictly abides by relevant laws and regulations, including the Patent Law, the Copyright Law, the Trademark Law and the Anti-Unfair Competition Law. We implement the following measures to protect intellectual property:

- Intellectual property should be registered, filed and applied for authenticity.

- If the result of intellectual effort with commercial value is not applicable for the above measures, it should be treated and protected as trade secrets. It should not be published nor disclosed by any forms (e.g. commissioned appraisal, exhibition, advertisement, test sale, and gift-giving, etc.) before the related protection method is determined.

- Products should be kept strictly confidential during development. Employees should not pass trade secret information in public places or using communication tools without encryption.

- Intellectual property training are provided to raise employees' awareness of intellectual property protection.

Product Advertising/labelling

The Group's business does not involve product packaging and labelling activities. The advertisements of the company are published in exhibitions and related publications only. There is no product released regarding the research and development work in the laboratory during the Reporting Period and in the past. However, we have already established guidelines for product labelling, indicating that the products released to the public are required to specify the storage conditions, production date, shelf life, and tasting recommendations. Generally speaking, the issue has no significant impact on our operations at the moment.

Customer Data Protection and Privacy

The Group attaches great importance to the confidential information of the customers. We have formulated "Information Protection Policy" which provides guidance on the handling of confidential information. Employees are required to sign confidentiality agreements that they must not distribute or disclose company secrets to unrelated persons by any means. The Group also signs a "Non-Competition Restriction Agreement" with specific employees, stipulating that the trade secrets and technologies obtained by the employees shall not be disclosed to the third party and must not be used to make profits for themselves or others.

In order to protect the interests of customers and the Group and to satisfy with the customers' requirements, the following terms are set out in the confidentiality agreement:

- Commit to keeping all information from the other party strictly confidential, including the implementation of effective security measures and operating procedures

- Commit not to make other party's secret information known to the third party by leakage, notification, issuance, publishing, passing on, transfer or any other means without the consent of the other party

Anti-corruption

Honesty, integrity and fair competition are the core values that all employees of the Group have to defend. We have established the "Anti-Corruption Code of Conduct" to set out the employee's conducts in dealing with problems related to acceptance of advantages and conflicts of interest. The director or employee receiving the gift should report to the board of directors and seek advice on how to handle the gift from the Board. When there is an actual or potential conflict of interest between the director or employee and the Group, the related person is required to make a declaration of interest. All directors and employees should ensure all records, receipts, account information and other documents they submit to the Group can truly reflect the events or business transactions stated in these documents. Any person, who deliberately uses a document with false information to deceive or mislead the Group, may violate the relevant regulations whether or not the person can get benefit from it. Our compliance officer is responsible for handling the reports of violation cases.

The Group strictly abides by the laws and regulations relating to bribery, extortion, fraud and money laundering in Mainland China and Hong Kong, including the Criminal Law of the PRC and the Prevention of Bribery Ordinance of Hong Kong. During the Reporting Period, the Group did not have any significant non-compliance issues and related corruption litigation cases in this regard.

Community

Community Investment

The Group is committed to maintaining the sustainability of its business and its communities. We have formulated a "Community Contribution Policy" to establish a framework and guidelines for community investment, sponsorship and donation activities, and is expected to contribute to environmental protection, community welfare and community health.

1. *Environmental Protection*

   Raise employee's awareness of environmental protection and strive to mitigate the impact of the operation on the environment

2. *Community Welfare*

   Plan to participate in community welfare activities to support the disadvantaged and support the community donation and sponsorship of appeal by the government

3. *Community Health*

   Support the improvement of the living environment of the community and the health of local residents through various programmes, including but not limited to: offering training related to dietary supplement and food safety with business partners

During the Reporting Period, the Group's employee has visited an elderly home, Jinhui Home for the Elderly (金匯敬老院). The Group had brought warm greetings and donated food supplies to the elderly home. On the other hand, the Group has received Charity Outstanding Award ("**公益卓越獎**") presented by the Community Chest as a recognition of the contribution made on community services.

THE STOCK EXCHANGE "ESG GUIDE" CONTENT INDEX

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KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Labour Standards	55
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Labour Standards	55
Operating Practices			
Aspect B5 Supply Chain Management			
General Disclosure*	Policies on managing environmental and social risks of supply chain	Supply Chain Management	55
KPI B5.1	Number of suppliers by geographical region	Supply Chain Management	55
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply Chain Management	55

Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs)		Section/ Statement	Page number
Aspect B6 Product Responsibility			
General Disclosure*	Information on: (a) the policies; and (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	Product Responsibility	56-59
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not Applicable	Not Applicable
KPI B6.2	Number of products and service-related complaints received and how they are dealt with	Product Responsibility — After-sales Service and Complaint Handling	57-58
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Product Responsibility — Intellectual Property Protection	58
KPI B6.4	Description of quality assurance process and recall procedures	Product Responsibility — Food Safety and Quality Management, Product Return Policy	56-57
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Product Responsibility — Customer Data Protection and Privacy	59

Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs)		Section/ Statement	Page number
Aspect B7 Anti-corruption			
General Disclosure*	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Anti-corruption	59
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	Anti-corruption	59
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption	59
Community			
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	Community Investment	60
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Community Investment	60
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Community Investment	60

Note: * refers to the "comply or explain" provisions and the others are recommended disclosure.

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To the shareholders of Shineroad International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Shineroad International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 72 to 135, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	**How our audit addressed the key audit matter**
The loss allowance for impairment of trade receivables	
As at 31 December 2019, the balance of trade receivables amounted to approximately RMB93,531,000. Trade receivables comprised 24.6% of total assets in the consolidated statement of financial position. The Group recognised an allowance for estimated credit losses for trade receivables as at 31 December 2019, which required significant judgement from management in evaluating probability of default, expected losses and forward looking factors. We identified impairment of trade receivables as a key audit matter due to the significant judgements and estimates exercised by the Group's management. The accounting policies and disclosures for the loss allowance for impairment of trade receivables are made in note 2.4, 3 and 17 to the consolidated financial statements.	We performed the following procedures to assess the loss allowance for impairment of trade receivables: — understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the collection and the assessment of the loss allowance for impairment of trade receivables; — tested on a sample basis the aging of trade receivables at year end; — tested on a sample basis subsequent settlements; — evaluated and tested the methodologies and data/parameters used by management, including migration rate, historical loss information, probability of default, expected loss and forward looking factors; — executed substantive analytical review procedure by analyzing the fluctuations of major customers' outstanding balance and accounts receivable turnover days.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
As at 31 December 2019, the carrying value of inventories amounted to RMB69,222,000, after making a provision for inventory obsolescence of RMB155,000. The balance represented 18.2% of total assets in the consolidated statement of financial position. Inventories comprising merchandises, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling price less any estimated costs to be incurred to completion and disposal. We identified valuation of inventories as a key audit matter due to that the significance of the carrying amount of inventory and the significant management judgements and estimates involved in determining the net realizable value. The accounting policies and disclosures for the valuation of inventories are made in note 2.4, 3 and 16 to the consolidated financial statements.	We performed the following procedures to assess the valuation of inventories: — discussed the inventory provision policy with management to evaluate the inventory provision method; — performed inventory valuation test by sampling method, calculating the corresponding weighted average unit price to check accuracy of unit price in inventory list; — reviewed subsequent sales price on a sample basis to assess reliability of net realizable value; — obtained products expiry list to examine the products with short expiry date and analyzed the provision of such products with inventory turnover status; — performed inventory quantity test (stocktaking) to evaluate the Group's inventory management and observe inventory status, especially for those expired and damaged goods.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our 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.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants

Hong Kong
30 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	579,885	525,578
Cost of sales		(479,640)	(427,718)
Gross profit		100,245	97,860
Other income and gains	5	6,184	7,117
Selling and distribution expenses		(30,349)	(26,572)
Administrative expenses		(33,162)	(35,195)
Finance costs	7	(367)	(862)
Other expenses		(1,497)	(1,545)
PROFIT BEFORE TAX	6	41,054	40,803
Income tax expense	10	(11,053)	(12,672)
PROFIT FOR THE YEAR		30,001	28,131
Profit for the year			
Attributable to:			
Owners of the parent		30,001	28,131
Non-controlling interests		—	—
		30,001	28,131
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		649	4,139
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		649	4,139
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		649	4,139
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		30,650	32,270

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Total comprehensive income attributable to:			
Owners of the parent		**30,650**	32,270
Non-controlling interests		**—**	—
		30,650	32,270
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic and diluted			
— For profit for the year	12	**0.04**	0.05

Consolidated Statement of Financial Position

31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,148	798
Right-of-use assets	14	4,413	—
Other intangible assets	15	35	106
Deferred tax assets	23	683	585
Total non-current assets		6,279	1,489
CURRENT ASSETS			
Inventories	16	69,222	38,756
Trade receivables	17	93,531	70,206
Prepayments, other receivables and other assets	18	19,692	10,400
Amounts due from related parties		959	575
Structured deposits	19	33,800	—
Pledged deposits	20	12,861	25,760
Cash and bank balances	20	144,124	181,235
Total current assets		374,189	326,932
CURRENT LIABILITIES			
Trade and bills payables	21	47,708	30,293
Other payables and accruals	22	16,460	18,997
Amounts due to related parties		4,117	1,736
Lease liabilities	14	2,724	—
Tax payable		3,928	3,959
Total current liabilities		74,937	54,985
NET CURRENT ASSETS		299,252	271,947
TOTAL ASSETS LESS CURRENT LIABILITIES		305,531	273,436
NON-CURRENT LIABILITIES			
Lease liabilities	14	1,445	—
Total non-current liabilities		1,445	—
NET ASSETS		304,086	273,436
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	5,681	5,681
Other reserves	25	298,405	267,755
Total equity		304,086	273,436

Huang Haixiao
Director

Huang Xin Rong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent					
	Share capital *RMB'000*	Share premium *RMB'000**	Statutory reserve *RMB'000**	Exchange fluctuation reserve *RMB'000**	Retained profits *RMB'000**	Total equity *RMB'000*
At 1 January 2019	5,681	207,731	20,780	2,568	36,676	273,436
Profit for the year	—	—	—	—	30,001	30,001
Other comprehensive income for the year:						
Exchange differences related to foreign operations	—	—	—	649	—	649
Total comprehensive income for the year	—	—	—	649	30,001	30,650
Transfer from retained profits	—	—	4,547	—	(4,547)	—
At 31 December 2019	5,681	207,731	25,327	3,217	62,130	304,086

* These reserve accounts comprise the consolidated reserves of RMB298,405,000 (2018: RMB267,755,000) in the consolidated statements of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent					
	Share capital *RMB'000*	Share premium *RMB'000**	Statutory reserve *RMB'000**	Exchange fluctuation reserve *RMB'000**	Retained profits *RMB'000**	Total equity *RMB'000*
At 1 January 2018	—	115,834	14,442	(1,571)	14,883	143,588
Profit for the year	—	—	—	—	28,131	28,131
Other comprehensive income for the year:						
Exchange differences related to foreign operations	—	—	—	4,139	—	4,139
Total comprehensive income for the year	—	—	—	4,139	28,131	32,270
Share issue expenses	—	(8,935)	—	—	—	(8,935)
Proceeds from issue of shares	1,420	105,093	—	—	—	106,513
Capitalisation of share premium into ordinary shares	4,261	(4,261)	—	—	—	—
Transfer from retained profits	—	—	6,338	—	(6,338)	—
At 31 December 2018	5,681	207,731	20,780	2,568	36,676	273,436

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		41,054	40,803
Adjustments for:			
Finance costs	7	—	862
Bank interest income	5	(2,579)	(1,400)
Interest income from structured deposits	5	(1,180)	—
Depreciation	6, 13	525	474
Amortisation of other intangible assets	6, 15	71	47
Depreciation of right-of-use assets	6, 14	3,519	—
Write-down of inventories to net realisable value	16	155	51
Impairment of trade receivables	6, 17	1,166	1,087
Unrealised gains from changes in foreign currency exchange		218	2,664
Increase in inventories		(30,621)	(901)
(Increase)/decrease trade receivables		(24,875)	13,465
(Increase)/decrease in prepayments, other receivables and other assets		(9,292)	336
(Increase)/decrease in pledged deposits		12,899	(6,805)
(Increase)/decrease in trade payables		19,796	(8,537)
(Increase)/decrease in other payables and accruals		(2,537)	4,302
Cash generated from operations		8,319	46,448
Income tax paid		(11,182)	(12,786)
Net cash flows from/(used in) operating activities		(2,863)	33,662
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	2,579	1,400
Interest income from structured deposits	5	1,180	—
Purchases of items of property, plant and equipment		(875)	(563)
Proceeds from disposal of items of property, plant and equipment		—	8
Purchase of intangible assets		—	(153)
Net cash flows from Investing activities		2,884	692

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from issue of shares		—	97,578
Proceeds from bank loans and other borrowings		—	15,000
Repayment of bank loans and other borrowings		—	(55,000)
Interest paid		—	(862)
Principal portion of lease payments	26(b)	(3,763)	—
Net cash flows used in financing activities		(3,763)	56,716
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,742)	91,070
Cash and cash equivalents at beginning of year		181,235	88,690
Effect of foreign exchange rate changes, net		431	1,475
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	177,924	181,235
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	144,124	181,235
Structured deposits		33,800	—
		177,924	181,235

1. CORPORATE AND GROUP INFORMATION

Shineroad International Holdings Limited (the "**Company**") was incorporated as an investment holding company in the Cayman Islands with limited liability under the laws of the Cayman Islands. The registered office address of the Company is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1109, Cayman Islands.

During the year, Shineroad International Holdings Limited and its subsidiaries (collectively the "**Group**") was principally engaged in the distribution of food additives.

The ultimate controlling shareholder of the Company is Mr. Huang Haixiao (known as the "**Controlling Shareholder**").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Date of incorporation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Shanghai Shineroad Food Ingredients Co., Ltd.[a][b] ("**Shanghai Shineroad**")	People's Republic of China (The "**PRC**")/ Mainland China	10 January 2011	RMB150,202,000	—	100%	Distribution of food ingredients
Beijing Shineroad Food Additives Co., Ltd.[a][b] ("**Beijing Shineroad**")	The PRC/ Mainland China	10 July 2011	RMB15,000,000	—	100%	Distribution of food ingredients
Guangzhou Jieyang Food Technology Co., Ltd.[a][b] ("**Guangzhou Jieyang**")	The PRC/ Mainland China	16 December 2010	RMB20,000,000	—	100%	Distribution of food ingredients
Zhengzhou Shineroad Food Technology Co., Ltd.[a][b] ("**Zhengzhou Shineroad**")	The PRC/ Mainland China	19 December 2018	RMB5,000,000	—	100%	Distribution of food ingredients
Chengdu Shineroad Food Co., Ltd.[a][b] ("**Chengdu Shineroad**")	The PRC/ Mainland China	21 December 2018	RMB5,000,000	—	100%	Distribution of food ingredients
Shineroad Holding Limited[b]	British Virgin Islands	1 December 2015	USD50,000	100%	—	Investment holding
Shineroad Food Holding Limited	Hong Kong	9 December 2015	HK$1	—	100%	Investment holding

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name	Place of incorporation/ registration and business	Date of incorporation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Qingdao Shineroad Food Technology Co., Ltd.[(a)(b)]	The PRC/ Mainland China	22 May 2019	RMB5,200,000	—	100%	Distribution of food ingredients
Xian Shineroad Food Technology Co., Ltd.[(a)(b)]	The PRC/ Mainland China	28 May 2019	RMB15,000,000	—	100%	Distribution of food ingredients
Xiamen Shineroad Food Technology Co., Ltd.[(a)(b)]	The PRC/ Mainland China	4 June 2019	RMB5,000,000	—	100%	Distribution of food ingredients
Wuhan Shineroad Food Technology Co., Ltd.[(a)(b)]	The PRC/ Mainland China	2 December 2019	RMB600,000	—	100%	Distribution of food ingredients
Shineroad Food Technology (Thailand) Co., Ltd [(b)]	Thailand	1 October 2019	THB2,250,000	—	99%	Distribution of food ingredients
Shineroad Food Holdings (Thailand) Co., Ltd [(b)]	Thailand	3 April 2019	THB3,000,000	—	99%	Investment holding
Shineroad Food Technology (Vietnam) Co., Ltd	Vietnam	5 September 2019	USD500,000	—	100%	Distribution of food ingredients
Shineroad Investment Vietnam Co., Ltd	Vietnam	8 March 2019	USD1,000,000	—	100%	R&D and Distribution of food ingredients

(a) Registered as domestic companies with limited liability under the laws of the PRC.

(b) No audited financial statements have been prepared for the year ended 31 December 2019.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK (IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS19, and HKAS 28 and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 Leases, HK (IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK (SIC)-Int 15 Operating Leases — Incentives and HK (SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK (IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in Lease liabilities. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

As a lessee — Leases previously classified as operating leases *(Continued)*

Impact on transition (Continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

As a lessee — Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets	4,998
Increase in total assets	4,998
Liabilities	
Increase in lease liabilities	4,998
Increase in total liabilities	4,998

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

Financial impact at 1 January 2019 *(Continued)*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	5,200
Weighted average incremental borrowing rate as at 1 January 2019	5.46%
Discounted operating lease commitments as at 1 January 2019	4,998
Lease liabilities as at 1 January 2019	**4,998**

(b) HK (IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its* Associate or Joint Venture[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its biological assets at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than construction contract assets, deferred tax assets, financial assets, other intangible assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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; and the sponsoring employers of the post-employment benefit plan;

(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); and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Machinery	9.5% to 19.0%
Motor vehicles	23.8%
Office equipment	19.0% to 31.7%
Leasehold improvement	100.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 1 year to 3 years.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office and warehouse	1 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee *(Continued)*

(b) Lease liabilities (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Operating leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach *(Continued)*

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to related parties, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories comprising merchandises, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling price less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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

(a) Sale of industrial products

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

(b) Provision of management services

Revenue from the provision of management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Other employee benefits

Pension scheme

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC established subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price less any estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements, respectively.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB683,000 as at 31 December 2019 (2018: RMB585,000) (note 23).

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

The Group's principal business is the distribution of food additives. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the distribution of food additives.

Information about geographical area

Since all of the Group's revenue was generated from the distribution of food additives in Mainland China and about 95% of the Group's identifiable non-current assets were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 Operating Segments.

Information about a major customer

Revenue from continuing operations of approximately RMB43,149,000 (2018: RMB44,599,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contract with customers	**579,885**	525,578

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Type of goods or services		
Sales of Food ingredients	**317,443**	292,914
Sales of Food additives	**243,669**	227,390
Sales of Packaging materials	**18,773**	5,274
	579,885	525,578
Timing of revenue recognition		
Goods transferred at a point in time	**579,885**	525,578

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Revenue from contracts with customers *(Continued)*

(i) Disaggregated revenue information *(Continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of industrial products	2,185	1,364

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

	2019 RMB'000	2018 RMB'000
Other income and gains		
Bank interest income	2,579	1,400
Interest income from structured deposits	1,180	—
Government grants*	2,089	4,866
Consultancy service income	155	641
Others	181	210
	6,184	7,117

* There were no unfulfilled conditions and other contingencies attaching to government grants that had been recognised.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**479,640**	427,718
Employee benefit expenses (including directors' and chief executive's remuneration as set out in note 8)			
Wages and salaries		**28,960**	26,004
Pension scheme contributions		**6,181**	5,312
Other welfare		**910**	611
		36,051	31,927
Depreciation of property, plant and equipment	*13*	**525**	474
Depreciation of right-of-use assets	*14(a)*	**3,519**	—
Lease payments not included in the measurement of lease liabilities	*14(c)*	**131**	—
Amortisation of other intangible assets	*15*	**71**	47
Research and development costs:			
Current year expenditure		**2,743**	2,499
Auditor's remuneration		**1,118**	2,206
Minimum lease payments under operating lease		**—**	3,771
Transportation expenses		**7,150**	5,170
Travel expenses		**2,198**	1,632
Foreign exchange differences, net		**262**	250
Impairment of trade receivables	*17*	**1,166**	1,087
Write-down of inventories to net realisable value	*16*	**155**	51
Bank interest income	*5*	**(3,759)**	(1,400)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on interest-bearing bank and other borrowings	**—**	862
Interest on lease liabilities	**367**	—
	367	862

8. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	390	196
Other emoluments:		
Salaries, allowances and benefits in kind	750	1,332
Performance related bonuses	25	1,567
Pension scheme contributions	32	128
	1,197	3,223

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Mr. Tan Wee Seng	197	98
Mr. Chan Ka Kit	143	72
Mr. Meng Yuecheng	50	26
	390	196

There were no other emoluments payable to the independent non-executive directors during the year (2018:Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION *(Continued)*

(b) An Executive Director, a non-executive Director and the chief executive officer

	Salaries allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2019				
Executive Director:				
Mr. Huang Haixiao	—	—	—	—
Executive Director and Chief executive officer:				
Ms. Huang Xin Rong	645	—	32	677
Executive Director:				
Mr. Dai Yihui	105	25	—	130
	750	25	32	807
2018				
Executive Director:				
Mr. Huang Haixiao	—	—	—	—
Executive Director and Chief executive officer:				
Mr. Li Junkui	806	1,567	96	2,469
Non-executive Director:				
Ms. Huang Xin Rong	526	—	32	558
	1,332	1,567	128	3,027

Mr. Huang Haixiao was appointed as the Company's executive director and chief executive officer on 26 November 2015. Ms. Huang Xin Rong was appointed as an executive director on 14 January 2019. Mr. Dai Yihui was appointed as an executive director on 2 December 2019.

There were no arrangements under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

No director was included in the five highest paid employees during the year ended 31 December 2019 (2018:one), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining five (2018: four) highest paid employees who are neither a director nor a chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	3,048	1,702
Performance related bonuses	2,813	3,474
Pension scheme contributions	500	412
	6,361	5,588

The number of non-director and non-chief executive, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019 RMB'000	2018 RMB'000
Nil to HK$1,000,000	3	2
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	—	—
HK$2,000,001 to HK$2,500,000	1	1

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019 RMB'000	2018 RMB'000
Current — PRC		
Charge for the year	11,151	12,957
Deferred tax *(note 23)*	(98)	(285)
Total tax charge for the year	11,053	12,672

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Company and certain of its subsidiaries are not subject to any income tax in the Cayman Islands and BVI.

10. INCOME TAX *(Continued)*

The provision for current income tax in the PRC is based on a statutory rate of 25% of the assessable profits of subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law.

The statutory tax rate for subsidiaries in Hong Kong is 16.5%. No Hong Kong profits tax on the Group's subsidiary has been provided as there is no assessable profit arising in Hong Kong during the year.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Profit before tax	**41,054**	40,803
Tax at the statutory tax rate (25%)	**10,264**	10,201
Tax effect of tax rate difference of subsidiaries	**328**	1,413
Adjustments in respect of current tax of previous periods	**(323)**	(60)
Tax effect of non-deductible expenses	**168**	119
Tax losses not recognised	**616**	999
Tax charge at the Group's effective rate	**11,053**	12,672

11. DIVIDENDS

No dividend has been paid or declared by the Company for the year.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 680,000,000 (2018: 597,562,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculations of basic and diluted earnings per share are based on:

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the parent, used in the basic and diluted earnings per share calculations	**30,001**	28,131

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**680,000,000**	597,562,000
Basic earnings per share (RMB)	**0.04**	0.05
Diluted earnings per share (RMB)	**0.04**	0.05

13. PROPERTY, PLANT AND EQUIPMENT

	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Leasehold improvement *RMB'000*	Total *RMB'000*
31 December 2019					
At 31 December 2018 and 1 January 2019:					
Cost	290	719	2,496	36	3,541
Accumulated depreciation	(256)	(544)	(1,928)	(15)	(2,743)
Net carrying amount	34	175	568	21	798
At 1 January 2019, net of accumulated depreciation	34	175	568	21	798
Additions	365	251	259	—	875
Depreciation provided during the year	(60)	(73)	(371)	(21)	(525)
At 31 December 2019, net of accumulated depreciation	339	353	456	—	1,148
At 31 December 2019:					
Cost	655	970	2,755	36	4,416
Accumulated depreciation	(316)	(617)	(2,299)	(36)	(3,268)
Net carrying amount	339	353	456	—	1,148

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Leasehold improvement *RMB'000*	Total *RMB'000*
31 December 2018					
At 31 December 2017 and 1 January 2018:					
Cost	264	720	2,044	—	3,028
Accumulated depreciation	(247)	(481)	(1,583)	—	(2,311)
Net carrying amount	17	239	461	—	717
At 1 January 2018, net of accumulated depreciation	17	239	461	—	717
Additions	40	8	479	36	563
Disposals	—	(8)	—	—	(8)
Depreciation provided during the year	(23)	(64)	(372)	(15)	(474)
At 31 December 2018, net of accumulated depreciation	34	175	568	21	798
At 31 December 2018:					
Cost	290	719	2,496	36	3,541
Accumulated depreciation	(256)	(544)	(1,928)	(15)	(2,743)
Net carrying amount	34	175	568	21	798

14. LEASES

The Group has lease contracts for office and warehouse. Leases of office and warehouse generally have lease terms between 1 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Office and warehouse *RMB'000*
As at 1 January 2019	4,998
Additions	2,934
Depreciation charge	(3,519)
At 31 December 2019	4,413

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities ***RMB'000***
Carrying amount at 1 January	**4,998**
New leases	**2,934**
Accretion of interest recognised during the year	**367**
Payments	**(4,130)**
Carrying amount at 31 December	**4,169**
Analysed into:	
Current portion	**2,724**
Non-current portion	**1,445**

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

14. LEASES *(Continued)*

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019
	RMB'000
Interest on lease liabilities	367
Depreciation charge of right-of-use assets	3,519
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	131
Total amount recognised in profit or loss	4,017

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 26 and 29, respectively, to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Software
	RMB'000
31 December 2019	
Cost at 1 January 2019, net of accumulated amortisation	106
Amortisation provided during the year *(note 6)*	(71)
At 31 December 2019	35
At 31 December 2019:	
Cost	153
Accumulated amortisation	(118)
Net carrying amount	35

15. OTHER INTANGIBLE ASSETS *(Continued)*

	Software *RMB'000*
31 December 2018	
Cost at 1 January 2018, net of accumulated amortisation	—
Additions	153
Amortisation provided during the year *(note 6)*	(47)
At 31 December 2018	106
At 31 December 2018:	
Cost	153
Accumulated amortisation	(47)
Net carrying amount	106

16. INVENTORIES

	2019 *RMB'000*	2018 *RMB'000*
Food ingredients	34,807	16,437
Food additives	34,570	18,172
Packaging materials	—	4,198
	69,377	38,807
Provision for inventories	(155)	(51)
	69,222	38,756

17. TRADE RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables	91,275	71,385
Bills receivable	4,811	1,108
Impairment	(2,555)	(2,287)
	93,531	70,206

17. TRADE RECEIVABLES *(Continued)*

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**86,470**	62,604
3 to 6 months	**7,053**	6,990
Over 6 months	**8**	612
	93,531	70,206

The movements in provision for impairment of trade receivables are as follows:

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**2,287**	1,200
Impairment losses recognised *(note 6)*	**1,166**	1,087
Amount written off as uncollectible	**(898)**	—
At end of year	**2,555**	2,287

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

17. TRADE RECEIVABLES *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Less than 3 month	3 to 6 months	6 to 12 months	Over 12 months	Total
Expected credit loss rate	**0.57%**	**5.82%**	**20.25%**	**100.00%**	**2.77%**
Gross carrying amount	**83,090**	**7,488**	**10**	**1,646**	**92,234**
Expected credit losses	**471**	**436**	**2**	**1,646**	**2,555**

As at 31 December 2018

	Less than 3 month	3 to 6 months	6 to 12 months	Over 12 months	Total
Expected credit loss rate	0.62%	6.59%	46.36%	100.00%	3.20%
Gross carrying amount	63,571	6,298	1,141	950	71,960
Expected credit losses	393	415	529	950	2,287

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 ***RMB'000***	2018 *RMB'000*
Prepayments	**17,628**	7,226
Deposits and other receivables	**2,064**	3,174
	19,692	10,400

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. STRUCTURED DEPOSITS

	2019 ***RMB'000***	2018 *RMB'000*
Other unlisted investments, at fair value	**33,800**	—

The above unlisted investments were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

20. CASH AND BANK

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**144,124**	181,235
Pledged deposits	**12,861**	25,760

At the end of the reporting period, the cash and bank balances of the Group denominated in US dollars ("**USD**") amounted to RMB25,172,000(2018: RMB209,000), denominated in Hong Kong dollars ("**HKD**") amounted to RMB19,093,000(2018:RMB45,864,000), denominated in Vietnam dollars ("**VND**") amounted to RMB3,591,000(2018:Nil), denominated in Thailand Baht ("**THB**") amounted to RMB602,000(2018: Nil).

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

21. TRADE AND BILLS PAYABLES

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

	2019 RMB'000	2018 RMB'000
Within 3 months	**47,654**	30,166
3 to 6 months	**—**	—
6 to 12 months	**—**	—
Over 1 year	**54**	127
	47,708	30,293

The trade payables are non-interest-bearing and are normally settled on terms of 7 to 90 days.

22. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Contract liabilities	2,085	2,185
Payroll and welfare payable	9,755	11,154
Logistics related expenses	2,849	2,900
Other tax payables	430	1,898
Other payables	1,341	860
	16,460	18,997

Other payables and accruals are non-interest-bearing.

23. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Lease liabilities RMB'000	Impairment of receivables RMB'000	Provision for inventories RMB'000	Total RMB'000
At 31 December 2018	—	572	13	585
Effect of adoption of HKFRS 16	—	—	—	—
At 1 January 2019 (restated)	—	572	13	585
Deferred tax charged to profit or loss during the year *(note 10)*	5	67	26	98
Gross deferred tax assets at 31 December 2019	5	639	39	683

The Group had unused tax losses available for offsetting against future profits in respect of certain subsidiaries of RMB15,014,000 as at 31 December 2019 (2018:RMB10,102,000), for which no deferred tax assets have been recognised. No deferred tax assets have been recognised in respect of these losses because it is uncertain that there are future available taxable profits of these subsidiaries to utilise the tax losses.

23. DEFERRED TAX *(Continued)*

Deferred tax assets: *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributable by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Under the current organisation and operation structure, the Group's applicable rate is 10%.

As of 31 December 2019 (2018:Nil), no deferred tax liability has been recognised for withholding taxes that would be payable on unremitted earnings of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings to foreign entities in the foreseeable future.

The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised were approximately RMB109,395,000 as at 31 December 2019 (2018:RMB79,787,000), respectively.

24. SHARE CAPITAL

	2019 ***RMB'000***	2018 *RMB'000*
Authorised:		
2,000,000,000 shares of HK$0.01 each	**16,708**	16,708
Issued and fully paid:		
680,000,000 shares of HK$0.01 each	**5,681**	5,681

A summary of movements in the Company's share capital is as follows:

	Number of shares	**Share capital** *RMB*
At 31 December 2017 and 1 January 2018	2,000	18
Issue of new shares	679,998,000	5,680,702
At 31 December 2018, at 1 January 2019 and 31 December 2019	680,000,000	5,680,720

25. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 75 to 76 of the financial statements.

26. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB$2,934,000 and RMB$2,934,000, respectively, in respect of lease arrangements for office and warehouse (2018: Nil).

(b) Changes in liabilities arising from financial activities

2019

	Lease liabilities *RMB'000*	Other borrowings *RMB'000*
At 1 January 2019	**4,998**	—
Changes from financing cash flows	**(3,763)**	—
New leases	**2,934**	—
Interest expense	**367**	—
Interest paid classified as operating cash flows	**(367)**	—
At 31 December 2019	**4,169**	—

2018

	Other borrowings *RMB'000*
At 1 January 2018	40,000
Changes from financing cash flows	(40,000)
At 31 December 2018	—

27. CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities (2018: Nil).

28. PLEDGE OF ASSETS

Details of the Group's pledge of assets are included in note 20 to the financial statements.

29. COMMITMENTS

Operating lease commitments as at 31 December 2018

The Group leased its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	2018 *RMB'000*
Within one year	2,827
In the second to fifth years, inclusive	2,373
	5,200

30. RELATED PARTY TRANSACTIONS

a) Related parties

Related parties for the years ended 31 December 2018 and 2019 were as follows:

Name	**Relationship**
Shanghai Hi-Road Food Technology Co., Ltd.	Controlled by the Controlling Shareholder
Shanghai Hi-morse Food Additives Co., Ltd.	Controlled by the Controlling Shareholder
Zhejiang Teaheals Bio-technology Co., Ltd.	Controlled by the Controlling Shareholder
Mr. Huang Haixiao	Controlling Shareholder

b) Related party transactions

The following transactions were carried out with related parties during the year:

		Year ended 31 December	
	Notes	**2019** ***RMB'000***	2018 *RMB'000*
Sales of products:			
Shanghai Hi-Road Food Technology Co., Ltd.	*(i)*	**8,705**	7,865
Shanghai Hi-morse Food Additives Co., Ltd.	*(i)*	**2,160**	1,188
		10,865	9,053

30. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions *(Continued)*

The following transactions were carried out with related parties during the year: *(Continued)*

	Notes	**Year ended 31 December 2019 RMB'000**	Year ended 31 December 2018 *RMB'000*
Purchase of goods:			
Shanghai Hi-Road Food Technology Co., Ltd.	*(ii)*	**9**	50
Zhejiang Teaheals Bio-technology Co., Ltd.	*(ii)*	**23,495**	22,191
Shanghai Hi-morse Food Additives Co., Ltd.	*(ii)*	**1,793**	2,017
		25,297	24,258
Rental expenses:			
Shanghai Hi-morse Food Additives Co., Ltd.	*(iii)*	**167**	167
Mr. Huang Haixiao	*(iv)*	**631**	631
		798	798

(i) The sales to the related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from the related parties were made according to the published prices and conditions offered by the related parties to their major customers.

(iii) The Group rented the office building located in No. 666, Jindou Road, Shanghai with a total building area of 641.1 square meters at a monthly rental fee of RMB15,000 for the period from 1 September 2016 to 31 December 2019, respectively, from Shanghai Hi-morse Food Additives Co., Ltd.

(iv) The Group rented the office building located in Floor 25, No. 1, Lane 1040, Caoyang Road, Shanghai with a total building area of 584.26 square meters at a monthly rental fee of RMB53,000 with a lease period from 1 July 2014 to 30 June 2020 from Mr. Huang Haixiao.

c) Compensation of key management personnel of the Group

	2019 RMB'000	2018 *RMB'000*
Short term employee benefits	**6,203**	6,821
Post-employment benefits	**448**	413
	6,651	7,234

Further details of directors' and the chief executive's emoluments are included in note 8 to the consolidated financial statement.

30. RELATED PARTY TRANSACTIONS *(Continued)*

d) Outstanding balances with related parties

The Group had the following significant balances with its related parties at the end of the year:

	2019	2018
	RMB'000	*RMB'000*
(i) Due from related parties		
Shanghai Hi-Road Food Technology Co., Ltd.	**318**	557
Shanghai Hi-morse Food Additives Co., Ltd.	**641**	18
	959	575
(ii) Due to related parties		
Shanghai Hi-Road Food Technology Co., Ltd.	**—**	3
Zhejiang Teaheals Bio-technology Co., Ltd.	**3,959**	1,559
Shanghai Hi-morse Food Additives Co., Ltd.	**158**	174
	4,117	1,736

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

31 December 2019

Financial assets

	Financial assets at fair value through profit or loss *RMB'000*	Financial assets assets at amortised cost *RMB'000*	Total *RMB'000*
Trade receivables	—	93,531	93,531
Financial assets included in prepayments, other receivables and other assets	—	237	237
Amount due from related parties	—	959	959
Pledged deposits	—	12,861	12,861
Structured deposits	33,800	—	33,800
Cash and bank	—	144,124	144,124
	33,800	251,712	285,512

31. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows: *(Continued)*

31 December 2019 *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	**47,708**
Financial liabilities included in other payables and accruals	**4,190**
Amounts due to related parties	**4,117**
Lease liabilities	**2,724**
	58,739

31 December 2018

Financial assets

	Financial assets at fair value through profit or loss *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade receivables	—	70,206	70,206
Financial assets included in prepayments, other receivables and other assets	—	178	178
Amount due from related parties	—	575	575
Pledged deposits	—	25,760	25,760
Cash and bank balances	—	181,235	181,235
	—	277,954	277,954

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	30,293
Financial liabilities included in other payables and accruals	3,760
Amounts due to related parties	1,736
	35,789

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019	2018	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Financial assets at fair value through profit or loss	33,800	—	33,800	—
	33,800	—	33,800	—

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, current position of and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The corporate finance team headed by the chief financial officer (the "**CFO**") is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of the reporting period, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the CFO.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Financial assets at fair value through profit or loss:				
Wealth management products	–	33,800	–	33,800
	–	33,800	–	33,800

The Group did not have any financial assets measured at fair value as at 31 December 2018.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals, which arise directly from its operations. The Group has cash and cash equivalents, interest-bearing bank and other borrowings to raise fund for the Group's operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currencies. For 2019, approximately 81% (2018: 84%) of costs were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and HKD exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity* *RMB'000*
2019			
If RMB weakens against USD	5	(526)	(526)
If RMB strengthens against USD	(5)	526	526
If HKD weakens against USD	5	955	955
If HKD strengthens against USD	(5)	(955)	(955)
2018			
If RMB weakens against USD	5	(940)	(940)
If RMB strengthens against USD	(5)	940	940
If HKD weakens against USD	5	10	10
If HKD strengthens against USD	(5)	(10)	(10)

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties and related parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging as at 31 December 2019

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial asset.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs
		Simplified
	Stage 1	approach
	RMB'000	*RMB'000*
Trade receivables*	—	93,531
Financial assets included in prepayments, other receivables and other assets**	237	—
	237	93,531

As at 31 December 2018

	12-month ECLs	Lifetime ECLs
		Simplified
	Stage 1	approach
	RMB'000	*RMB'000*
Trade receivables*	—	70,206
Financial assets included in prepayments, other receivables and other assets**	4,190	—
	4,190	70,206

* For trade receivables and financial assets included in prepayments, other receivables and other assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

31 December 2019

	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Trade and bills payables	54	47,654	—	—	—	47,708
Lease liabilities	—	851	2,173	1,670	—	4,694
Financial liabilities included in other payables and accruals	—	3,273	917	—	—	4,190
Amounts due to related parties	4,117	—	—	—	—	4,117
	4,171	51,778	3,090	1,670	—	60,709

31 December 2018

	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Trade and bills payables	127	30,166	—	—	—	30,293
Financial liabilities included in other payables and accruals	722	3,038	—	—	—	3,760
Amounts due to related parties	1,736	—	—	—	—	1,736
	2,585	33,204	—	—	—	35,789

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

During the year, the Group's strategy was to maintain the debt to assets ratio at a healthy level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable debt to assets ratio to support its business. The debt to assets ratios at the end of the reporting periods are as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Total current liabilities	**74,926**	54,985
Total non-current liabilities	**1,445**	—
Debt	**76,371**	54,985
Total assets	**380,468**	328,421
Debt to assets ratio	**20.1%**	16.7%

34. EVENTS AFTER THE REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("COVID-19")

The outbreak of COVID-19 since January 2020 and the subsequent quarantine measures imposed by the Chinese government have had certain impact over the Group's restoration of production and operation since January 2020. The degree of impact will depend on the situation of epidemic prevention and control, duration and implementation of various control policies. The Directors are still assessing the financial impact that the COVID-19 will have on the Group's financial position and operating performance up to the date of approval of these consolidated financial statements.

Comparative Amounts

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
CURRENT ASSETS			
Amount due from a subsidiary		214,040	209,322
Cash and bank balances	20	446	787
Total current assets		214,486	210,109
NET CURRENT LIABILITIES		214,486	210,109
TOTAL ASSETS LESS CURRENT LIABILITIES		214,486	210,109
NET ASSETS		214,486	210,109
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	5,681	5,681
Reserves	25	208,805	204,428
Total equity		214,486	210,109

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

FINANCIAL SUMMARY

	Year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Results of operation					
REVENUE	456,053.00	501,286.00	527,935.00	525,578.00	**579,885.00**
Gross profit	72,957.00	76,572.00	85,208.00	97,860.00	**100,245.00**
PROFIT BEFORE TAX	44,182.00	40,334.00	38,499.00	40,803.00	**41,054.00**
Net Profit attributable to:					
Owners of the parent	32,158.00	29,767.00	27,219.00	28,131.00	**30,001.00**
Non-controlling interests	341.00	117.00	71.00	—	**—**
Profitability					
Gross profit margin	16.0%	15.3%	16.1%	18.6%	**17.3%**
Net Profit margin	7.1%	6.0%	5.2%	5.4%	**5.2%**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic and diluted	0.06	0.06	0.05	0.05	**0.04**
Assets					
Total Assets	172,837.00	198,306.00	242,862.00	328,421.00	**380,468.00**
Total Liabilities*	97,464.00	98,243.00	99,049.00	54,985.00	**76,382.00**
Total Equity attributable to owners of the Company	75,373.00	99,043.00	143,813.00	273,436.00	**304,086.00**
Debt to assets ratio	56.4%	49.5%	40.8%	16.7%	**20.1%**

* Diluted earnings per share is the same as earnings per share as the Group had no potential dilutive ordinary shares in issue during the periods