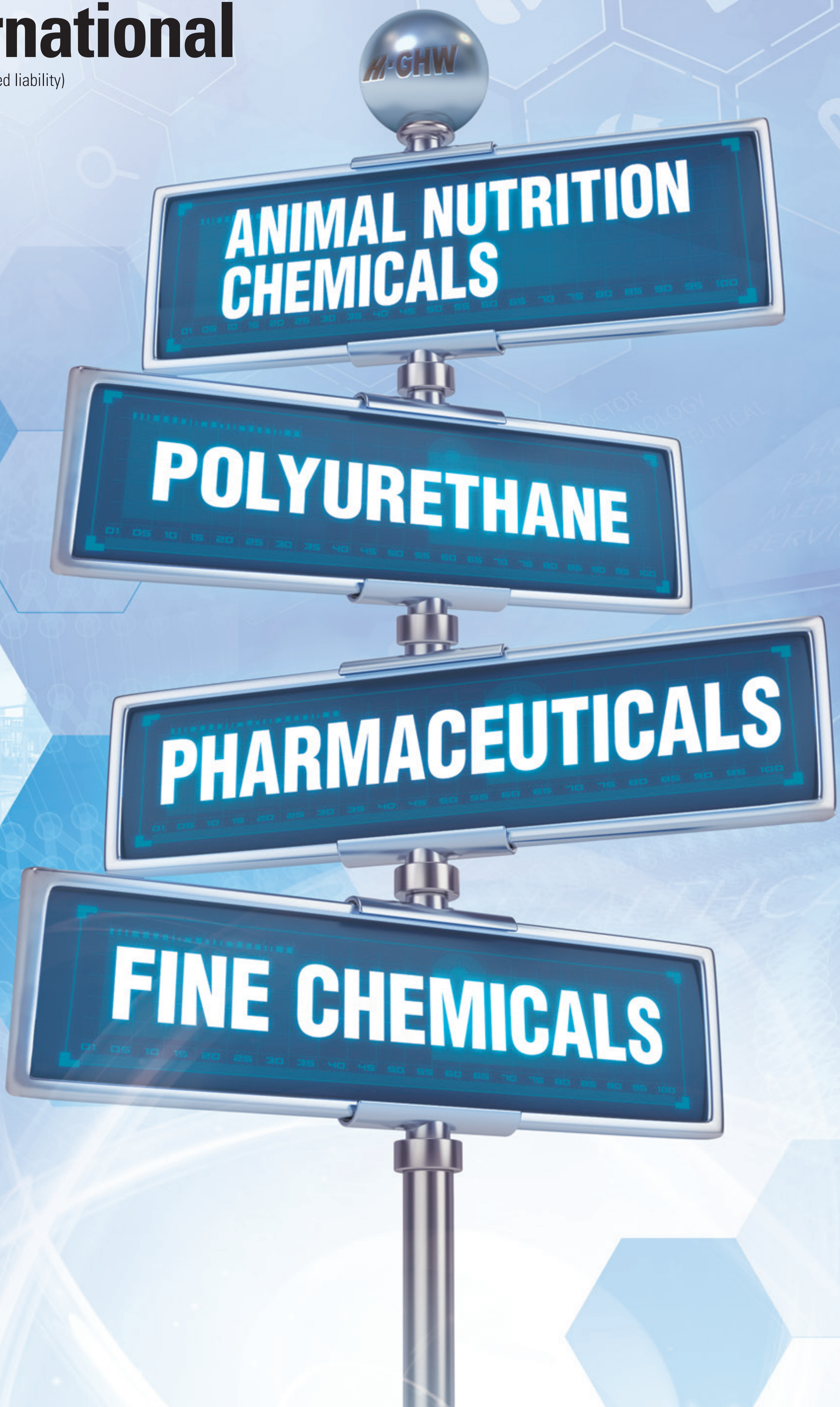
GHW

GHW International

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9933



ANNUAL REPORT 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Yin Yanbin
(Chairman and Chief Executive Officer)
Zhuang Zhaohui
Chen Zhaohui
Zhou Chunnian
Chen Hua
Sun Guibin

Independent Non-executive Directors:

Sun Hongbin
Wang Guangji
Zheng Qing

AUDIT COMMITTEE

Zheng Qing (Chairlady)
Wang Guangji
Sun Hongbin

REMUNERATION COMMITTEE

Zheng Qing (Chairlady)
Zhuang Zhaohui
Sun Hongbin

NOMINATION COMMITTEE

Sun Guibin (Chairman)
Zheng Qing
Sun Hongbin

RISK MANAGEMENT COMMITTEE

Zhou Chunnian (Chairman)
Chen Hua
Sun Guibin

AUTHORISED REPRESENTATIVES

Yin Yanbin
Wu Wing Hou

COMPANY SECRETARY

Wu Wing Hou

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

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People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

CORPORATE INFORMATION

LEGAL ADVISER

Loeb & Loeb LLP

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Shanghai Pudong Development Bank (Nanjing Branch)
Bank of Nanjing
Industrial and Commercial Bank of China
(Nanjing City Xuanwu Sub-branch)
Bank of Communications
(Tai'an City Xiangyang Sub-branch)

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPLIANCE ADVISER

Fortune Financial Capital Limited

COMPANY'S WEBSITE

www.goldenhighway.com

STOCK CODE

9933

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December			
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	1,966,055	2,152,946	2,179,049	1,606,829
Gross profit	245,703	309,562	317,611	164,966
Profit before taxation	31,846	91,252	94,062	21,211
Taxation	(2,739)	(16,995)	(14,631)	(454)
Profit for the year	29,107	74,257	79,431	20,757
Adjusted profit for the year (exclusing listing expenses)	40,101	81,715	85,293	14,940

ASSET AND LIABILITIES

	As at 31 December			
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	855,239	648,758	592,837	516,566
Total liabilities	(740,677)	(559,764)	(500,372)	(452,009)
Net assets	114,562	88,994	92,465	64,557

The summary of the consolidated results of GHW International (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for each of the year ended 31 December 2016, 2017, 2018 and 2019 and the consolidated assets and liabilities of the Group as at 31 December 2016, 2017, 2018 and 2019 have been extracted from this annual report or the Company's prospectus dated 31 December 2019 (the "**Prospectus**"). No consolidated financial statements of the Group for the year ended 31 December 2015 have been published.

The summary above does not form part of the audited consolidated financial statements.

CHAIRMAN'S STATEMENT

YIN YANBIN
Chairman and Chief Executive Officer

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I am pleased to present to you the annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

FINANCIAL RESULTS

During the financial year under review, our Group recorded a revenue of approximately RMB1,966.1 million (2018: RMB2,152.9 million), representing a decrease by 8.7% as compared to last year.

The decrease in revenue was mainly attributable to the decrease in revenue generated from animal nutrition chemicals segment and polyurethane materials segment. The outbreak of African Swine Fever in the People's Republic of China (the "**PRC**") since the second half of 2018 had led to a weakened demand of swine's feed additives in the PRC due to the massive deaths of pigs and the subsequent slaughter of infected pigs and prohibition on export of pork from certain provinces. As the market of choline chloride, being one of the major self-manufactured products of our Group, is highly dependent on the demand of downstream swine industry, after the outbreak of African Swine Fever, the average selling price of choline chloride in the PRC experienced significant decrease in the second half of 2018 and remained at a low level in 2019. In view of the market conditions, we had adjusted the pricing of choline chloride which aims to increase our market share of choline chloride in terms of quantity, as reflected by our increase in sales volume of choline chloride for the financial year under review, as compared to the same period of the preceding year. The temporary decrease in demand in choline chloride thus caused a decrease in our revenue derived from the animal nutrition chemicals segment. Meanwhile, the decrease in revenue generated from polyurethane materials segment was mainly associated with the short-term pricing pressure as a result of the increase in market supply of polyurethane products. Nonetheless, we managed to maintain our gross profit from polyurethane materials segment as our Group typically prices the products manufactured by third party manufacturers on a markup pricing basis, and the sales volume and profit margin from our polymer polyether recorded an increase. As there is an increasing market demand for our polymer polyether which are made without ozone-depleting freon due to the growing environmental awareness and we were able to increase the number of our polymer polyether customers.

CHAIRMAN'S STATEMENT

The net profit attributed to the owners of the Company for the year ended 31 December 2019 amounted to approximately RMB29.1 million (2018: RMB74.3 million), resulted in basic earnings per share of the Company (the "**Shares(s)**") for the year ended 31 December 2019 of RMB3.9 cents (2018: basic earnings per Share of RMB9.9 cents), representing a decrease of 60.8%. The outbreak of African Swine Fever since the second half of 2018 and the pricing adjustment abovementioned had lowered the average selling price of choline chloride. As a result of the decrease in gross profit derived from the animal nutrition chemicals segment attributable to these reasons, there is a significant reduction in our net profit.

BUSINESS OVERVIEW

We are an applied chemical intermediates provider in the integrated chemical services (it refers to a complete supply chain to provide customers with a full spectrum of services ranging from pre-sales consulting services, sales of chemical products to after-sales technical support) market, which primarily engages in the production and sales of our chemicals and sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region, Europe and the United States (the "**US**"). With headquarters in the PRC, we offer a comprehensive product portfolio with a wide range of applications and a full spectrum of services relating to chemical intermediates supply chain through our extensive global operation and sales network, including research and development on production processes, strong product customisation capabilities, manufacturing of quality chemical products, sourcing of wide-ranging chemicals manufactured by third party manufacturers, efficient and safe logistics services and after-sales services.

There has been a tough business environment during the past financial year. The outbreak of African Swine Fever, the trade war between the US and the PRC and the rising of trade protectionism aggravated the instability of the external market. The outbreak of African Swine Fever had been basically controlled after implementation of the national policies and measures to support the swine industry. According to the public information from the Ministry of Agriculture and Rural Affairs of the PRC, the number of breeding sows livestock began to show improvement in October 2019 while the number of live pigs in stock in 18 provinces nationwide rebounded in November 2019 after the decline in the first nine months in 2019. The recovery of the swine industry and the anticipated growth of the choline chloride market would lead to an increasing demand of choline chloride after the gradual resumption of stable swine production. Given our advantageous position as one of the top market players of choline chloride in 2019, we believe that our expansion plan to produce trimethylamine will enable us to capitalise on the market consolidation opportunities brought about by the challenging market conditions and absorb the market share from our competitors.

CHAIRMAN'S STATEMENT

Regarding the polyurethane materials segment, the drop of market size in 2019 for polyurethane market was mainly because the resumption of more stable supply and nationwide enlarged production capacity of our upstream manufacturers regarding our major trading products such as polymeric methylene diphenyl diisocyanate ("polymeric MDI") and toluene diisocyanate ("TDI"), which are expected to be absorbed by the increase in demand of polyurethane materials from downstream industries in the coming one to two years. The increasingly fierce competition in the polyurethane market placed certain level of short-term pricing pressure on the manufacturers of polyurethane materials during 2019. In addition, the unstable trade environment and the temporary decrease in demand from downstream industries where polyurethane is applied such as the automobile industry also led to the decrease in market size in 2019. The PRC has witnessed a high-quality foreign trade development during recent years by optimising foreign trade structure. However, the environment for foreign trade development has become more complex with greater uncertainty and more risks and challenges. From the international point of view, the weakening of the world economic growth momentum, and the rising of trade protectionism aggravated the instability of the global market. However, the decrease in market size of polyurethane materials is considered temporary as the supply is expected to maintain stable in the long run. Furthermore, polyurethane material suppliers tend to adjust their actual production capability based on the changing market demand in order to keep production efficiency and their competitive position in the market. It is expected that the polyurethane market is projected to gradually maintain an upward trend in the foreseeable future which will be sustained by the growing demand from the cold chain logistics market where our polyurethane materials is used to produce thermal insulation materials for preserving perishable products such as dairy, meat and agriculture products which are essential for human's daily dietary needs, due to the higher expectation from general public on safety and quality in terms of food transportation. Moreover, the development of free-trade zones in the PRC as sustained by the supportive policy of the PRC central government has increased the importation of fresh products which provides ample opportunities for further expansion in the cold chain logistics market in the PRC. This further contributes to the rising demand for our polyurethane materials in the future.

Coupled with our successful business strategies as stated above, we also believe that the successful listing (the "Listing") of the Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will enable our Group to improve our corporate profile and strengthen our financial position to facilitate our planned expansion in order to maintain our Group's business sustainability in the long run.

CHAIRMAN'S STATEMENT

FUTURE PROSPECTS

Despite African Swine Fever has led to temporary negative impact on our Group's financial performance, the sales volume for choline chloride and betaine has increased from approximately 103,000 tonnes in 2018 to 119,000 tonnes in 2019 and from 7,261 tonnes in 2018 to 9,157 tonnes in 2019, respectively. Our Group is optimistic about the outlook of the animal nutrition chemicals market as the gradual recovery of the swine industry from African Swine Fever and the expected increase in swine consumption due to growing population in the PRC will provide more confidence to the downstream industries and lead to further increase in demand of our animal nutrition chemical products in the near future.

We also intend to establish a new production plant in the western region of our existing Tai'an production plant at the Taian Daiyue Chemical Industrial Park (泰安岱岳化工產業園) as part of our expansion plan. In 2019, we have successfully acquired a construction land on which our new production plant will situate and we have been granted the exclusive rights to occupy and use the construction land. The new production plant is expected to consist of certain production facilities for (i) the production of trimethylamine, which is the key raw material for the production of choline chloride and betaine, and (ii) the construction of a pilot plant for manufacturing various pharmaceutical intermediates, including methyl iodide, iodopropynyl butyl carbamate ("**IPBC**") and moxifloxacin side chain. We believe that our expansion to produce trimethylamine at the new production plant will enable us to capitalise on the market consolidation opportunities brought about by the challenging market conditions and absorb the market share from our competitors. The establishment of pilot plant for manufacturing various pharmaceutical intermediates enables the Group to utilise a small-scale production system to practically test our new pharmaceutical intermediate products developed by our research and development team, before scaling up to a full-scale production.

Business operations of the Group in the PRC have been impacted by an outbreak of the novel coronavirus (COVID-19) since the latter half of January 2020, which has endangered the health of many people residing in the PRC. As a result, certain short-term measures have been undertaken by the PRC government including but not limited to implementation of travel restrictions, extension of national holidays and suspension of construction projects, which has significantly disrupted travel and local economy. In the long run, the COVID-19 outbreak may have a negative impact to the global or the PRC's economy which may have an adverse effect on our business.

In the opinion of the Directors, the impact of the COVID-19 outbreak to the Group is uncertain up to the date of this report. Management will remain alert to the development of the pandemic and take appropriate measures as appropriate.

APPRECIATION

The Board would like to extend its sincere thanks to the shareholders of our Company (the "**Shareholders**"), business partners and customers for their utmost support to us. We would also like to take this opportunity to thank all management members and staff for their hard work and dedication throughout the year.

Yin Yanbin
Chairman and Chief Executive Officer
31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are an applied chemical intermediates provider in the integrated chemical services market, which primarily engage in the production and sales of our chemicals and sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region, Europe and the US. With headquarters in the PRC, we offer a comprehensive product portfolio with a wide range of applications and a full spectrum of services relating to chemical intermediates supply chain through our extensive global operation and sales network, including research and development on production processes, strong product customisation capabilities, manufacturing of quality chemical products, sourcing of wide-ranging chemicals manufactured by third party manufacturers, efficient and safe logistics services and after-sales services.

Our business operation consists of four principal business segments which include polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates.

Polyurethane materials are widely used in cushion foams, interior components and other lightweight automotive parts to foster fuel and energy savings.

The two major products under our animal nutrition chemicals segment are additives commonly used in feeds for poultry and livestock, which are crucial to the downstream animal husbandry industries. Choline chloride is a complex vitamin which is added as an important nutrient in animal feeds for the acceleration of animal growth as well as a clay stabiliser used in oil and gas drilling and hydraulic fracturing while betaine can be used as dietary feeding attractants which have important physiological functions within the animal bodies and improves the growth and survival rate of fish, poultry, swine and other animals.

Under our fine chemicals segment, we mainly procure our products such as carboxylic acids, solvents, resins, and oleochemicals from third party manufacturers for onward selling to our customers. Carboxylic acids are widely used in the synthesis of dyes, production of lubricants, flavours and fragrances while solvents are used in the production of cosmetics, feed additives, paint and synthesis of dyes. The major use of resins and oleochemicals involve the production of cosmetics, emulsifiers and lubricants.

We produce our own products of isooctanoic acid and diethyl sulfate at our Tai'an production plant, which are mainly used for paint drier, fungicide, preservative and pharmaceutical raw materials, and synthesis of dyes, pesticides and pharmaceutical intermediates, respectively. We also produce and sell our own pharmaceutical intermediates which are chemical compounds used in the production of active pharmaceutical ingredients, such as iodine and iodine derivatives as well as selling pharmaceutical products sourced from third party manufacturers such as cefpodoxime dispersible tablets.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The table below sets forth the breakdown of our revenue by business segments during the year ended 31 December 2019:

Total revenue by business segments

	For the year ended 31 December			
	2019		2018	
	RMB'000	% of total revenue	RMB'000	% of total revenue
Polyurethane materials	654,573	33.3%	881,563	40.9%
Animal nutrition chemicals	603,530	30.7%	702,657	32.6%
Fine chemicals	256,982	13.0%	286,801	13.3%
Pharmaceutical products and intermediates	438,141	22.3%	270,650	12.6%
Sub-total	1,953,226	99.3%	2,141,671	99.4%
Others (note)	12,829	0.7%	11,275	0.6%
Total	1,966,055	100.0%	2,152,946	100.0%

	For the year ended 31 December			
	2019		2018	
	RMB'000	% of total revenue	RMB'000	% of total revenue
Self-manufactured chemicals	1,154,867	58.7%	1,141,191	53.0%
Chemicals produced by third parties	798,359	40.6%	1,000,480	46.5%
Sub-total	1,953,226	99.3%	2,141,671	99.5%
Others (note)	12,829	0.7%	11,275	0.5%
Total	1,966,055	100.0%	2,152,946	100.0%

Note: Others primarily include revenue generated from transportation of hazardous chemicals for third parties in Nanjing.

Polyurethane materials

Our revenue generated from sales of polyurethane materials decreased from approximately RMB881.6 million for the year ended 31 December 2018 to approximately RMB654.6 million for the year ended 31 December 2019, primarily due to the decrease in our average selling prices of the major products in this segment, including polymeric MDI and TDI.

Our average selling price of polymeric MDI decreased from approximately RMB15,700 per tonne for the year ended 31 December 2018 to approximately RMB11,600 per tonne for the year ended 31 December 2019, primarily because of the continuous effect of the decrease in the average cost of purchase of polymeric MDI since the third quarter of 2017, which was partially reflected in our selling price. The decrease in average cost of purchase primarily resulted from a more stable supply of polymeric MDI in the market after a period of unstable supply of polymeric MDI in the market, resulting from temporary suspension of production facilities in the PRC of leading polymeric MDI suppliers in 2017 primarily caused by disasters, breakdown and maintenance of equipment, and environmental control. The market price of polymeric MDI dropped to the lowest level in December 2018 and maintained at comparatively low level for the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

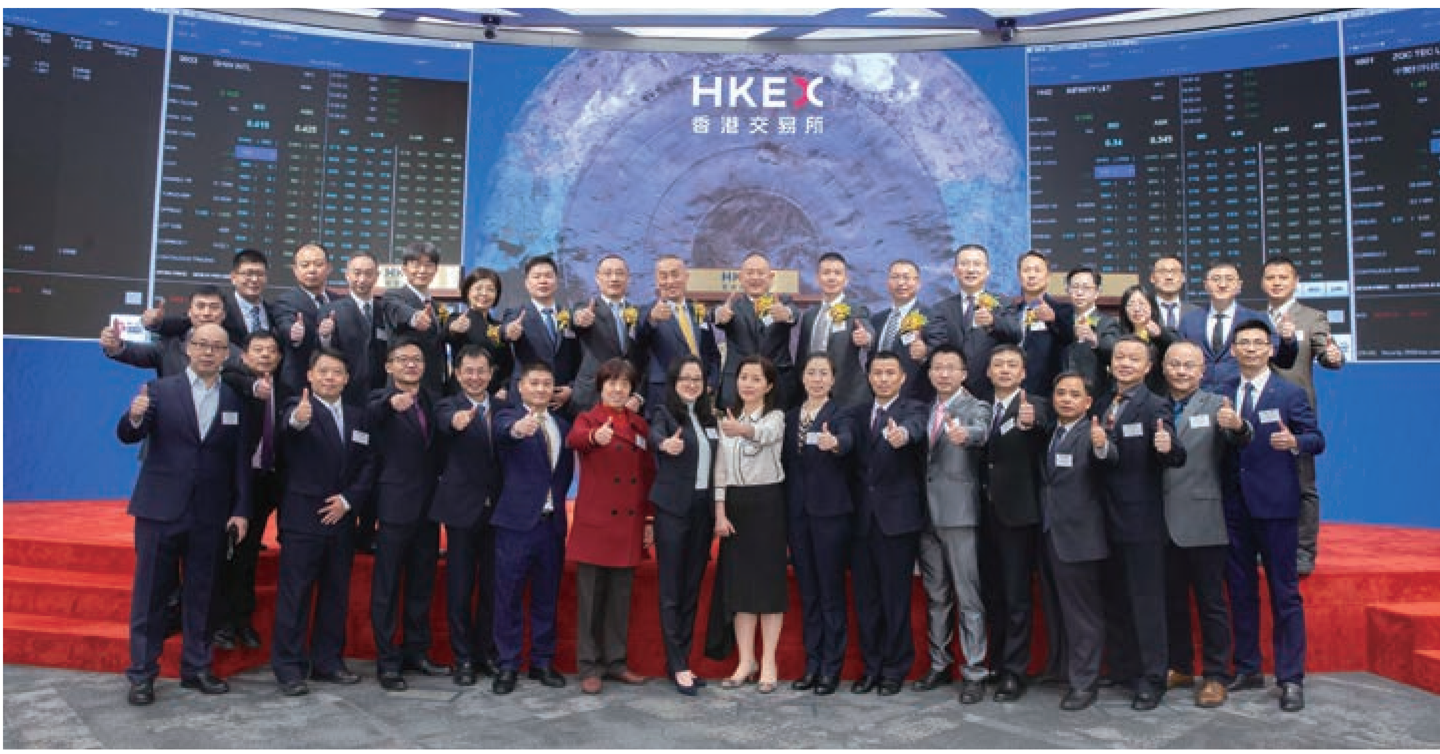
Our average selling price of TDI decreased from approximately RMB23,500 per tonne for the year ended 31 December 2018 to approximately RMB11,700 per tonne for the year ended 31 December 2019. During the first quarter of 2019, market price of TDI continued to drop as a result of increasing market supply, which was primarily due to the commencement of production of the new TDI production facilities with annual production capacity of approximately 300,000 tonnes by the largest PRC polyurethane materials manufacturer, which was our competitor of our upstream suppliers and the resumption of production of production facilities with annual production capacity of 50,000 tonnes in Huludao by a PRC manufacturer, which was our competitor of our upstream suppliers. The market price of TDI dropped to the lowest level in the first quarter of 2019 when compared to 2018 and maintained at comparatively low level for the year ended 31 December 2019.

The sales volume of our major polyurethane material products such as polymeric MDI and TDI remained relative stable for the year ended 31 December 2019 when compared with the corresponding period in 2018.

Animal nutrition chemicals

Our revenue generated from sales of animal nutrition chemicals decreased from approximately RMB702.7 million for the year ended 31 December 2018 to approximately RMB603.5 million for the year ended 31 December 2019, primarily due to the decrease in average selling price of choline chloride and betaine.

During the year ended 31 December 2019, sales of choline chloride accounted for approximately 90% of our revenue under the animal nutrition chemicals segment. The revenue generated from sale of choline chloride decreased from approximately RMB631.7 million for the year ended 31 December 2018 to approximately RMB525.6 million for the year ended 31 December 2019, primarily because of the decrease in our average selling price from 2018 to 2019, partially offset by the increase in the volume sold of choline chloride in the same period. The market price of choline chloride gradually decrease after the first quarter of 2018. There were two major reasons for the decrease in our average selling price during 2019. First, the outbreak of African Swine Fever was still affecting the downstream swine industry. According to the public information from the Ministry of Agriculture and Rural Affairs of the PRC, the number of live pigs in stock was continuously decreasing during the first nine months in 2019 when compared to the corresponding period in 2018, which slowed down the growth of demand for choline chloride. In addition, during the year ended 31 December 2019, we adjusted our price aiming to increase



MANAGEMENT DISCUSSION AND ANALYSIS

our market share for choline chloride in terms of quantity. The combined effect of the above factors led to a decrease in the average selling price of choline chloride for the year ended 31 December 2019 when compared to that for the year ended 31 December 2018 and a decrease in revenue generated from choline chloride.

Our sales volume of choline chloride increased from approximately 103,000 tonnes for the year ended 31 December 2018 to approximately 119,000 tonnes for the year ended 31 December 2019, primarily because of our strategy aiming to increase our market share for choline chloride in terms of quantity as mentioned above and the increase in number of choline chloride customers. In addition, we believe that our marketing efforts also contributed to the increase in sales volume of choline chloride for the year ended 31 December 2019. We have joined industry exhibitions in relation to feed additives, in which we were able to identify and reach out the potential livestock breeding or feed additives customers, and communicate with the existing customers regarding the market trend and promote our products. Apart from the industry events, we also assigned our sales team to visit our existing customers more frequently to strengthen our relationship and gather their feedback on our products.

Fine chemicals

Our revenue generated from sales of fine chemicals decreased from approximately RMB286.8 million for the year ended 31 December 2018 to approximately RMB257.0 million for the year ended 31 December 2019, primarily because of (i) the decrease in revenue from sales of methyl isobutyl ketone ("MIBK"), as a result of both decrease in average selling price and sales volume of MIBK due to the Group's cessation of import of MIBK from Japan throughout the full year of 2018 and 2019 and (ii) the decrease in revenue from sales of isophthalic acid, as a result of a decrease in the market price caused by the production expansion of a major manufacturer in Korea, offset by the increase in sales of isooctanoic acid and cardanol,

MANAGEMENT DISCUSSION AND ANALYSIS

which are our new self-manufactured fine chemical products in recent years. The revenue derived from sales of isooctanoic acid increased from approximately RMB42.5 million for the year ended 31 December 2018 to approximately RMB51.3 million for the year ended 31 December 2019. The revenue derived from sales of cardanol increased from approximately RMB27.5 million for the year ended 31 December 2018 to approximately RMB61.9 million for the year ended 31 December 2019.

Pharmaceutical products and intermediates

Our revenue generated from sales of pharmaceutical products and intermediates increased from approximately RMB270.7 million for the year ended 31 December 2018 to approximately RMB438.1 million for the year ended 31 December 2019, primarily because of the increase in both of the sales volume and average selling price of iodine and iodine derivatives.

The increase in our average selling price of our iodine and iodine derivatives was primarily due to (i) the decrease in market supply of iodine as a result of the remained market concern on the continued closure of water extraction well in Salar de Llamara by one of the major suppliers in Chile and (ii) the increasing demand for iodine and iodine derivatives from our existing customers in the downstream industries, especially in the flourine chemical and pharmaceutical industry, and contrast agent industry, respectively.

In terms of sales volume, to minimise the impact brought by the aforementioned decrease in market supply of iodine, we entered into sales agreements with our suppliers to enable us to purchase a guaranteed quantity of iodine at specified range of price for certain period. Iodine is commonly used in production of fluorocarbon surfactant, which is widely applied in different industries including aircraft, electronics, food processing, building, paints and coatings. As one of the largest importers of iodine in the PRC, our sales volume increased upon the increase in demand of iodine in the PRC. In addition, the increase in sales volume of iodine derivatives for the year ended 31 December 2019 resulted from the increase in demand from our downstream customers, such as the increase in sales volume of potassium iodate as a result of increasing demand from our existing customers in contrast agent industry, which may use iodine derivatives to manufacture contrast medium in image diagnosis technology. It is expected that there will be a rising demand of iodine which was further applied in manufacturing X-ray contrast agent and the civil unrest in Chile which might affect the delivery of iodine led to tight supply in the PRC.

The table below sets forth our total sales in terms of geographical locations of our customers during the year ended 31 December 2019:

Total revenue by geographical locations

	For the year ended 31 December			
	2019		2018	
	RMB'000	% of total revenue	RMB'000	% of total revenue
PRC	1,530,269	77.8%	1,677,947	78.0%
Europe	151,228	7.7%	191,242	8.9%
Other countries in Asia (excluding the PRC and Vietnam)	78,521	4.0%	88,098	4.1%
Vietnam	133,163	6.8%	127,842	5.9%
Others	72,874	3.7%	67,817	3.1%
Total	1,966,055	100.0%	2,152,946	100.0%

Our revenue derived from the PRC contributed approximately 78.0% and 77.8% for the years ended 31 December 2018 and 2019, respectively. Given that the revenue derived from the PRC constitutes a substantial portion of our total revenue, the fluctuations in revenue of sales in the PRC for our business segments of polyurethane materials, fine chemicals and animal nutrition chemicals are in line with the fluctuations in the overall revenue of each of these segments.

MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue derived from Europe decreased from approximately RMB191.2 million for the year ended 31 December 2018 to approximately RMB151.2 million for the year ended 31 December 2019, primarily because of the decrease in sales of our animal nutrition chemicals in Russia from approximately RMB76.6 million for the year ended 31 December 2018 to approximately RMB48.7 million for the year ended 31 December 2019. As the PRC was the major exporter of choline chloride to Russia, the price of choline chloride sold in Russia was closely related to the market price of choline chloride in the PRC. The decrease in the price of choline chloride in Russia for the year ended 31 December 2019 was in line with the trend in the PRC.

Our revenue derived from Asia (excluding the PRC and Vietnam) slightly decreased from approximately RMB88.1 million for the year ended 31 December 2018 to RMB78.5 million for the year ended 31 December 2019, respectively, primarily resulted from the net effect of (i) decrease in revenue from sales of polyurethane materials and animal nutrition chemicals due to the decrease in market price of the respective products as aforementioned, and (ii) increase in sales of cardanol to Korea of approximately RMB10.6 million as in 2019, we have built up a business relationship for sale of our self-manufactured cardanol to a Korean company, which is a major curing agent manufacturer in Korea with an annual consumption of approximately 6,000 tonnes.

Our revenue derived from Vietnam slightly increased from approximately RMB127.8 million for the year ended 31 December 2018 to approximately RMB133.2 million for the year ended 31 December 2019, primarily resulted from the net effect of (i) increase in revenue of polymer polyether from approximately RMB66.9 million for the year ended 31 December 2018 to approximately RMB81.0 million for the year ended 31 December 2019, as a result of the increasing numbers of and sales to our polymer polyether customers engaging in the roofing industry, and (ii) decrease in revenue from sales of animal nutrition chemicals due to the decrease in market price of the respective products as aforementioned.

Cost of sales

The following table sets forth, for the years indicated, a breakdown of our cost of sales by nature:

Total cost of sales by nature

	For the year ended 31 December			
	2019		2018	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales
Cost of raw materials and inventories	1,626,858	94.6%	1,758,656	95.4%
Manufacturing overheads	38,577	2.2%	35,418	1.9%
Staff costs	29,581	1.7%	25,419	1.4%
Depreciation and amortisation	15,429	0.9%	12,553	0.7%
Others	9,907	0.6%	11,338	0.6%
Total	1,720,352	100.0%	1,843,384	100.0%

Our cost of sales comprises mainly cost of raw materials and inventories, staff costs, manufacturing overheads, depreciation and others. Cost of raw materials and inventories is our main cost of sales. Staff costs mainly comprise salaries, wages and social insurance costs for those who are directly involved in the production and the management team of the production plants.

MANAGEMENT DISCUSSION AND ANALYSIS

Our cost of raw materials and inventories decreased from approximately RMB1,758.7 million for the year ended 31 December 2018 to approximately RMB1,626.9 million for the year ended 31 December 2019. The decrease in our cost of raw materials and inventory was driven by the decrease in cost of sales, consisting of cost of raw materials and inventories incurred in polyurethane materials segment and fine chemicals segment as a result of decreasing market price of the products, offset by the increase in cost of sales, consisting of cost of raw materials and inventories in pharmaceutical products and intermediates segment, which was in line with the increase in revenue in the respective segment.

Gross profit and gross profit margin

The table below sets forth a breakdown of gross profit and gross profit margin by business segments during the year ended 31 December 2019:

Total gross profit by business segments

	For the year ended 31 December			
	2019		2018	
	Gross profit		Gross profit	
	RMB'000	margin %	RMB'000	margin %
Polyurethane materials	71,948	11.0%	52,323	5.9%
Animal nutrition chemicals	89,493	14.8%	204,182	29.1%
Fine chemicals	22,906	8.9%	18,433	6.4%
Pharmaceutical products and intermediates	58,928	13.4%	32,822	12.1%
Others	2,428	18.9%	1,802	16.0%
Total	245,703	12.5%	309,562	14.4%

Our gross profit decreased from approximately RMB309.6 million for the year ended 31 December 2018 to approximately RMB245.7 million for the year ended 31 December 2019. Our overall gross profit margin decreased from 14.4% for the year ended 31 December 2018 to approximately 12.5% for the year ended 31 December 2019, which was mainly due to the decrease in gross profit and gross profit margin derived from animal nutrition chemicals segment, which generated the highest gross profit margin among all segments in 2018, as a result of the decreasing average selling price due to the outbreak of African Swine Fever and our adjustment on price aiming to increase our market share in terms of quantity as mentioned above, offset by the increase in gross profit margin of (i) polyurethane materials segment, which was primarily because we managed a lower extent of decrease in our selling price in polyurethane materials as compared to the decrease in our purchase cost and we achieved higher level of sales volume in polymer polyether, being our self-manufactured product with a higher gross profit margin; (ii) fine chemical segment, primarily because both the revenue contribution and the gross profit margin of our self-manufactured products, such as isooctanoic acid and cardanol, increased; and (iii) pharmaceutical products and intermediates segment, primarily because the revenue contribution from iodine and iodine derivatives increased as a result of increase in average selling prices of respective products.

Other income

Our other income primarily comprises gross rental income, one-off and unconditional subsidies from the relevant government authority in relation to the Group's contribution in the local district and bank interest income. It increased from approximately RMB3.7 million for the year ended 31 December 2018 to RMB5.9 million for the year ended 31 December 2019, respectively. The increase in our other income was mainly due to the increase in government grant received by our Tai'an production plant from approximately RMB1.3 million to approximately RMB3.1 million, including new subsidies from the local government such as government subsidies from being recognised as Gazelle Enterprise, subsidies generated from being recognised as a provincial laboratory and anti-dumping subsidies.

MANAGEMENT DISCUSSION AND ANALYSIS

Other gains and losses

Our other gains and losses primarily comprises (i) net exchange gain or losses which primarily arose from appreciation or depreciation of United States dollar ("U.S.$") against Renminbi as the functional currency of our subsidiaries in the PRC is Renminbi while their export sale to customers and purchase from overseas suppliers were mainly settled in U.S.$; and (ii) loss on disposal of plant and equipment. Such change in our net other gains and losses was mainly because there was a net exchange loss. Our Group recorded net other losses of approximately RMB1.4 million for the year ended 31 December 2018 and net other gains of approximately RMB6.9 million for the year ended 31 December 2019, respectively. Such change in our net other gains and losses was mainly because there was a net exchange loss of approximately RMB0.5 million recorded for the year ended 31 December 2018 and a net exchange gain of approximately RMB6.4 million recorded for the year ended 31 December 2019, as a result of the appreciation of U.S.$ against Renminbi during the year ended 31 December 2019.

Selling and distribution expenses

Our selling and distribution expenses primarily comprise transportation costs, staff remuneration for our sales and marketing team, port charges, storage costs, material costs for export and packaging materials and insurance costs.

Our selling and distribution expenses increased from approximately RMB83.5 million for the year ended 31 December 2018 to approximately RMB89.7 million for the year ended 31 December 2019. The increase in our selling and distribution expenses was primarily due to an increase in transportation costs, port charges and storage costs of approximately RMB3.9 million resulting from an increase in our export sales volume, in particular, the export volume of choline chloride in the PRC and choline chloride, cardanol and polymer polyether in Vietnam for the year ended 31 December 2019 when compared to the corresponding period in 2018.

Administrative expenses

Administrative expenses primarily comprise staff costs including salary, social insurance costs and provident funds for our staff (other than the staff who are directly involved in the production, the management team of the production plants and the sales and marketing team), entertainment expenses, travelling expenses, rent, depreciation and amortisation of leasehold improvements, office equipment and motor vehicle, safety costs, office expenses, repair expenses, and environmental protection costs in relation to implementation of safety and environmental protection measures and others.

Our administrative expenses slightly decreased from approximately RMB77.7 million for the year ended 31 December 2018 to approximately RMB74.6 million for the year ended 31 December 2019. The decrease in our administrative expenses was primarily due to decreases in (i) staff costs of approximately RMB1.9 million since we the staff bonus for the year ended 31 December 2019 was reduced as the operation performance was not as good as that of 2018; and (ii) safety costs of approximately RMB2.2 million as we had upgraded our machineries, which are depreciated over their useful period, to ensure a safe working environment, partially offset by the increase in accrued professional fees subsequent to the Listing such as auditor's remuneration.

Research and development expenses

Research and development expenses primarily comprise raw materials consumed for conducting research and development activities, staff costs and social insurance costs for our research and development personnel, electricity expenses, depreciation of our research centre, hardware supplies and transportation cost of raw materials for conducting research and development.

Research and development expenses comprise all costs that are directly attributable to our research and development activities. Because of the nature of our research and development activities which mainly aimed to develop production equipment and method for improving our own production efficiency and it is difficult to assess the probable future economic benefits in research phase of a project, the criteria for recognition of such costs as an asset are not met. As such, our research and development costs are generally recognised as expenses in the period in which they are incurred.

MANAGEMENT DISCUSSION AND ANALYSIS

Our research and development expenses decreased from approximately RMB40.4 million for the year ended 31 December 2018 to approximately RMB34.7 million for the year ended 31 December 2019. The decrease in our research and development expenses was primarily due to a decrease in cost of raw materials of approximately RMB8.2 million as we had consumed more materials for improving the product quality of choline chloride and betaine during the year ended 31 December 2018. For the year ended 31 December 2019, we focus more on system upgrade to expand our production volume and hence less materials were consumed.

Listing expenses

We incurred listing expenses of approximately RMB7.5 million and RMB11.0 million for the years ended 31 December 2018 and 2019, respectively.

Finance costs

Finance costs represent interest on bank borrowings, discounted bills and lease liabilities.

Our finance costs increased from approximately RMB10.8 million for the year ended 31 December 2018 to approximately RMB16.7 million for the year ended 31 December 2019. The increase in our finance costs was primarily due to (i) an increase in the interest on our bank borrowings from approximately RMB10.6 million for the year ended 31 December 2018 to approximately RMB14.2 million for the year ended 31 December 2019 as a result of the increase in the interest bearing bank and other borrowings to approximately RMB501.5 million as at 31 December 2019; (ii) an increase in the interest on our discounted bills from approximately RMB0.2 million for the year ended 31 December 2018 to approximately RMB2.2 million for the year ended 31 December 2019 resulting from increase in discounting of the bank issued bill receivables to banks in the amount of approximately RMB51.3 million as at 31 December 2019, and the carrying amount of bill receivables were the same as the carrying amounts of associated liabilities, i.e. borrowings; and (iii) an increase in the interest on lease liabilities upon adoption of IFRS16.

Income tax expenses

Our income tax expenses decreased from approximately RMB17.0 million for the year ended 31 December 2018 to approximately RMB2.7 million for the year ended 31 December 2019. The decrease in our income tax expenses was primarily due to (i) the decrease in current tax from approximately RMB15.3 million for the year ended 31 December 2018 to approximately RMB2.9 million for the year ended 31 December 2019, which is in line with our decrease in profit before taxation and (ii) the overprovision of tax in 2018 amounting to approximately RMB1.0 million derived from Taian Havay Group Co. ("Havay Group"), being a subsidiary of the Company, as a result of finalising the deductible research and development expenses as approved by the tax authority in 2019.

Our effective tax rate decreased from approximately 18.6% for the year ended 31 December 2018 to approximately 8.6% for the year ended 31 December 2019, primarily because there were (i) an overprovision of tax in 2018 in the amount of approximately RMB1.0 million, which was derived from Havay Group as a result of finalising the deductible research and development expenses as approved by the tax authority in 2019, and (ii) the increase in proportion of weighted pre-tax deduction of research and development expenses over profit before tax of the Group for the year ended 31 December 2019, when compared with the preceding period.

Profit for the year

As a result of the foregoing, our profit for the year decreased from approximately RMB74.3 million for the year ended 31 December 2018 to approximately RMB29.1 million for the year ended 31 December 2019. The adjusted profit for the year (excluding listing expenses) decreased from approximately RMB81.7 million for the year ended 31 December 2018 to approximately RMB40.1 million for the year ended 31 December 2019, as a combined result of the above fluctuations.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group intends to establish a new production plant in the western region from our existing Tai'an production plant at the Tai'an Daiyue Chemical Industrial Park（泰安岱岳化工產業園）as part of our expansion plan. The new production plant is expected to consist of certain production facilities for (i) the production of trimethylamine, which is the key raw material for the production of choline chloride and betaine, and (ii) the construction of a pilot plant for manufacturing various pharmaceutical intermediates, including methyl iodide, IPBC and moxifloxacin side chain. We believe that our expansion to produce trimethylamine at the new production plant will enable us to capitalise on the market consolidation opportunities brought about by the challenging market conditions and absorbing the market share from other competitors. The establishment of pilot plant for manufacturing various pharmaceutical intermediates enables the Group to utilise a small-scale production system to practically test and validate the production technologies of our new pharmaceutical intermediate products which were developed by our research and development team, before scaling up to a full-scale production.

Business operations of the Group in the PRC have been impacted by an outbreak of the novel coronavirus (COVID-19) since the latter half of January 2020, which has endangered the health of many people residing in the PRC. As a result, certain short-term measures have been undertaken by the PRC government and various provincial or municipal governments including but not limited to implementation of travel restrictions, extension of national holidays and suspension of construction projects, which was significantly disrupted travel and local economy. In the long run, the COVID-19 outbreak may bring a negative impact to the global or the PRC's economy which may have an adverse effect on our business.

In the opinion of the Directors, the impact of the COVID-19 outbreak to the Group is uncertain up to the date of this annual report. Management will remain alert to the development of the pandemic and take appropriate measures as appropriate.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, including borrowings, and equity attributable to owners of the Company, comprising issued capital and reserves. The management of the Group reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issuance of debts and repayment of existing borrowings. The Group's overall strategy remained unchanged throughout the year.

During the year, the Group's working capital was financed by both internal resources and borrowings.

As at 31 December 2019, the Group's total assets and bank balances and cash amounted to approximately RMB855.2 million (2018: RMB648.8 million) and RMB35.7 million (2018: RMB30.3 million), respectively. The bank balances and cash were denominated in Renminbi ("RMB").

As at 31 December 2019, the borrowings were approximately RMB501.5 million (2018: borrowings RMB198.4 million). As at 31 December 2019, borrowings amounting to approximately RMB454.9 million (2018: RMB129.9 million) are carried at fixed interest rates ranging from 3.0% to 8.6% (2018: from 5.6% to 8.6%) per annum and repayable from 2020 to 2022 (2018: from 2019 to 2020), borrowings amounting to approximately RMB46.6 million (2018: RMB68.5 million) are carried at variable interest rates ranging from 4.7% to 7.8% (2018: from 4.7% to 7.8%) per annum and repayable in 2020 (2018: repayable in 2019).

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM GLOBAL OFFERING

On 21 January 2020, the Company issued 250,000,000 Shares at an offer price of HK$0.51 per Share on the Stock Exchange by global offering (the "Global Offering").

The net proceeds from the Global Offering (after deducting the underwriting fees, commissions and Listing-related expenses in connection with the Global Offering) amounted to approximately HK$65.9 million. The net proceeds will be applied in the following manner:

(i) approximately 17.2%, or HK$11.3 million, will be used on the initial establishment of the new production plant to be established at the western region from our existing Tai'an production plant (the "New Production Plant"), which will consist of production facilities for the production of trimethylamine and a pilot plant for manufacturing pharmaceutical intermediates, respectively;

(ii) approximately 60.4%, or HK$39.8 million, will be used to construct production facilities at the New Production Plant for manufacturing trimethylamine, which is the principal raw material used to produce choline chloride and betaine;

(iii) approximately 10.2%, or HK$6.7 million, will be used on the construction of a pilot plant at the New Production Plant for small batch production of various types of pharmaceutical intermediates;

(iv) approximately 2.2% of HK$1.5 million, will be used on the research and development process of our new pharmaceutical product, moxifloxacin hydrochloride tablets, by which we plan to engage a pharmaceutical company, which is an independent third party to the Group, to conduct clinical trials on moxifloxacin hydrochloride tablets including preliminary and formal ioequivalence testings, raw materials purchase, sample preparation and other miscellaneous costs;

(v) approximately 0.8%, or HK$0.5 million, will be used on purchasing hardware and software for upgrading our existing financial and accounting management system, which will support the operation of our current office automation system; and

(vi) approximately 9.2%, or HK$6.1 million, will be used as working capital and other general corporate purposes.

As at the date of this annual report, there were no changes of business plan from that disclosed in the Prospectus, and none of the net proceeds had been utilised. The unutilised portion of the net proceeds will be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including market risk (currency risk and interest rate risk), credit risk and liquidity risk. The risk management policies and practices of the Group are stated in note 39 to the consolidated financial statements in this annual report.

Currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group has currency exposure as income earned and expenses incurred in the PRC were denominated in Renminbi.

RMB is not a freely convertible currency. Future exchange rates of the Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the Renminbi. The appreciation or devaluation of Renminbi against U.S.$ may have impact on the operating results of the Group.

The Group's financial assets and liabilities are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest Rate Risk

The Group is exposed to fair value interest rate risk for certain financial assets, financial liabilities and lease liabilities.

The Group is also exposed to cash flow interest rate risk for its interest bearing financial liabilities and certain of its interest bearing financial assets.

The Group currently does not have an interest rate hedging policy. The management monitors interest rate risk exposure and will consider hedging significant interest rate exposure should the need arises. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Credit Risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group currently performs impairment assessment under expected credit loss model upon the application of IFRS 9 on trade receivables. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on bill receivables at fair value through other comprehensive income are limited as those bills are issued by banks with high credit ratings assigned by international credit-rating agencies and no history of default in the past, thus no loss allowance provision for bills was recognised during the year.

For other receivables, rental deposits and finance lease receivable, Directors make periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and also available and supportive forward looking information. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balances of other receivable, rental deposits and finance lease receivable.

The Group seeks to maintain strict control over its outstanding receivables and has its credit control policy to minimise the credit risks. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by management.

The Group has concentration of credit risk on bank balances and restricted bank deposits which are deposited with several banks. However, the credit risk on bank balances and restricted bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity Risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the year. The Group strives to reduce 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 EXCHANGE EXPOSURE

The Group's foreign currency transactions are mainly denominated in Renminbi and U.S.$. The Group has currency exposure as certain income and expenses incurred in the PRC were denominated in Renminbi and certain overseas sales income were denominated in U.S.$ and other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in Renminbi. During the year, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL EXPENDITURES

During the year, the Group's capital expenditures consisted of additions to property, plant and equipment and construction in progress in our operations amounting to approximately RMB60.7 million (2018: RMB28.9 million).

CAPITAL COMMITMENT

As at 31 December 2019, the Group had a capital commitment of approximately RMB4.2 million (2018: RMB4.8 million). The capital commitments primarily related to the purchase of machinery and equipment for existing usage. We intend to fund these commitments with cash generated from our operations, bank borrowings and proceeds from the Global Offering.

PLEDGE OF ASSETS

As at 31 December 2019, save as (i) restricted bank deposits of approximately RMB108.8 million (2018: RMB25.9 million); and (ii) right-of-use assets and property, plant and equipment of approximately RMB17.7 million and RMB8.1 million respectively (2018: prepaid lease payments and property, plant and equipment of approximately RMB18.1 million and RMB9.1 million respectively) to secure the borrowings, the Group did not pledge any other assets.

CONTINGENT LIABILITIES

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

DIVIDEND

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 886 (2018: 812) employees, including the Directors. Total staff costs (including Directors' remuneration) was approximately RMB71.0 million (2018: RMB69.8 million) for the year ended 31 December 2019.

Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of the basic salaries, bonuses may be paid by reference to the Group's performance as well as the individual's performance. Other major staff benefits include contributions to defined contribution retirement benefit plan, Hong Kong's Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes.

MANAGEMENT DISCUSSION AND ANALYSIS

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme adopted by the Company on 16 December 2019 where options to subscribe for Shares may be granted to the Directors and employees of the Group.

SIGNIFICANT INVESTMENTS

During the year ended 31 December 2019, the Group did not hold any significant investment or capital assets (2018: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL EXPENDITURES

Save as disclosed in the Prospectus and in the section headed "Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures" below, the Group did not have any plans for material investments or capital assets in the coming year.

The Group will finance the future acquisitions through internally generated funds and other fund raising activities, including but not limited to issue of new debts or equity instruments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group has not acquired nor disposed of any of its subsidiaries during the year ended 31 December 2019.

EVENTS AFTER REPORTING PERIOD

Subsequent to 31 December 2019, the Company listed its Shares on the Main Board of the Stock Exchange on 21 January 2020 (the "**Listing Date**"). The Company issued 250,000,000 Shares at an offer price of HK$0.51 per Share.

Business operations of the Group in the PRC have been impacted by an outbreak of the novel coronavirus (COVID-19) since the latter half of January 2020, which has endangered the health of many people residing in the PRC. As a result, certain short-term measures have been undertaken by the PRC government and various provincial or municipal governments including but not limited to implementation of travel restrictions, extension of national holidays and suspension of construction projects, which was significantly disrupted travel and local economy. In the long run, the COVID-19 outbreak may bring a negative impact to the global or the PRC's economy which may have an adverse effect on our business.

In the opinion of the Directors, the impact of the COVID-19 outbreak to the Group is uncertain up to the date of this annual report. Management will remain alert to the development of the pandemic and take appropriate measures as appropriate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yin Yanbin, aged 52, is the founder of our Group, our executive Director, the chairman of our Board, and the chief executive officer of our Company. Mr. Yin is also a director of each of GOHI Int'L Limited ("**GOHI Int'L**"), GHW Holdings Limited ("**GHW Holdings**"), Nanjing Goldenhighway International Supply Chain Management Company Limited* (南京金海威國際供應鏈管理有限公司) ("**GHW International SCM**"), Nanjing Goldenhighway Chemicals Co., Ltd.* (南京金海威化工實業有限公司) ("**GHW Chemicals**"), Nanjing Goldenhighway Investment Co., Ltd.* (南京金海威投資有限公司) ("**GHW Investment**"), Golden Highway International (Hong Kong) Limited ("**GHW International (HK)**"), Goldray International Enterprises Co., Limited ("Goldray International"), Havay Industry Inc. ("**Havay Industry**"), GHW USA LLC ("**GHW USA**"), Taian Havay Group Co., Ltd.* (泰安漢威集團有限公司) ("**Havay Group**"), Jiangsu Xinnuo Pharmaceutical Trading Co., Ltd.*(江蘇省信諾醫藥對外貿易有限公司) ("**Xinnuo Pharmaceutical**") and Xuzhou Havay Feeds Co., Ltd.* (徐州漢威飼料有限公司) ("**Havay Feeds**"), the chairman, general manager and legal representative of GHW International SCM, the general manager of GHW Chemicals, the legal representative of GHW Investment and Havay Group, and the legal representative and general manager of Xinnuo Pharmaceutical, all of which are our subsidiaries. Mr. Yin is primarily responsible for strategic planning of our Group and overseeing the management and business performance, asset management, financial positions and human resources of our Group. Mr. Yin has over 20 years of experience in the applied chemical products industry. Mr. Yin received a college diploma in machinery manufacturing process and equipment from Jiangsu Radio and Television University* (江蘇廣播電視大學) in the PRC in July 1989 and further obtained a bachelor's degree in business management from China Pharmaceutical University* (中國藥科大學) in the PRC in July 2001.

Mr. Zhuang Zhaohui, aged 51, is our executive Director. He is also a member of the remuneration committee (the "**Remuneration Committee**"). Mr. Zhuang joined our Group in February 2001. Mr. Zhuang is also a director of each of GHW International SCM, Nuovomondo Chemicals Private Limited ("**Nuovomondo Chemicals**") and Havay Feeds, all of which are our subsidiaries. Mr. Zhuang is primarily responsible for managing, supervising and coordinating the sales strategies and business operations of our Group. Mr. Zhuang has over 20 years of experience in the applied chemical products industry. Mr. Zhuang received a college diploma in foreign trade from Nanjing Audit College* (南京審計學院) (currently known as Nanjing Audit University* (南京審計大學)) in the PRC in July 1989 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012.

Mr. Chen Zhaohui, aged 51, is our executive Director. Mr. Chen joined our Group in July 1997. Mr. Chen is also a director of GHW International SCM, and a supervisor of each of Xinnuo Pharmaceutical and Havay Feeds, all of which are our subsidiaries. Mr. Chen is primarily responsible for managing the capital and finance management, administration and information technology of our Group. Mr. Chen has over 20 years of experience in the applied chemical products industry. Mr. Chen completed his secondary education, specialising in industrial business management in the PRC in July 1987.

Mr. Zhou Chunnian, aged 48, is our executive Director. He is also the chairman of the risk management committee (the "**Risk Management Committee**"). Mr. Zhou joined our Group in January 1996. Mr. Zhou is also a director of GHW International SCM, one of our subsidiaries. Mr. Zhou is also a director of GHW International SCM, one of our subsidiaries. Mr. Zhou is primarily responsible for managing, supervising and coordinating the sales and business operations as well as capital management of our Group. Mr. Zhou has over 20 years of experience in the applied chemical products industry. Mr. Zhou received a bachelor's degree in chemical processing of coal from Dalian University of Technology* (大連理工大學) in the PRC in July 1994 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in December 2012.

Mr. Chen Hua, aged 47, is our executive Director. He is also a member of the Risk Management Committee. Mr. Chen joined our Group in July 1995. Mr. Chen is also a director of each of GHW International SCM and Nanjing Hanshang Weisou Electronic Commerce Co., Ltd.* (南京瀚商微搜電子商務有限公司) ("**Hanshang Weisou**"), both of which are our subsidiaries. Mr. Chen is primarily responsible for formulating and monitoring the implementation of sales strategies of our Group. Mr. Chen has over 20 years of experience in the applied chemical products industry. Mr. Chen received a bachelor's degree in polymer chemistry and physics studies from University of Science and Technology of China* (中國科學技術大學) in the PRC in July 1995. Mr. Chen further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Sun Guibin, aged 44, is our executive Director. He is also the chairman of the nomination committee (the "**Nomination Committee**") and a member of the Risk Management committee. Mr. Sun joined our Group in March 2003. Mr. Sun is also a supervisor of GHW International SCM, one of our subsidiaries. Mr. Sun is primarily responsible for managing the daily operations of some of our subsidiaries. Mr. Sun has over 15 years of experience in the applied chemical products industry. Mr. Sun received a college diploma in finance from Jiangsu Radio and Television University* (江蘇廣播電視大學) in the PRC in July 1995 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012. Mr. Sun was a member of the Sixteenth National People's Congress Standing Committee of Shandong Province Tai'an City Daiyue District of the PRC. In 2017, Mr. Sun Guibin was awarded the Science and Technology Award of Daiyue District* (岱嶽區科學技術獎) issued by the People's Government of Daiyue District, Tai'an City of the PRC, in recognition of his research on the industrialisation of diethyl sulfate.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Hongbin, aged 53, is our Independent Non-executive Director. He is also a member of each of the audit committee (the "**Audit Committee**"), the Remuneration Committee and the Nomination Committee. Mr. Sun holds various positions in China Pharmaceutical University* (中國藥科大學). He is currently a professor, director of the Jiangsu Key Laboratory of Drug Discovery for Metabolic Disease* (江蘇省代謝性疾病藥物重點實驗室), and an associate director of the State Key Laboratory of Natural Medicines* (天然藥物活性組分與藥效國家重點實驗室), of China Pharmaceutical University* (中國藥科大學). Mr. Sun is also a distinguished professor under the Chang Jiang Scholars Programme* (長江學者獎勵計劃) administered by the Ministry of Education of the PRC, deputy head of the Pharmacology Expert Group established under the 13th Five-year Plan Research on Development Strategies of the Medicines Division of the National Natural Science Foundation of China* (國家基金委醫學部「十三五」發展戰略研究) and a member of the medicinal chemistry committee of the China Pharmaceutical Association* (中國藥學會). Mr. Sun is currently the honorary chairman of the board of Jiangsu Vcare Pharmatech Co., Ltd* (江蘇威凱爾醫藥科技有限公司), a company specialises in pharmaceutical research development, and an independent director of Zhejiang Jianfeng Group Co. Ltd* (浙江尖峰集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600668). Mr. Sun graduated from the Department of Chemistry, Jilin University in the PRC in 1989 and received a doctor's degree in science from China Pharmaceutical University* (中國藥科大學) in the PRC in July 1995.

Mr. Wang Guangji, aged 66, is our Independent Non-executive Director. He is also a member of the Audit Committee. Mr. Wang is currently a director of the academic committee the China Pharmaceutical University* (中國藥科大學) and a director of Jinling Pharmaceutical Company Limited* (金陵藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000919), Sichuan Kelun Pharmaceutical Company Limited* (四川科倫藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002422) and North China Pharmaceutical Company Limited* (華北製藥股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600812). Mr. Wang obtained a bachelor's degree in pharmacy from the China Pharmaceutical University* (中國藥科大學) in January 1977 and further obtained a doctor of philosophy from the University of Otago in New Zealand in June 1995.

Ms. Zheng Qing, aged 52, is our Independent Non-executive Director. She is also the chairlady of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee. Ms. Zheng has over 16 years of experience in the financial management industry. Since June 2015, Ms. Zheng has been the financial controller of Fullshare Holdings Limited (豐盛控股有限公司), a company listed on the Stock Exchange (stock code: 607). Since December 2016, Ms. Zheng has been an executive director of China High Speed Transmission Equipment Group Co., Ltd (中國高速傳動設備集團有限公司), a company listed on the Stock Exchange (stock code: 658). Ms. Zheng received a college diploma in economic management, majoring in foreign trade, from Nanjing Audit College* (南京審計學院) (currently known as Nanjing Audit University (南京審計大學)) in the PRC in July 1989. She completed the Economic Management courses in Nanjing University* (南京大學) in the PRC in June 1993 through self-study. She received a bachelor's degree in applied accounting from Oxford Brookes University in the United Kingdom in January 2005 through long distance learning, and further obtained a master degree in business administration from the Chinese University of Hong Kong in Hong Kong in November 2012. Ms. Zheng has been a member and a fellow of the Association of Chartered Certified Accountants since April 2002 and April 2007, respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wu Wing Hou, aged 32, is our chief financial officer and company secretary. Mr. Wu is primarily responsible for overseeing the overall financial position and accounting matters of our Group. Mr. Wu received a bachelor's degree in business administration, majoring in accounting and finance, from the University of Hong Kong in December 2009. Mr. Wu was admitted as a member of the Hong Kong Institute of Certified Public Accountants in September 2013.

Ms. Jiang Hong, aged 50, joined our Group as an accounting personnel of Xinnuo Pharmaceutical in March 1998. Ms. Jiang is the deputy chief financial officer of our Group and is mainly responsible for managing the financial and general operations of our Group. Ms. Jiang has over 20 years of experience in financial management and accounting. Ms. Jiang received a college diploma in industrial accounting from Nanjing Radio and Television University* (南京廣播電視大學) in the PRC in June 1990.

Mr. Diao Cheng, aged 51, joined our Group as an integrated human resources manager of Hanhe Enterprises in April 1998. Mr. Diao is the deputy chief executive officer of our Group and is mainly responsible for managing the logistics, strategic development and general business operations of our Group. Mr. Diao received a college diploma in management engineering (finance management) from Nanjing University of Aeronautics and Astronautics* (南京航空航天大學) in the PRC in June 1994 and a bachelor's degree in human resources management from Nanjing University of Science and Technology* (南京理工大學) in July 2005.

REPORT OF THE DIRECTORS

The Directors present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

INITIAL PUBLIC OFFERING

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 April 2018. The Company listed its Shares on the Main Board of the Stock Exchange on 21 January 2020. The Company issued 250,000,000 Shares at an offer price of HK$0.51 per Share.

The listing of and the permission to deal in the Shares on the Main Board of The Stock Exchange commenced on 21 January 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 41 to the consolidated financial statements.

BUSINESS REVIEW

A fair business review of the Group as well as discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 5 to 8 and pages 9 to 22 respectively of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including market risk (currency risk and interest rate risk), credit risk and liquidity risk. The risk management policies and practices of the Group are stated in note 39 to the consolidated financial statements in this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has actively participated in sustainability and social responsibility and recognises its responsibility to protect the environment from its business activities. The Group endeavours to comply with the laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operation of the Group during the year ended 31 December 2019.

FINANCIAL RESULTS

The consolidated results of the Group for the year ended 31 December 2019 and the consolidated financial position of the Group as at that date are set out in the consolidated financial statements on pages 72 to 74 of this annual report.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year ended 31 December 2019 are set out in note 42 to the financial statements and in the consolidated statement of change in equity, respectively in this annual report.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company did not have any distributable reserves, as determined under IFRSs and in accordance with the Companies Law of the Cayman Islands, available for distribution to our Shareholders. The amount includes the Company's share premium, capital reserve and retained profits or accumulated losses which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, if any, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last four financial years is set out on page 4 of this annual report. This summary does not form part of the audited financial statements for the year ended 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

On 3 January 2019, for the purpose of redenomination of Shares from US dollars to Hong Kong dollars, the Company (a) increased the authorised share capital to HK$100,000,000 divided into 10,000,000,000 Shares of a par value of HK$0.01 each; (b) allotted and issued 500,000 nil-paid Shares of a par value of HK$0.01 each, 237,522 nil-paid Shares of a par value of HK$0.01 each, 248,078 nil-paid Shares of a par value of HK$0.01 and 14,400 nil-paid Shares of a par value of HK$0.01 each to Commonwealth B Limited ("**Commonwealth B**"), Commonwealth Happy Elephant Limited ("**Commonwealth Happy Elephant**"), Commonwealth GHW Limited ("**Commonwealth GHW**") and Commonwealth Feibear Limited ("**Commonwealth Feibear**"), respectively, for an aggregate price of US$10,000 (the "**Subscription Price**"); (c) repurchased all the old Shares for an aggregate price of US$10,000, which was offset against the Subscription Price; (d) cancelled all the old Shares following the repurchase and diminished the authorised but unissued share capital of the Company by the cancellation of all the 50,000,000 unissued Shares of a par value of US$0.001 each in the share capital of the Company, and the authorised share capital of the Company became HK$100,000,000 divided into 10,000,000,000 shares of a par value of HK$0.01 each.

Subsequently to 31 December 2019, (i) pursuant to a written resolution of the Shareholders passed on 16 December 2019, a total of 749,000,000 Shares of HK$0.01 each were allotted and issued at par value to Commonwealth B, Commonwealth Happy Elephant, Commonwealth GHW and Commonwealth Feibear by way of capitalisation of HK$7,490,000 from the Company's capital reserve account on 21 January 2020. The respective Shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares; and (ii) the Company listed its Shares on the Main Board of the Stock Exchange on the Listing Date. The Company issued 250,000,000 Shares at an offer price of HK$0.51 per Share.

Save as disclosed above, there were no movements in the Company's share capital during the year ended 31 December 2019 and up to the date of this report. Details of the share capital of the Company for the year ended 31 December 2019 are set out in note 31 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "**Articles**") and there is no restriction against such rights under the laws of the Cayman Islands.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company was listed on the Stock Exchange on 21 January 2020 (the "**Listing Date**"). None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date and up to the date of this annual report.

DONATIONS

The Group made charitable donations totaling approximately RMB881,000 (2018: RMB12,000) for the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, sales to the Group's largest customer and five largest customers accounted for approximately 2.0% and 7.9% respectively of the total revenue of the Group for the year. Purchases from the Group's largest supplier and five largest suppliers, which comprise third-party manufacturers, accounted for approximately 12.6% and 35.4% respectively of the total purchases of the Group for the year ended 31 December 2019.

To the best knowledge of the Directors, none of the Directors, any of their close associates (within the meaning of the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange) or any Shareholders who or which owns more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2019.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with its employees, suppliers and customers. During the year ended 31 December 2019, there were no material and significant disputes between the Group and its employees, suppliers and/or customers.

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this annual report are:

Executive Directors (all appointed with effect from 25 April 2018)

Yin Yanbin *(Chairman and Chief Executive Officer)*
Zhuang Zhaohui
Chen Zhaohui
Zhou Chunnian
Chen Hua
Sun Guibin

Independent Non-executive Directors (all appointed with effect from 16 December 2019)

Sun Hongbin
Wang Guangji
Zheng Qing

In accordance with paragraph 83(3) of the Articles, all Directors shall retire at the annual general meeting (the "**AGM**") and, being eligible, have offered themselves for re-election.

BIOGRAPHIES OF DIRECTORS

Biographical details of the Directors are set out on pages 23 to 25 of this annual report.

REPORT OF THE DIRECTORS

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules from each of Mr. Sun Hongbin, Mr. Wang Guangji and Ms. Zheng Qing, being the current Independent Non-executive Directors, and as at the date of this annual report, the Company still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Each Director has entered into a letter of appointment with the Company for a term of 3 years commencing from his/her date of appointment which term will continue, and such letter of appointment may be terminated by either party by serving not less than three-months' prior written notice for the case of executive Directors and one-month's prior written notice for the case of independent non-executive Directors, respectively, to the other party. Each Director will be re-elected at the AGM in accordance with the Articles.

Save as disclosed above, no Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration for the year ended 31 December 2019 are set out in note 11 to the consolidated financial statements.

REMUNERATION POLICY

The Directors' remuneration including the Directors' fees is subject to the Shareholders' approval at general meeting. Other emoluments are recommended by the Remuneration Committee for the Board's approval, having regard to the operating results of the Group, individual performance and comparable market statistics.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus, the section headed "Related Party Transactions/Exempted Continuing Connected Transactions" on page 29 of this annual report and notes 11, 24 and 36 to the consolidated financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company's holding company or any of the Company's subsidiaries was a party during or at the end of the year ended 31 December 2019.

Save as disclosed in the Prospectus, no contract of significance to which the Company or any of its subsidiaries was a party and in which the Controlling Shareholders (as defined below) or an entity connected with the Controlling Shareholders (as defined below) had a material interest, either directly or indirectly, subsisted during or at the end of the year ended 31 December 2019.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS/EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Details of the related party transactions of the Group are set out in notes 11, 24 and 36 to the consolidated financial statements. Save in the notes to the consolidated financial statements, the Group has not entered into any connected transaction or continuing connected transaction during the year which should be disclosed pursuant to the requirements under the Listing Rules.

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.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2019, the interests and short positions of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which were required, to be recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

(i) Positions in the Shares

Name	Capacity/ Nature of Interests	Number of Shares held		Approximate Shareholding Percentage	
		Long Position	Short Position	Long Position	Short Position
Yin Yanbin ("**Mr. Yin**") *(Note)*	Interest in a controlled corporation	553,141,500	Nil	55.31%	Nil

Note:

Among these Shares, (a) 375,000,000 Shares are held by Commonwealth B, which is owned as to 80% by Commonwealth Yanbin Limited ("**Commonwealth Yanbin**") which is in turn wholly owned by Mr. Yin; and (b) 178,141,500 Shares are held by Commonwealth Happy Elephant, which is owned as to approximately 98.26% by Commonwealth YYB Limited ("**Commonwealth YYB**") which is in turn wholly owned by Mr. Yin. By virtue of the SFO, Mr. Yin is deemed to be interested in the 375,000,000 Shares held by Commonwealth B and the 178,141,500 Shares held by Commonwealth Happy Elephant.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required, to be recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year or up to the date of this report were there any rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any of the Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company adopted a share option scheme on 16 December 2019 (the "**Share Option Scheme**") which became effective on 21 January 2020. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Eligible persons of the Share Option Scheme, amongst others, include any employee (whether full-time or part-time, including any executive Director but excluding any Non-executive Director) of the Group, any Non-executive Director (including Independent Non-executive Directors) of the Group, any supplier, any customer, any person or entity that provides research, development or other technological support to the Group, any Shareholder of any member of the Group, any adviser (professional or otherwise) or consultant to the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group.

The maximum number of Shares which may be issued under the Share Option Scheme and any other schemes of the Group must not exceed 100,000,000 Shares, representing 10% of the total number of Shares in issue as at the Listing Date of the Shares on the Stock Exchange.

The maximum number of shares issued and to be issued upon exercise of the options granted to any one eligible person (including exercised and outstanding options) under the Share Option Scheme in any 12-month period must not exceed 1% of the issued shares from time to time unless approved in advance by the Shareholders in general meeting with such eligible person and his close associates (as defined in the Listing Rules) (if such eligible person is a connected person) abstaining from voting.

Any offer of an option under the Share Option Scheme proposed to be made to a Director, chief executive of the Company or substantial Shareholder or to any of their respective associates must first be approved by the Independent Non-executive Directors (excluding Independent Non-executive Director who or whose associate is the grantee of the option). In addition, where any grant of options to a substantial Shareholder (as defined in the Listing Rules) or an Independent Non-executive Director or to any of their respective associates which would result in the relevant class of securities in issue and to be issued upon exercise of all options already granted or to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) in excess of 0.1% of the relevant class of securities in issue; and (ii) with an aggregate value (based on the closing price of the securities at the date of each grant) in excess of HK$5,000,000, such further grant of options is subject to approval by the Shareholders in general meeting, with such person, his associates and all core connected persons (as defined in the Listing Rules) of the Company abstaining from voting.

The offer of a grant of options under the Share Option Scheme may be accepted by the eligible person for a period of 21 days from the date of the offer and by payment received by the Company of HK$1.00 as consideration for the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the date on which the option is deemed to be granted and accepted in accordance with the Share Option Scheme.

The Share Option Scheme will be valid and effective for a period of ten years from 21 January 2020.

The exercise price is determined by the Board and shall be at least the highest of: (i) the nominal value of a Share; (ii) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (iii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheet for the five business days (as defined in the Listing Rules) immediately preceding the offer date.

As at 31 December 2019, no Share options were granted, cancelled, lapsed or forfeited under the Share Option Scheme and there were no outstanding Share options under the Share Option Scheme as at 31 December 2019.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

For the year, save for the Share Option Scheme previously mentioned, the Company has not entered into any equity-linked agreements, and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2019

COMPLIANCE OF THE DEED OF NON-COMPETITION

As disclosed in the Prospectus, Mr. Yin and Ms. Wu Hailing ("**Ms. Wu**"), the spouse of Mr. Yin, Ms. Wang Wei, Mr. Pan Bing, Commonwealth B, Commonwealth Yanbin, Commonwealth Violet Limited, Commonwealth YYB, Commonwealth Happy Elephant, HMZ Holdings Ltd and HappyBean Holdings Limited (collectively, the "**Controlling Shareholders**") entered into with and in favour of the Company a deed of non-competition (the "**Deed of Non-competition**") on 19 December 2019. Pursuant to the Deed of Non-competition, each of the Controlling Shareholders has confirmed that none of them is engaged in, or interested in, any business (other than the Group) which, directly or indirectly, competes or may compete with our business. To protect the Group from any potential competition, each of the Controlling Shareholders has unconditionally and irrevocably undertaken in favour of the Company and the Group, on a joint and several basis, that at any time during the Relevant Period (as defined below), each of them shall, and shall procure that their respective close associates and/or companies controlled by them (other than the Group) shall:

(a) not, directly or indirectly, be interested or involved or engaged in or carry on or be concerned with or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business, or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by the Group in the PRC and any other country or jurisdiction to which the Group provides such products and/or services and/or in which any member of the Group carries on business mentioned above currently and from time to time (the "**Restricted Activity**");

(b) not solicit any existing employee or then existing employee of the Group for employment by it/him or its/his close associates (excluding the Group);

(c) not, without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to its/his/her knowledge in its/his/her capacity as the Controlling Shareholder or otherwise for any purpose of engaging, investing or participating in any Restricted Activity;

(d) not, either on its/his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of the Group) to conduct any Restricted Activity;

(e) not, either on its/his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, solicit or endeavour to entice away from or discourage from dealing with the Group any person who was at any time during the period of one year preceding the date of the Deed of Non-competition a manufacturer for or supplier or subcontractor, customer or client of the Group;

(f) if there is any project or new business opportunity (the "**Business Opportunity**") that relates to the Restricted Activity and is offered or becomes aware to the Controlling Shareholders, they shall (i) promptly refer such project or new business opportunity to the Group in writing for consideration and provide such information as is reasonably required in order to enable the Group to come to an informed assessment of such opportunity, (ii) use its/his/her best endeavours to procure such opportunity offered to the Group on terms no less favourable than the terms on which such opportunity is offered to such Controlling Shareholder and/or its/his close associates, and (iii) with regard to any project or new business opportunity which shall have been rejected by the Group and the principal terms of which the Controlling Shareholders and/or any of his/its close associates and/or entities or companies controlled by him/it/her invest or participate shall be no more favourable than those made available to the Company;

(g) not invest or participate in or carry on any project or business opportunity of the Restricted Activity; and

(h) procure its/his/her close associates (excluding the Group) not to invest or participate in or carry on any project or business opportunity of the Restricted Activity.

The above undertakings under the Deed of Non-competition do not apply to:

(a) the holding of, or interests in, the shares of any members of the Group; and

(b) the holding of, or interests in, the shares of a company other than a member of the Group whose shares are listed on a recognised stock exchange provided that the total number of the shares held by the relevant Controlling Shareholder and/or its/his close associates does not exceed 5% of the issued shares of that class of the company in question, and such Controlling Shareholder and its/his/her respective close associates, whether acting singly or jointly, would not participate in or be otherwise involved in the management of the company in question.

Each of the Controlling Shareholders has further unconditionally and irrevocably undertaken to the Company and the Group:

(a) to allow the Directors, their respective representatives and the auditors to have sufficient access to the records of each of the Controlling Shareholders and their respective close associates to ensure compliance with the terms and conditions of the Deed of Non-competition;

(b) to provide to the Group and the Directors (including the Independent Non-executive Directors) from time to time all information necessary for the annual review by the Independent Non-executive Directors with regard to compliance with the terms of the Deed of Non-competition by the Controlling Shareholders; and

(c) to make an annual declaration as to full compliance with the terms of the Deed of Non-competition and a consent to disclose such letter in the annual report.

The obligations of the Controlling Shareholders under the Deed of Non-competition will remain in effect during the period (the "**Relevant Period**") from the Listing Date until the earlier of the date on which:

(a) the Controlling Shareholders, together with their close associates, whether individually or taken together, cease to be interested directly or indirectly in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining controlling shareholder) or more of the issued share capital of the Company; or

(b) the Shares cease to be listed and traded on the Stock Exchange.

The Directors believe the 30% threshold is justifiable as it is equivalent to the thresholds applied under the Listing Rules and the Codes on Takeovers and Mergers and Share Buybacks issued by the SFC (the "**Takeovers Code**") for the concept of "control".

For details of the Non-Competition Deed, please refer to the section headed "Relationship with Controlling Shareholders - Deed of Non-Competition" in the Prospectus.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Deed of Non-Competition for disclosure in this annual report for the period from the Listing Date to the date of this report. The Independent Non-executive Directors have also reviewed the compliance and enforcement status of the Deed of Non-competition, and are of the view that the Controlling Shareholders have abided by the undertakings contained in the Deed of Non-competition for the period from the Listing Date to the date of this report.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as is known to the Directors or chief executive of the Company, the following persons (other than Directors or chief executive of the Company), who had interests or short positions in the shares and the underlying Shares which were recorded in the register required to be kept under Section 336 of the SFO were as follows.

Positions in the Shares

Name	Capacity/ Nature of Interests	Number of Shares held		Approximate Shareholding Percentage	
		Long Position	Short Position	Long Position	Short Position
Commonwealth B Limited ("Commonwealth B")	Beneficial owner	375,000,000	Nil	37.50%	Nil
Commonwealth Yanbin	Interest in controlled Corporation *(Note 1)*	375,000,000	Nil	37.50%	Nil
Commonwealth Happy Elephant Limited ("Commonwealth Happy Elephant")	Beneficial owner	178,141,500	Nil	17.81%	Nil
Commonwealth YYB	Interest in controlled Corporation *(Note 2)*	178,141,500	Nil	17.81%	Nil
Ms. Wu	Interest of spouse *(Note 3)*	553,141,500	Nil	55.31%	Nil
Commonwealth GHW Limited ("Commonwealth GHW")	Beneficial owner	186,058,500	Nil	18.61%	Nil

Notes:

1. Commonwealth B is owned as to 80% by Commonwealth Yanbin which is in turn wholly-owned by Mr. Yin. By virtue of the SFO, each of Commonwealth Yanbin and Mr. Yin is deemed to be interested in the Shares held by Commonwealth B.

2. Commonwealth Happy Elephant is owned as to approximately 98.26% by Commonwealth YYB which is in turn wholly owned by Mr. Yin. By virtue of the SFO, each of Commonwealth YYB and Mr. Yin is deemed to be interested in the Shares held by Commonwealth Happy Elephant.

3. Ms. Wu is the spouse of Mr. Yin and is deemed to be interested in the Shares which are interested by Mr. Yin under the SFO.

Save as disclosed above, as at 31 December 2019, no person, other than the Directors and Chief Executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company" above, had registered an interest or short position in the Shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

SUBSEQUENT EVENTS

Subsequently to 31 December 2019, the Company listed its Shares on the Main Board of the Stock Exchange on the Listing Date. The Company issued 250,000,000 Shares at an offer price of HK$0.51 per Share.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

PERMITTED INDEMNITY PROVISIONS

Pursuant to code provision (the "**Code Provisions**") A.1.8 of the Corporate Governance Code (the "**CG Code**") set out under Appendix 14 to the Listing Rules and subject to the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"), the Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of any losses or liabilities incurred, or any legal actions brought against the Directors and management of the Group which may arise out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the AGM to be held on Tuesday, 26 May 2020, the register of members of the Company will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020, both days inclusive, during which period no transfer of Shares will be effected. All transfers accompanied by the relevant 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 for registration not later than 4:30 p.m. on Wednesday, 20 May 2020 (Hong Kong time).

CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 36 to 47 of this annual report.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company established the Audit Committee with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, risk management and internal controls systems of the Group. The Audit Committee comprises three Independent Non-executive Directors, namely Ms. Zheng Qing (chairlady), Mr. Sun Hongbin and Mr. Wang Guangji.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and risk management and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2019 with the management and the Company's external auditor, Deloitte Touche Tohmatsu.

AUDITOR

Deloitte Touche Tohmatsu will retire and a resolution for their re-appointment as auditor of the Company will be proposed at the AGM.

By order of the Board
Yin Yanbin
Chairman and Chief Executive Officer

Hong Kong, 31 March 2020

The English translation of Chinese names or words in this report, where indicated by "*", are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company was listed on the Stock Exchange on 21 January 2020, and the CG Code contained in Appendix 14 to the Listing Rules was not applicable to the Company for the period from 1 January 2019 to 31 December 2019. The Company has adopted the Code Provisions as set out in the CG Code in Appendix 14 to the Listing Rules with effect from the Listing Date. From the Listing Date and up to the date of this annual report, the Company has complied with all the Code Provisions of the CG Code, save and except for the Code Provision A.2.1. Details of the deviation from the Code Provision A.2.1 are explained in the section "Chairman and Chief Executive Officer" of this corporate governance report. The Board is committed to complying with the principles of the CG Code contained in the Appendix 14 to the Listing Rules. The Company is committed to achieving and maintaining high standards of corporate governance consistent with the needs and requirements of its business and the Shareholders. The corporate governance principles of the Company emphasise a quality board, sound internal controls, and transparency and accountability to all the Shareholders. The Board will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code, and make necessary changes as appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set forth in Appendix 10 of the Listing Rules as its own code of conduct regarding the dealings in securities of the Company by the Directors with effect from 21 January 2020.

Having made specific enquiry of all Directors, each Director has confirmed that he/she has complied with the required standard set out in the Model Code for the period from the Listing Date to the date of this report.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Promoting good corporate governance and managing enterprisewide risk is a priority of the Company. The Company is convinced that corporate governance and directors and officers liability insurance (the "D&O Insurance") complement each other. The Company has arranged appropriate D&O Insurance coverage on Directors' and officers' liabilities in respect of legal actions against the Directors and senior management arising from corporate activities. The D&O Insurance will be reviewed and renewed annually.

BOARD OF DIRECTORS

The Board

The Board, led by the Chairman of the Board, is responsible for leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance. The Board has delegated to the management of the Company the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

The Board reserved its decision for all major matters of the Company, including approving and monitoring all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Daily management and administration functions were delegated to the management. The Board has delegated various responsibilities to the management of the Company. These responsibilities include implementing decisions of the Board, directing and co-ordinating day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the operation and production plans and budgets, and supervising and monitoring the internal control systems.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interest of the Company and the Shareholders at all times.

Since the Company was listed on the Stock Exchange on 21 January 2020, no meeting between the Chairman and the Independent Non-executive Directors without the presence of other Directors was held in 2019.

CORPORATE GOVERNANCE REPORT

At least 14 days' notice for all regular Board meetings will be given to all Directors and they must be given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying Board papers will be sent to all Directors at least 3 days in advance of every regular Board meeting.

Board Composition

During the year ended 31 December 2019 and up to the date of this annual report, the composition of the Board as at the date of this report is as follows:

Executive Directors (all appointed with effect from 25 April 2018)
Yin Yanbin (Chairman and Chief Executive Officer)
Zhuang Zhaohui
Chen Zhaohui
Zhou Chunnian
Chen Hua
Sun Guibin

Independent Non-executive Directors (all appointed with effect from 16 December 2019)
Sun Hongbin
Wang Guangji
Zheng Qing

An updated list of Directors identifying their roles and functions has been published on the websites of the Company and the Stock Exchange, and the Independent Non-executive Directors have been identified in all corporate communications that disclose the names of Directors.

Relationship

There was no financial, business, family or other material relationship among the Directors. The biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" of this annual report.

Chairman and Chief Executive Officer

Under Code Provision A.2.1 of the CG Code, the roles of the Chairman of the Board and chief executive officer of the Company should be separated and should not be performed by the same individual.

During the year ended 31 December 2019, the Company has not separated the roles of the Chairman of the Board and the Chief Executive Officer of the Company. Mr. Yin was the Chairman of the Board and also the Chief Eecutive Officer of the Company responsible for overseeing the operations of the Group during year. The Board believes that vesting the roles of both the Chairman of the Board and the Chief Executive Officer of the Company in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies. The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstances arise.

The CG Code stipulates that the Chairman of the Board should at least annually hold meetings with the Independent Non-executive Directors without the executive Directors present. Since the Company was listed on the Stock Exchange on 21 January 2020, no meeting between the Chairman of the Board and the Independent Non-executive Directors without the presence of other Directors was held in 2019.

CORPORATE GOVERNANCE REPORT

Directors' Attendance Record

The Company was listed on the Stock Exchange on 21 January 2020. Since the Listing Date and up to the date of this annual report, one board meeting was held and the individual attendance record of each of the Directors is set out in the following table:

	Attendance/ Number of meetings
Executive Directors	Board Meetings
Yin Yanbin (Chairman and Chief Executive Officer)	1/1
Zhuang Zhaohui	1/1
Chen Zhaohui	1/1
Zhou Chunnian	1/1
Chen Hua	1/1
Sun Guibin	1/1
Independent Non-executive Directors	
Sun Hongbin	1/1
Wang Guangji	1/1
Zheng Qing	1/1

Regular Board meetings are scheduled at approximately quarterly intervals. Minutes of the Board meetings and the meetings of the Board committees are recorded in sufficient details. Originals of such minutes, being kept by the Company Secretary, are open for inspection at any reasonable time on reasonable notice by any Director. Directors may have access to the senior management and the Company Secretary at all time and, upon reasonable request, obtain independent professional advice under appropriate circumstances and as and when necessary at the Company's expense, ensuring that Board procedures and all applicable rules and regulations are followed. If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter must be dealt with by a physical Board meeting with the Independent Non-executive Directors present at the meeting rather than by written resolutions.

The Board is responsible for maintaining an on-going dialogue with Shareholders and in particular, using annual general meetings or other general meetings to communicate with them and encourage their participation.

Appropriate insurance cover has been arranged by the Company in respect of relevant actions against the Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2019 and up to the date of this annual report, the Board had complied with the requirement as set out in the Listing Rules regarding appointment of at least three independent non-executive Directors, representing one-third of the Board, one of which, namely Ms. Zheng Qing, shall have appropriate professional qualifications or accounting or related financial management expertise. Independent non-executive Directors play an important role through their independent judgments and advice of which is of great influence to the decision of the Board.

Each independent non-executive Director signed a letter of appointment with the Company for a term of three years since their respective dates of appointment unless terminated by not less than one month's notice in writing or as may be agreed between the independent non-executive Director and the Company. The Company has received an annual confirmation of independence from each of the three independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considered that all the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

Each Director has entered into a letter of appointment with the Company with an initial term of three years commencing from the date of appointment and is subject to the re-appointment in accordance with the Articles. The letter of appointment for each executive Director can be terminated by not less than three months' notice in writing or as may be agreed between the executive Director and the Company.

In accordance with the Articles, the Directors appointed to fill a casual vacancy on the Board shall be subject to re-election by Shareholders at the first general meeting after their appointments and any Directors appointed by the Board as an addition to the existing Board shall then be eligible for re-election at the next following annual general meeting. Every Directors (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings of the Company. At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest but not less than one-third, shall retire from office by rotation and shall be eligible for re-election.

Continuous Professional Development

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

Pursuant to Code Provision A.6.5 of the CG Code, the Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. According to the records of the Company, in 2019, all Directors attended training sessions on duties and obligations of directors of companies listed on the Stock Exchange, covering topics on connected transactions and corporate governance. The Company also provided periodic legal updates and developments on the Listing Rules, the Companies Ordinance, news updates from the Stock Exchange and Securities & Futures Commission of Hong Kong and other relevant legal and regulatory requirements to all Directors, as well as regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

CORPORATE GOVERNANCE REPORT

According to the confirmation/records provided by the Directors, all the Directors have participated in the continuous professional developments in the following manners during the year ended 31 December 2019:

	Attending or participating in seminars/ in-house briefing or reading materials relevant to the Company's business/ director's duties
Executive Directors	
Yin Yanbin (Chairman and Chief Executive Officer)	√
Zhuang Zhaohui	√
Chen Zhaohui	√
Zhou Chunnian	√
Chen Hua	√
Sun Guibin	√
Independent Non-executive Directors	
Sun Hongbin	√
Wang Guangji	√
Zheng Qing	√

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee, to handle particular responsibilities of the Board and the Company's affairs. All Board committees of the Company are established with defined written terms of reference which have been uploaded to the website of the Stock Exchange and that of the Company, and are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee was established on 16 December 2019 with specific written terms of reference which is available on the websites of the Stock Exchange and the Company. As at the date of this report, the Audit Committee consists of three Independent Non-executive Directors, namely Ms. Zheng Qing (chairlady), Mr. Sun Hongbin and Mr. Wang Guangji. The primary duties of the audit committee include reviewing and supervising the Company's financial reporting processes, risk management and internal control systems, nominating and monitoring external auditors and providing advice and comments to the Directors.

The Audit Committee schedules to hold at least two meetings a year. Since the Company was listed on the Stock Exchange on 21 January 2020, no meeting was held in 2019.

CORPORATE GOVERNANCE REPORT

The Audit Committee held a meeting on 31 March 2020 (i) to review with the management of the Company the principles and practices adopted by the Group; (ii) to review and discuss risk management and internal control systems and financial reporting matters, including a review of the audited consolidated financial statements and results of the Group for the year ended 31 December 2019 and the effectiveness of the Company's internal audit function; and (iii) to discuss and recommend to the Board on the re-appointment of external auditor. The individual attendance record of each of the members is set out in the following table:

	Attendance/ Number of Audit Committee Meetings
Members	
Zheng Qing (Chairlady of the Audit Committee)	2/2
Sun Hongbin	2/2
Wang Guangji	2/2

This annual report has been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee was established on 16 December 2019 with specific written terms of reference which is available on the websites of the Stock Exchange and the Company.

As at the date of this report, the Nomination Committee consists of one Executive Director, namely Mr. Sun Guibin (as chairman) and two Independent Non-executive Directors, namely Ms. Zheng Qing and Mr. Sun Hongbin. The primary duties of the nomination committee include reviewing the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge) of the Board; making recommendations on any proposed changes to the Director and senior management to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members; making recommendations to the Board on appointment or re-appointment of the Directors; in identifying suitable individuals, considering individuals on merit and against the objective criteria, with due regard for the benefits of diversity on the Board; reviewing the board diversity policy, as appropriate; and assessing the independence of the Independent Non-executive Directors.

The Nomination Committee may obtain independent professional advice to perform its responsibilities, where necessary, at the Company's expense.

The Nomination Committee schedules to hold at least two meetings a year. Since the Company was listed on the Stock Exchange on 21 January 2020, no meeting was held in 2019.

The Nomination Committee held a meeting on 31 March 2020 and reviewed the structure, size and composition of the Board, assessed the independence of Independent Non-executive Directors to determine their eligibility and discussed the re-appointment of directors and succession planning for Directors. The individual attendance record of each of the members is set out in the following table:

	Attendance/Number of Nomination Committee Meetings
Members	
Sun Guibin (Chairman of the Nomination Committee)	1/1
Zheng Qing	1/1
Sun Hongbin	1/1

CORPORATE GOVERNANCE REPORT

Nomination Policy

The Board has established a set of nomination policy setting out the approach to nominate suitable candidates to the Board for it to consider and make recommendations to Shareholders for election as directors of the Group at general meetings or appoint as Directors to fill casual vacancies. The criteria of nomination have been considered from a number of aspects, including but not limited to, skills, experience, qualifications and aspects as detailed in the board diversity policy.

During this year, the Company reviewed its nomination policy for a formal, considered and transparent procedure to help identifying and nomination of candidates for Directors. All valid nomination of candidates, accompanied with biographical details, would be presented to the Board for consideration. Consideration would be given to factors such as the candidate's integrity, experience and qualifications relevant to the Group's business. It is believed that members of the Nomination Committee collectively would have required relevant knowledge and skills to identify, invite and evaluate qualifications of nominated candidates for directorship.

The process of our appointment and re-election of Directors are as follows:

Potential new Directors are identified and considered for appointment at any time by the Board upon the recommendation of the Nomination Committee. Nomination Committee considers the candidates based on merit having regard to the knowledge, experience, skills and expertise as well as the overall board diversity which, in the opinion of the Directors, will enable them to make positive contributions to the performance of the Board and makes recommendations to the Board as appropriate. Emoluments of new directors will be considered by the Remuneration Committee.

Newly appointed members by the Board to fill a casual vacancy on the Board is subject to re-election by Shareholders at the first general meeting after their appointment or as addition to the existing Board is subject to re-election by Shareholders at the first annual general meeting after their appointment. All executive Directors and Non-executive Directors are subject to re-election by Shareholders every 3 years.

Board Diversity Policy

The Company continuously seeks to enhance the effectiveness of the Board and to maintain a high standard of corporate governance and recognises and embraces the benefits of diversity in the composition of the Board.

In December 2019, the Company has adopted a board diversity policy (the "Board Diversity Policy") for compliance with the Code Provision of the Listing Rules concerning the diversity of Board members. The Company recognises and embraces the benefits of diversity in Board members. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments will be based on merit while taking into account diversity including gender diversity.

As at the date of this report, the Board comprises nine Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process.

The Nomination Committee will continue to review the Board Diversity Policy from time to time to ensure its continued effectiveness.

Remuneration Committee

The Remuneration Committee was established on 16 December 2019 with specific written terms of reference which is available on the websites of the Stock Exchange and the Company. As at the date of this report, the Remuneration Committee consists of two independent non-executive Directors, namely Ms. Zheng Qing (as chairlady) and Mr. Sun Hongbin and one executive Director, namely Mr. Zhuang Zhaohui. The primary duties of the Remuneration Committee include evaluating the performance of executive Directors and senior management and determining their remuneration packages and making recommendations on the remuneration of non-executive Directors.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual Executive Directors and management of the Company.

During the process of consideration, no individual Director will be involved in decisions relating to his/her own remuneration.

The Remuneration Committee may obtain independent professional advice to perform its responsibilities, where necessary, at the Company's expense.

The Remuneration Committee schedules to hold at least two meetings a year. Since the Company was listed on the Stock Exchange on 21 January 2020, no meeting was held in 2019.

The Remuneration Committee held a meeting on 31 March 2020 and reviewed the remuneration package of the Directors of the Company and the remuneration policy of the Group's senior management. The individual attendance record of each of the members is set out in the following table:

	Attendance/Number of Remuneration Committee Meetings
Members	
Zheng Qing (Chairlady of the Remuneration Committee)	1/1
Zhuang Zhaohui	1/1
Sun Hongbin	1/1

Risk Management Committee

The Risk Management Committee was established on 16 December 2019 with specific written terms of reference which is available on the websites of the Stock Exchange and the Company. As at the date of this report, the Risk Management Committee consists of three executive Directors, namely Mr. Zhou Chunnian (as chairman), Mr. Chen Hua and Mr. Sun Guibin. The primary duties of the Risk Management Committee include monitoring the Company's exposure to sanctions law risks and its implementation of the related internal control procedures.

The Risk Management Committee schedules to hold at least two meetings a year. Since the Company was listed on the Stock Exchange on 21 January 2020, no meeting was held in 2019.

The Risk Management Committee held a meeting on 31 March 2020 and reviewed the Company's exposure to sanctions law risks and its implementation of the related internal control procedures. The individual attendance record of each of the members is set out in the following table:

	Attendance/Number of Risk Management Committee Meetings
Members	
Zhou Chunnian (Chairman of the Risk Management Committee)	1/1
Chen Hua	1/1
Sun Guibin	1/1

CORPORATE GOVERNANCE REPORT

Remuneration of the Senior Management

Pursuant to Code Provision B.1.5 of the CG code, the remuneration of the Senior Management by band for the year ended 31 December 2019, is set out as below:

Band of remuneration (HK$)	No. of person	
	2019	2018
HK$1,000,000 and below	7	8
HK$1,000,001 to HK$1,500,000	2	1

Further details of the remuneration of Directors and five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 11 to the consolidated financial statements.

Accountability and Audit

Financial Reporting

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rule 13.49(1) and (6) of the Listing Rules.

All Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group for the year ended 31 December 2019. Currently, the Company's external auditor is Deloitte Touche Tohmatsu (the "**Auditor**").

The Directors' responsibilities in preparing the consolidated financial statements and the Auditor's responsibilities are set out in the Independent Auditor's Report on pages 68 to 71 of this annual report.

The Board is also responsible for presenting a balanced and clear assessment of the Group's performance and prospects. Management of the Company provides all relevant information to the Board, giving its members sufficient explanation and information that it needs to discharge its responsibilities.

Auditor's Remuneration

The fees paid or payable to the Auditor of the Company for the year ended 31 December 2019 are set out as follows:

	Fees paid/payable *RMB'000*
Audit service	1,950
Non-audit services:	
Services provided in connection with initial public offering of the Company	4,228

RISK MANAGEMENT AND INTERNAL CONTROLS

A sound and effective risk management and internal control system is important to safeguard the Shareholders' investment and the Group's assets. The Board acknowledges its responsibility for the risk management and internal control systems of the Group and reviewing their effectiveness. Such systems are designed to manage, rather than eliminate, the risk associated in failing to achieve certain business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has established the internal audit function to perform annual financial review, which generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems.

The Audit Committee assists the Board in leading the management to oversee the formation, implementation and monitoring of the risk management and internal control systems.

The "top-down approach" and the "bottom-up approach" were adopted by the Group in order to measure the risks faced by the Group. The internal processes of risk assessment and measurement involve the participation of management in assessing the risk exposure such as identifying the risks and their impact. The Board, as supported by the Audit Committee, has reviewed and assessed the effectiveness of the risk management and internal control systems by reviewing the reports prepared by the internal audit function and the internal audit findings at each regularly scheduled meeting and considered that the risk management and internal control systems of the Group are effective and adequate for the year ended 31 December 2019.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2019, including financial, operational and compliance controls and risk management function.

The management shall report to the Board as soon as practicable for any event which may constitute inside information, and the Board shall decide to make relevant disclosure in a timely manner, if required.

Delegation by the Board

In general, the Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

COMPANY SECRETARY

Mr. Wu Wing Hou was appointed as the Company Secretary of the Company with effect from 14 December 2018. During the year ended 31 December 2019, Mr. Wu Wing Hou has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

INVESTOR RELATIONS

Communication with Shareholders

The Board recognises the importance of maintaining a clear, timely and effective communication with the Shareholders and investors of the Company. The Board also recognises that effective communication with the Company's investors is critical in establishing investor confidence and to attract new investors. Therefore, the shareholders' communication policy of the Company is committed to maintaining a high degree of transparency to ensure the Shareholders and the investors of the Company will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the website of the Company.

CORPORATE GOVERNANCE REPORT

In respect of each matter to be considered at the annual general meetings and extraordinary general meetings, including the re-election of Directors, a separate resolution will be proposed by the Chairman of the Board. Voting at general meetings of the Company is conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

Members of the Board and chairpersons of various Board committees will attend the forthcoming annual general meeting of the Company to be held on Tuesday, 26 May 2020 at 5:00 p.m. (the "AGM") to answer questions raised by the Shareholders. Pursuant to Code Provision E.1.2, the Company will invite representatives of the auditor to attend the AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and the auditor's independence.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard Shareholders' interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. Besides, various rights of Shareholders, including the right to propose resolutions, are contained in the Articles.

The summary of certain rights of the Shareholders are disclosed below:

Procedures for Convening Extraordinary General Meetings and Putting Forward Proposals at General Meetings

Each general meeting other than an annual general meeting shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board. According to Article 58 of the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the Secretary of the Company at the Company's principal place of business in Hong Kong at Room 1604, OfficePlus@Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong. The requisitionist(s) must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionist(s). Upon receipt, the Company will verify the particulars of requisitionist(s) and if the request is in order, the Company will convene the extraordinary general meeting in accordance with the Articles.

Procedures for Shareholders to Propose a Person for Election as a Director

The Articles published on the websites of the Company and the Stock Exchange and the "procedures for shareholders to propose a person for election as a director of the Company" on the website of the Company.

Procedures for Directing Shareholders' Enquiries to the Board and Company's Contact Details

Shareholders and other stakeholders may send their enquiries, concerns and requisitions to the Board by addressing them to the Company Secretary at the Company's principal place of business in Hong Kong at Room 1604, OfficePlus@Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

DIVIDEND POLICY

The Board has approved and adopted a dividend policy (the "**Dividend Policy**"). It is the policy of the Board in declaring or recommending a payment of dividends, to allow shareholders to participate in the Company's profits and for the Company to retain adequate reserves for future growth.

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

(i) financial results;

(ii) cash flow situation;

(iii) business conditions and strategies;

(iv) future operations and earnings:

(v) capital requirements and expenditure plans;

(vi) interests of shareholders;

(vii) any restrictions on payment of dividends; and

(viii) any other factors that the Board may consider relevant.

Depending on the factors set out above, dividends may be proposed and/or declared by the Board for a financial year or period as follows:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

The payment of dividend is also subject to applicable laws and regulations and the Company's Articles.

Whilst the Dividend Policy reflects the Board's current views on the financial and cash-flow position of the Group, such Dividend Policy will continue to be reviewed from time to time and there can be no assurance that dividends will be recommended or declared in any particular amount for any given period. The declaration of or recommendation of declaration of dividends is subject to the absolute discretion of the Board. Even if the Board decides to recommend and declare dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group.

INTEREST OF THE COMPLICANCE ADVISER

As confirmed by the Company's compliance adviser, Fortune Financial Capital Limited (the "**Compliance Adviser**"), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 19 December 2019, none of the Compliance Adviser or its directors, employees or close associates (as defined under the Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company.

CONSTITUTIONAL DOCUMENTS

Pursuant to a special resolution of the Shareholders passed on 16 December 2019, the amended and restated Memorandum and Articles of Association of the Company was adopted with effect from the Listing Date. Save as disclosed herein, there were no significant changes in the constitutional documents of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE PROFILE

We are an applied chemical intermediates provider in the integrated chemical services market, which primarily engage in the production and sales of our chemicals and sales of chemicals produced by third party manufacturers. We have an operating history of over 20 years since 1995 by Mr. Yin, the founder of our Group, the Chairman and Chief Executive Officer, to engage in selling applied chemical intermediates produced by third party manufacturers.

We began to manufacture our own branded products of animal nutrition chemicals such as choline chloride, pharmaceutical intermediates such as iodine derivatives and polyurethane materials such as polymer polyether in 2004, 2008 and 2012, respectively. Currently, we have two production plants in the PRC which are strategically located in Tai'an, Shandong Province and Xuzhou, Jiangsu Province, and our production plant in Binh Duong Province, Vietnam also commenced production in 2016.

ABOUT THIS REPORT

Our Group hereby publishes its Environment, Social and Governance (ESG) Report ("**ESG Report**") and presents its sustainability performance. The report content aims to increase the transparency of the Group's sustainability strategy, and describe how the Group has achieved steady growth in its performance, by blending in essential elements for sustainable development such as safety and environmental protection through its creativity and professionalism.

REPORTING STANDARD AND SCOPE

This report has been prepared in accordance with the Environment, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules prescribed by the Stock Exchange. The report covers the Group's activities from 1 January 2019 to 31 December 2019. The scope of the report includes the Group's environmental and social performance. Information on corporate governance will be separately presented in the annual report in accordance with Appendix 14 of the Listing Rules.

STAKEHOLDER COMMUNICATION

The Group places great emphasis on the valuable opinions of all stakeholders regarding the operations and believes that their feedbacks will help the Group to continuously improve the quality of its products and services, which in turn optimizes its corporate management. The Group hopes to transparently communicate with its stakeholders the direction and progress of its sustainable development through a range of diversified communication channels, so that the Group can understand and consider the opinions of all parties to formulate development plans. The communication channels and discussion sections between the Group and its stakeholders are as follows:

Stakeholder	Communication Channel	Related Topic	Achievement in the year
Government Authority	• Attending government meeting • Reporting to relevant authorities actively • Accepting supervision	• Operation compliance • Environmental emission compliance • Legitimacy of our products	• Complying with relevant laws and regulations • Meeting relevant environmental regulations and requirements
Investor/ Shareholder	• General Meeting • Disclosing listing information • Activities such as public announcements	• Corporate governance • Business operation • Information disclosure	• Complying with relevant rules and regulations to release public announcements and information
Customer	• Customer complaint mechanism • Customer satisfaction assessment • E-communication	• Customer satisfaction • Product quality and safety	• General customer satisfaction
Employee	• Regular and irregular interviews with employees • Employee trainings • Employee activities	• Training and development • Remuneration and benefits • Occupational health and safety	• Organizing introductory training, regular training and safety training • Providing mark-to-market remuneration package
Supplier	• Supplier meeting • Telephone inquiry • On-site inspection	• Communication with suppliers • Product quality risk management	• Visiting suppliers and holding supplier meeting
Media	• Press conference • Email communication • Telephone interview	• Information disclosure	• Complying with relevant rules and regulations to release public announcements and information
Community	• Participating community activities • Social donation	• Environment protection • Social contribution	• Donating approximately RMB900,000 to charity funds • Collaborating with governments at all levels to prevent and control the epidemic

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

The management and employees who are responsible for the key functions of the Group have participated in preparing this report, assisted the Group in reviewing its operation, identifying key environmental, social and governance issues and assessing the importance of these issues to our businesses and stakeholders. Through internal discussion, we identified material environmental, social and governance issues to collect the information from relevant departments and business units of the Group.

CONTACT DETAILS

If you have any comments or suggestions upon this report, please contact us through following ways:

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

The following table summarises the Group's significant environmental, social and governance issues as set out in this report:

The ESG Reporting Guide/KPI	Material ESG aspects of the Group/KPI description	Page
A. Environment		
A1. Emissions	GHG Emission	53
	Waste Management (including waste gas, waste water and solid waste)	54-56
A1.1	The types of emissions and respective emissions data.	53-56
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	53
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	55
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	55
A1.5	Description of measures to mitigate emissions and results achieved.	53-56
A1.6	Description of how hazardous and nonhazardous wastes are handled, reduction initiatives and results achieved.	55-56
A2. Use of Resources	Energy Consumption	56-57
	Water Consumption	57-58
	Use of Packaging Materials	58
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity.	56
A2.2	Water consumption in total and intensity.	57
A2.3	Description of energy use efficiency initiatives and results achieved.	57
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	57-58
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	58

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The ESG Reporting Guide/KPI	Material ESG aspects of the Group/KPI description	Page
A. Environment		
A3. Environment and Natural Resources	Environmental Impact Management	58-59
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	58-59
B. Society		
B1. Employment	Employee Benefits and Equal Opportunities Policies	59-60
B1.1	Total workforce by gender, employment type, age group and geographical region.	60
B1.2	Employee turnover rate by gender, age group and geographical region.	60
B2. Health and Safety	Occupational Health and Safety	61
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B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	61
B3. Development and Training	Staff Development and Training	62
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B4. Labor Standards	Prevention of Child Labor or Forced Labor	62-63
B4.1	Description of measures to review employment practices to avoid child and forced labour.	62-63
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The ESG Reporting Guide/KPI	Material ESG aspects of the Group/KPI description	Page
B. Society		
B6. Product Responsibility	Product Responsibility	64-66
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B6.2	Number of products and service related complaints received and how they are dealt with.	64-65
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B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	65-66
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B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	66
B8. Community Investment	Contributions to Society	66-67
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	66-67
B8.2	Resources contributed (e.g. money or time) to the focus area.	66-67

During the year ended 31 December 2019, the Group confirmed that appropriate and effective management policies and internal control systems for environmental, social and governance issues are in place and confirmed the information disclosed in the ESG Report meets the ESG Reporting Guide.

A. ENVIRONMENT

A1. Emissions

General disclosure and key performance indicators ("KPI")

We have been, and intend to continue to be, committed to observing environmental protection and safety regulations in all of our business activities to ensure our operations are in compliance with those regulations. According to the PRC environmental laws and regulations, chemical manufacturers in the PRC must comply with environmental laws and regulations stipulated by the state and the local environmental protection authorities. According to the Vietnamese law on environmental protection, enterprises need to make and apply reports on assessment of environmental impact or environmental protection plan to the competent authority. During our production processes, sewage, waste gas and solid waste are regularly discharged. Our operations are therefore subject to numerous national and provincial environmental laws and regulations governing the discharge of waste water, waste gas emission and hazardous chemicals.

In order to comply with the relevant laws and regulations in the PRC and Vietnam, we have established the safety and environmental protection department (consisting of 23 staff members as at 31 December 2019) which is in charge of the preparation and implementation of our environmental, health and safety policies in our daily operations. The environmental, health and safety policies cover various aspects of our operations, including production, storage and transportation of our products and raw materials, repair of our equipment, prevention of pollution, training and protection of employees' health.

Our environmental policies focus on ensuring that our production emission control, treatment of waste water are in compliance with the relevant regulations and policies of national and local governments. In addition, we have installed waste treatment facilities on our production plants to handle our discharges from the manufacturing process.

During the year ended 31 December 2019 and up to the date of this report, we had produced the following waste materials, which have been dealt with through the implementation of corresponding environmental measures:

GHG

Greenhouse gas ("GHG") emissions	2019	2018
Direct GHG emission (tCO_2e)	1,580.9	1,517.8
Indirect GHG emission (tCO_2e)	8,256.7	6,333.4
Total GHG emission (tCO_2e)	9,837.6	7,851.2
Direct GHG Emission Intensity (direct GHG emission/M' RMB revenue derived from sales of self-manufactured chemicals)	1.37	1.33
Indirect GHG Emission Intensity (indirect GHG emission/M' RMB revenue derived from sales of self-manufactured chemicals)	7.15	5.55
GHG Emission Intensity (total GHG emission/M' RMB revenue derived from sales of self-manufactured chemicals)	8.52	6.88

The scope of the above GHG statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

The majority of the Group's energy consumption includes the electricity in all premises, the natural gas, coal and steam in our production plants. The use of natural gas and coal contributes to direct GHG emissions, while the use of electricity and purchased steam contributes to indirect greenhouse gas emissions. In the face of global warming caused by GHG, the Group advocates energy conservation and emission reduction. Employees must work with the energy system within operations to use energy efficiently.

During the year ended 31 December 2019, the direct GHG and indirect GHG emission have increased by 4.2% and 30.4% respectively, as compared to the same period in the last year owing to the great increase in production capacity and volume.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste gas

Waste gas	2019	2018
NOx emissions (tonnes)	10.6	10.6
NOx emissions intensity (NOx emissions/M' RMB revenue derived from sales of self-manufactured chemicals)	0.0092	0.0093
SOx emissions (tonnes)	3.9	3.4
SOx emissions intensity (SOx emissions/M' RMB revenue derived from sales of self-manufactured chemicals)	0.0034	0.0030
PM emissions (tonnes)	3.7	3.5
PM emissions intensity (PM emissions/M' RMB revenue derived from sales of self-manufactured chemicals)	0.0032	0.0031

The scope of the above waste gas statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

Waste gas is generated during the production process. We adopt the following measures to minimise the impact of the waste gas.

- Tail gas in storage tank or measuring tank of certain chemicals including trimethylamine, hydrochloric acid, ethylene oxide and the waste gas generated from the decarboxylated cashew nut shell oil is permitted to be emitted only after absorption, combustion or purification in the absorption tower;
- Certain gas generated during production are absorbed or purified to ensure its concentration and emission rate meets the relevant emission standard of air pollutants;
- Pipes and equipment are tightly welded and more trainings are provided to the staff who are responsible for operating the equipment to perform annual leakage detection and repair on the pipes and equipment in order to minimise fugitive emission; and
- The LDAR management system is utilised at our production plants to detect and repair any possible gas leakage so as to minimise emission of volatile gases.

During the year ended 31 December 2019, the NOx, SOx and PM emissions had increased by nil, 14.7% and 5.7%, respectively, as compared to the same period in the last year. Although the emissions of SOx and PM increased, it was assured that the emissions did not exceed the emission standards during the year ended 31 December 2019. We will continue to explore feasible emissions reduction measures to constantly reduce impacts on the environment.

Waste water

Waste water	2019	2018
Waste water quantity (m^3)	442,655	269,612

The scope of the above waste water statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

During the year ended 31 December 2019, the waste water quantity has increased as compared to the same period in the last year. The major reasons are as follows:

- The quality requirements of some products for production water have been upgraded to deionized water owing to product quality improvement requirements. The production of deionized water has led to an increase in water consumption and sewage.
- Upgraded process equipment and relatively high quality of circulating cooling water have made an increase in waste discharge of circulating water and frequency replacement, resulting in an increase of water consumption and sewage.

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- In order to improve the effect of environmental friendly treatment, the tail gas absorption system (liquid) of each branch plant has been increased from 2/3 stage to 5/6 stage, and to ensure the absorption effect, we have increased the frequency replacement of the absorption liquid, and accordingly, the water consumption and sewage have been risen.
- The initial rainwater in the plant areas (30 minutes before the rain) should not be discharged outside the plant, and should be pumped to the sewage treatment facility inside the plant and treated as sewage before being discharged due to environmental protection requirements. The rainwater has greatly increased sewage.
- the great increase in production capacity and volume and renovation of technique and equipment.

To reduce the effect of water pollution, we have installed sewage treatment facilities at our production plants to treat all sewage generated during the production process of our products until its quality reaches the national standard and the relevant standard specified by the sewage treatment company which handles treated sewage for further treatment and discharge.

In addition, we have constructed a reservoir of more than 400 cubic metres to ensure that there is minimal discharge of sewage in the event of accidents.

We will continue to increase measures in condensation water retrieve system to reduce the discharge of waste water and municipal water consumption. In addition, the circulating water system is replaced by soft water to reduce the waste discharge of circulating water and frequency replacement.

Solid waste

Solid waste	2019	2018
Hazardous waste produced (tonnes)	139.0	96.5
Hazardous waste recycled (tonnes) (note)	139.0	96.5
Hazardous waste recycled percentage	100%	100%
Non-hazardous waste produced (tonnes)	136.4	118.8
Non-hazardous waste recycled (tonnes) (note)	136.4	118.8
Non-hazardous waste recycled percentage	100%	100%

Note: According to relevant state regulations, hazardous wastes were transferred to and properly disposed by qualified organizations which are independent third party to the Group, whereas non-hazardous wastes were transferred to and properly disposed by councils of respective cities.

The scope of the above solid waste statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

We generated solid waste during our production processes. Some of them are potentially hazardous, including waste activated carbon, potassium chloride, cashew nut oil sludge, sodium nitrate and sludge at the sewage treatment facilities. We have engaged qualified hazardous waste treatment companies to dispose such waste. In the course of production, we also generate sodium chloride as a by-product, which is principally sold to an industrial salt manufacturer in Tai'an, Shandong Province. Other domestic wastes are collected and disposed by environmental hygiene government departments. Non-hazardous domestic wastes are collected and disposed of by our environmental protection department.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year ended 31 December 2019, the hazardous waste and non-hazardous waste have increased as compared to the same period in the last year owing to the great increase in production capacity and volume.

During the year ended 31 December 2019, the Group was not aware of any non-compliance with the applicable PRC environmental laws and regulations with regard to environmental protection. All of our products meet the relevant environmental requirements under the PRC laws and we were not subject to any fines or legal action involving material non-compliance with any relevant environmental regulation, nor were we aware of any threatened or pending action by any environmental regulatory authority during the year ended 31 December 2019. We have passed the inspection for the completion of environmental protection for our production plants as required by the applicable PRC laws and regulations.

We have also developed a series of internal policies and programs for environmental risk prevention to ensure compliance with the requirements of the applicable national, industrial and local standards, laws, regulations and policies. Such policies include report on the emission level of gas pollutants, waste water and solid waste to our environmental protection department and evaluation of such emission levels on a regular basis. If there is any deviation from the applicable emission standard, we will investigate the cause and will take rectification measures accordingly. Our discharge of waste water and solid waste and emission of gas pollutant is also monitored by the local environmental monitoring centre. During the year ended 31 December 2019, the discharge of each key pollutant remained within its respective prescribed regulatory limits.

We have obtained the certificate of GB/T24001-2016 idt ISO14001:2015 on 6 March 2017 for our environmental management system in the production of feed additives (including betaine and choline chloride), mixed feed additives and chemical products (including sodium periodate, diethyl sulfate, potassium iodide and sodium iodide) in our production plant in Tai'an, Shandong Province, which is valid until 5 March 2020. According to the notification issued by Certification and Accreditation Administration of the PRC on 4 February 2020, the certificate of GB/T24001-2016 idt ISO14001:2015 can be extended to three months after the SRD was relieved.

Our environmental compliance expenses incurred for the years ended 31 December 2019 were approximately RMB0.8 million (2018: RMB0.8 million). Going forward, we expect our annual costs of compliance with applicable environmental matters in the near future will not experience significant changes, subject to any future changes in the applicable environmental laws and regulations which may arise.

In view of our measures to the waste materials as detailed above, our Directors believe that our business operations do not have a material adverse impact on the environment.

A2. Use of Resources

General disclosure and KPI

Energy consumption

Energy consumption	2019	2018
Electricity (MWh)	27,020.5	20,809.7
Coal (tonnes)	5,317.1	4,716.8
Coal (MWh)	23,967.1	21,219.6
Natural Gas ('000 m^3)	668.8	659.2
Natural Gas (MWh)	6,221.6	6,131.6
Steam (tonnes)	107,678.5	85,029.3
Steam (MWh)	82,810.6	65,392.5
Total Energy Consumption (MWh)	140,019.8	113,553.4
Energy Intensity (total energy consumption/M' RMB revenue derived from sales of self-manufactured chemicals)	121.2	99.5

The scope of the above energy consumption statistics includes data from Tai'an, Xuzhou and Vietnam production plants. The majority of the Group's energy consumption includes the electricity in all premises, the natural gas, coal and steam in the production plants.

In terms of electricity consumption, employees must follow the electricity management guidelines to avoid wastage. They are summarized as follows:

- Centralize production approach on major power-consuming equipment to reduce electricity consumption of each unit;
- Gradually switch to high efficiency and energy-saving facilities in operation areas;
- Carry out regular patrols and maintenance to ensure equipment's proper operation;
- Turn off idling machines;
- Report electricity consumption to the environmental audit team by the end of each month; and
- Encourage all departments to make new electricity-saving suggestions.

Moreover, we have elected to use model S11 energy-saving transformer, and transformer room and power room were designed to nearby substation to reduce line loss. Meanwhile, concentrated power factor compensation method was adopted to reduce reactive loss, resulting in the power factor after compensation of whole plant being more than 0.95.

To avoid the potential increase of electricity consumption by machines due to deterioration, the Group actively promote the use of high efficiency motors. During the year ended 31 December 2019, the Group has replaced model Y and YZ motors with more energy-efficient model Y and YXZ motors in the Tai'an and Vietnam production plants, resulting in a reduction of approximately 1-3% of energy consumption, compared to the original models.

Variable frequency drive system was used in electrical equipment with high power and load variation for increasing energy utilization rate, resulting in a reduction of approximately 8% of energy, compared to the original system.

Because of both the increase in production capacity and volume as well as the decrease in unit market price of our major self-manufactured products such as choline chloride, the energy intensity increased by approximately 21.8% as compared to the same period in the last year. We will optimize process route and unit operation, promote process equipment and adopt energy saving transformer and high efficiency motor to reduce energy consumption.

Water consumption

Water consumption	2019	2018
Water Consumption (m^3)	389,766	253,547
Water Intensity (water consumption/ M' RMB revenue derived from sales of self-manufactured chemicals)	337.5	222.2

The scope of the above water consumption statistics includes data from Tai'an, Xuzhou and Vietnam production plants. The majority of the Group's water consumption includes the water consumed during the production process in the production plants.

The reasons for increase in water consumption were explained in section A1 above.

The Group consumes a considerable amount of water during production and recognizes water as an important natural resource and hence, establishes water using guidelines for all premises to follow in order to efficiently utilize water resources. These include:

- Perform regular maintenance inspection to ensure that the machines do not drip;
- Notify maintenance department to repair immediately in case of discovered damage and leakage;
- Collect cleaning water used on-site to treat in the wastewater treating facility;
- Report water consumption and wastewater amount to the environmental audit team each month; and
- Encourage employees to actively participate in water-saving activities to increase water reduction awareness.

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The main water source comes from the local government municipal department; therefore, there is no issue in sourcing water.

Because of both the increase in production capacity and volume as well as the decrease in unit market price of our major self-manufactured products such as choline chloride, the water intensity increased by approximately 51.9% as compared to the same period in the last year.

Packaging materials

Packaging material	2019	2018
Total Packaging Material (tonnes)	2,368.1	2,418.4
Amount of Recycled and Reused Package Material (tonnes)	68.7	72.9
Recycled and Reused Percentage	2.9%	3.0%

The scope of the above packaging materials statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

The Group takes safety and environmental friendliness concerns into consideration when selecting packaging materials in order to focus on environmental protection while ensuring product safety. The packaging materials used in the Group's production plants are mainly paper material, plastic, wood and iron. The Group purchases reusable packaging materials for short-distance transportation of products within premises to avoid wasting resources and reduce waste generation. When packing products, in addition to following customers' and industrial requirements, the Group also ensures that the materials are durable. On one hand, this measure prevents any leakage of product. On the other hand, it considers that product quality will not be affected due to expiry during storage or hoarding.

A3. ENVIRONMENT AND NATURAL RESOURCES

General disclosure and KPI

Environmental impact management

The Group pursues the best practices in the environmental protection and focuses on the impact of the Group's businesses to the environment and natural resources. In addition to complying with relevant environmental laws and regulations as well as properly preserving the natural environment, the Group has integrated the concept of environmental protection into its internal management and daily operations, with the aim of achieving environmental sustainability.

The Group strives to promote environmental protection and make effective use of resources. It carries out continuous monitoring if the business operations incur any potential impact to the environment, and minimises such impact to the environment through promoting green office and operating environment by adopting four basic principles which are comprised of reduce, reuse, recycle and replacement. Where applicable, we adopt green purchasing strategies and the most practical technologies to protect our natural resources.

Noise pollution

The effective measures to strengthen fixed infrastructure, increase shock absorbers, install eliminate noise filters and isolate noise source equipments were adopted in Tai'an and Vietnam production plants to successfully prevent the noise pollution.

Outdoor lightings

The Group introduces light emitting diode high efficiency lighting products in Tai'an and Vietnam production plants to replace traditional low efficiency light source such as metal halide lamp, sunlight dysprosium lamp and high pressure sodium lamp, to save the power for lighting and establish high quality and effective lighting environment.

Landscape and natural habitat

All areas except buildings and roads in Xuzhou, Tai'an and Vietnam production plants are lined with green plants. The total green areas of the three production plants were 188 square meters, 300 square meters and 8,963 square meters, respectively.

B. SOCIETY

B1. Employment

General disclosure

Employee benefits and equal opportunities policies

Employees are regarded as the Group's largest and most valuable assets and the core of competitive advantage. They provide the driving force for continuous innovation to the Group.

During the year ended 31 December 2019, the Group has fully complied with relevant rules and regulations in the PRC, including the Company Law of the PRC, the Contract Law of the PRC, the Labor Contract Law of the PRC and the Regulations on Labor Inspection and Security, as well as the statutory requirements in Vietnam, including the Labour Code of 2012, which regulates the labour contract, internal labour regulations, occupational health and safety expatriates and statutory insurance.

The Group is committed to maintaining a diverse workforce that includes age, gender, family status, sexual orientation, disability, ethnicity, religion and equal opportunities.

The Group's "Employee Handbook" contains policies in regards to recruitment, promotion, discipline, working hours and leave. The human resources department has been responsible for ensuring all employees have fully understood the contents of the handbook.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The management regularly reviews the Group's remuneration and benefits policies in reference to the market standards and is committed to safeguarding the rights and interests of the staff. Remuneration and benefits have been adjusted on an annual basis or on special occasions in accordance with the employees' individual performance, contribution and market conditions.

	Number of employees		% of employees	
Employee category	2019	2018	2019	2018
Gender				
Male	651	592	73.5%	72.9%
Female	235	220	26.5%	27.1%
Position				
Senior Management	9	9	1.0%	1.1%
Management	72	67	8.1%	8.3%
Staff	805	736	90.9%	90.6%
Age				
18-30 years old	210	203	23.7%	25.0%
31-50 years old	576	516	65.0%	63.5%
51 years old or above	100	93	11.3%	11.5%
Location				
Shandong	494	435	55.8%	53.6%
Nanjing	163	177	18.4%	21.8%
Ho Chi Minh	124	101	14.0%	12.4%
Others	105	99	11.8%	12.2%
Total staff	886	812	100.0%	100.0%

Turnover rate	2019	2018
Senior Management	0%	0%
Management	2.8%	0%
Staff	33.8%	28.1%
The Group overall employee turnover rate	30.9%	25.5%

Note: Independent Non-executive Directors are not included in the statistics of the above tables.

During the year ended 31 December 2019, the overall employee turnover rate of the Group had increased by approximately 5.4 percentage point as compared to the previous year, which is mainly due to the increase in turnover rate in staff level contributed by our Tai'an and Vietnam production plants and it is considered as within a normal range since the turnover rate level of factory workers is generally higher. In order to ensure that daily operations are not affected by staff turnover, the human resources department is responsible to identify the reasons for employee turnover and maintain the turnover rate to avoid the operational disruption.

During the year ended 31 December 2019, the Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B2. Health and Safety

General disclosure

Occupational health and safety

The Group has always placed emphasis on occupational safety and has set up an occupational health and safety management system to provide a safe working environment for employees.

During the year ended 31 December 2019, the Group has complied with relevant rules and regulations in the PRC, including the Work Safety Law of the PRC and Occupational Disease Prevention and Control Law of the PRC, as well as the statutory requirements in Vietnam, including the Labour Code of 2012, which regulates the labour contract, internal labour regulations, occupational health and safety expatriates and statutory insurance.

We have implemented adequate safety measures across all premises in accordance with local fire and GB/T28001-2011 occupational health and safety management system, providing employees with a safe and secure workplace.

We have implemented a system of occupational health and safety measures. All of our production plants and employees are required to adhere to the principles of safety measures outlined by the safety protection department.

We have established a team of 17 employees as at 31 December 2019, to oversee safety management, among whom 14 have obtained the necessary qualification certificates issued by the relevant authorities, and are responsible for the management of production safety. We have also set up a system to ensure safe production. Under the system, we have defined clearly the responsibilities of each of the members in the team and the rules and procedures required for ensuring safety in our operations.

In order to maintain our production safety, the safety protection department conducts production safety checks regularly and investigation of any accidents during the production processes and keeps proper record of the production safety checks. In addition, regular safety production trainings are provided to our employees to keep them abreast of the Group's safety production guidelines and the measures taken during emergency.

In addition, we have implemented safety infrastructure and safety measures to ensure safety of our employees and properties, to prevent or minimise community exposure to hazardous materials, and to avoid exacerbation of natural hazards. We have also obtained a renewed certificate of compliance with FAMI-QS Code on 22 April 2019 for our feed safety management system with good manufacturing practice in our Tai'an production plant, which is valid until 1 October 2020 and a renewed certificate of GB/T22000-2006/ISO22000:2005 on 22 April 2019 for our feed safety management system in the production of feed additives and mixed feed additives in our Tai'an production plant, which is valid until 29 June 2021.

During the year ended 31 December 2019, the Group was not aware of any non-compliance with the health and safety laws and regulations.

During the year ended 31 December 2019, we did not have any major accidents, claims or complaints relating to work safety which had materially and adversely affected our operations (2018: nil). The number of lost days due to work injury was 71 days (2018: 234 days).

In respect of the safety protection matters, our expense incurred for the year ended 31 December 2019 was approximately RMB2.9 million (2018: RMB5.1 million). The decrease in amount was due to the fact that we had upgraded our machineries, which are depreciated over their useful period, to ensure a safe working environment. We will continue to ensure our compliance with the applicable safety protection matters in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3. Development and Training

General disclosure

Staff development and training

Employees are regarded as the Group's largest and most valuable assets and an essential part of maintaining a competitive advantage. The Group provides its staff with training courses for upgrading skills and development as needed.

The Group encourages and supports employees to participate in personal and professional training to fulfill the needs of emerging technologies and new equipment. The Group also encourages the culture of sharing of knowledge and experience.

The Group has made good use of its internal resources to organise various forms of training for employees in its offices in the PRC and Vietnam, including management, customer service and financial knowledge.

Our human resources department is responsible for organising and implementing the training plan for the employees of our Group. The training plan shall be designed with reference to the development of the Group and the employees' seniority. Specifically, we provide trainings including workplace safety, technology updates, management skills, corporate strategy planning, industry analysis, corporate loyalty, communication skills and technical skills. Trainings are conducted internally and externally and provided to new employees and current employees.

Overall training	2019	2018
Topics	1. Workplace safety 2. Production technology 3. Management effectiveness and enhancement 4. Financial updates	1. Workplace safety 2. Production technology 3. Management effectiveness and enhancement 4. Financial updates
Total hours of topics	2,720	2,340

Average training hours by employee category	2019	2018
Gender		
Male	14	13
Female	15	10
Position		
Senior Management	32	32
Management	36	9
Staff	13	12

B4. Labour Standards

General disclosure

Prevention of child labor or forced labor

The Group strictly prohibits employing any child labor or forced labor in its operations. The Group has established a well-defined recruitment process which examines the background of candidates and a formal reporting procedure for handling any exception. During the recruitment process, the age of the applicant is verified against the identity documents of the applicant. In addition, the Group conducts regular reviews and inspections to prevent any child labor or forced labor in operation.

The Group encourages employees to get off work on time to ensure adequate resting time. According to the “Employee handbook”, employees could work overtime only on a voluntary basis. If any forced labor behavior is discovered, the management would intervene to cease the infringement actions, and make reasonable compensation to the relevant employee. During the year ended 31 December 2019, the Group was not aware of any child labor or forced labor cases.

In the meantime, the Group also avoids engaging suppliers which are already known to be employing child labor or forced labor in their operations. The Group has complied with the Abolition of Forced Labor Convention with respect to Employment of Workers, the Labor Law of the PRC on the Employment of Adolescents under the Age of 16 and their Legal Rights and Interests and Provisions on Prohibition of Child Labor in the PRC.

During the year ended 31 December 2019, the Group complied with all the laws and regulations relating to the prevention of child labor or forced labor. The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B5. Supply Chain Management

General disclosure

Environmental and social risk management of supply chain

The Group has established and implemented relevant policies for supplier management. In order to strengthen the selection of suppliers, the Group welcomes qualified, competent and high-quality suppliers to join. The Group’s procurement department has specially formulated this policy in order to standardise the supplier management and improve the operational standard.

The Group’s procurement department is also responsible for organising the supplier evaluation work in two ways which include the ongoing project evaluation and the annual assessment. The evaluation results will serve as the basis of supplier management. Suppliers need to react quickly to the assessment result, taking effective measures to improve the services provided within prescribed period. The Group has the rights to terminate the cooperation with service providers who violate the rules or do not meet the targets.

To ensure the quality of raw materials and chemicals produced by third party, each of our potential suppliers has to pass our assessment before they are included in our list of approved suppliers. We select the suppliers based on various factors including but not limited to their market reputation, scale, quality, pricing of products and their business relationship with us. Our procurement department conducts background checks of the potential suppliers before any sales transactions and evaluates the existing suppliers annually based on various factors such as quality and stability of the supply of raw materials, payment terms, delivery timeliness, quality of customer services. The assessment results will be used as a benchmark for the continuation or termination of cooperation in the future.

During the year ended 31 December 2019, we obtained raw materials and chemicals produced by third party from suppliers based in various regions and countries including but not limited to the PRC, Japan, South Korea, Taiwan, Europe and the United States for our production and sales of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates. The type of suppliers primarily include chemicals manufacturers. As at the date of this report, we have established the business relationship with some of our five largest suppliers for more than five years. We are generally granted credit terms of up to approximately 90 days. We closely monitor the quality of the raw materials and chemicals produced by third parties provided by our suppliers. All raw materials and chemicals produced by third parties provided by our suppliers have to comply with the incoming quality control requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group maintains close liaison with its suppliers to monitor their performance to ensure that it is consistent with their service commitment.

Suppliers geographical distribution	Number of suppliers		% of cost of purchase	
	2019	2018	2019	2018
The PRC	556	531	83.2%	85.3%
Vietnam	41	46	3.5%	1.8%
Asia (other than the PRC and Vietnam)	24	32	10.2%	9.7%
Others	5	13	3.1%	3.2%

B6. Product Responsibility

General disclosure

Product Responsibility

We believe that strict quality control is essential for us to maintain sustainable growth in the chemicals industry. Accordingly, we have implemented a quality control system for each stage in the production processes of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical intermediates. It is our policy to purchase raw materials from qualified and reputable suppliers. We have the quality control guidelines and conduct quality checks from supply of raw materials and chemicals produced by third parties to manufacturing and finished products testing to ensure that the quality of our products meet our customers' expectations.

As at 31 December 2019, our quality control department, which consists of 31 employees in the PRC (with an average of approximately 10 years of experience in implementing quality control measures, 17 of whom have obtained certification in quality control of chemicals and/or chemical safety and 4 of whom are currently practicing as pharmacists in the PRC) and 6 employees in Vietnam, is responsible for overseeing and maintaining the quality control of our production processes and the chemicals produced by third party manufacturers including pharmaceutical products. We also provide regular internal and external training programmes to our quality control personnel in order to standardise our quality control procedures.

Our quality management and control systems generally cover the following:

- Incoming quality control: When raw materials and chemicals produced by third party manufacturers are delivered to our warehouses, our quality control personnel will perform sample testing to ensure that the quality of the raw materials and chemicals produced by third party manufacturers meet our chemical quality requirements and specifications before they are accepted. If the sampled raw materials do not meet our standards, we either return any sub-standard raw materials and chemicals produced by third parties to our suppliers or (in the case of minor deviation from our standards), use such raw materials under the strict control and supervision of the quality control department.

- In-process quality control: We conduct quality inspections throughout the key production stages to ensure that our work-in-progress comply with the required standard. Unqualified work in progress are not allowed to enter the next phase of production and will be reported to our production department so that any reworking procedures can be carried out to rectify any quality issues.

- Outgoing quality control: We have established testing guidelines setting out the testing procedures and requirements for each batch of our finished products to ensure their specifications comply with the national and industry standards before despatching to our customers. These testing guidelines are reviewed and updated from time to time. Our testing procedures include checking the physical appearance and that other chemical indicators are satisfied.

To facilitate close monitoring of our operations and ensure consistency of quality, we hold monthly quality review meetings where, under the overall supervision of our quality control department, various departments are required to prepare detailed reports on relevant issues and concerns discovered during their regular quality checks.

We value our customers' feedback on product quality as we believe this will help us further improve our products and sustain long-term business relationship with our customers. We have designated a sales representative for each customer to make sure that we obtain and handle our customers' feedback in a timely manner. All customer complaints are handled by our quality control department in accordance with the internal customer complaints handling procedures, which involve discussion with the relevant departments and follow up with the customer directly in order to resolve any quality issues in a timely and effective manner.

During the year ended 31 December 2019, we did not receive any complaints or dissatisfaction with the products and services according to the customers' feedback on product quality.

We have received several certifications in connection with our quality management system, food safety management system, feed safety management system, environmental management system and laboratory accreditation in relation to our production.

Product warranty

We generally give customers warranty terms in relation to product quality of up to seven days from the date of delivery of our products. We have adopted an internal policy to handle the claims or complaints from customers for defects of our products. Upon receipt of any claims or complaints from our customers within this period, we make internal investigations to understand the matter in this regard. If we find that we are responsible for the defects, we will negotiate with our customers by offering sales compensation such as exchanging the products, providing discount or price reduction in subsequent sales. The amount and nature of compensation are determined on a case-by-case basis. In the event that our products are damaged during the delivery and transportation process, we claim against our insurers for any losses incurred due to such product damages according to our arrangements with these insurers. For the years ended 31 December 2019, we claimed approximately RMB30,000 (2018: RMB10,000) against our insurers for product damages resulted from the delivery and transportation process which contributed to our sales compensation for defective products.

During the year ended 31 December 2019, we did not experience any material disputes with our customers, any material claim relating to our product liability or return of goods in relation to the quality of our products that had a material and adverse impact on our business, and did not record any large-scale product recall due to quality defects.

Protecting Intellectual Property Rights

The Group's day-to-day operations involve the use of the intellectual property owned by customers, suppliers or the Group itself. Therefore, the protection of intellectual property rights is an extremely important task for the Group. When the Group engages with its customers or suppliers, it will include the protection of intellectual property in the contractual terms. The Group's legal department also reviews all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights. The Group also requires technical professionals to sign strict confidentiality agreements. Confidential information of our customers is only accessible to employees who are responsible for the corresponding project.

During the year ended 31 December 2019, the Group complied with relevant laws and regulations governing the confidentiality of data and intellectual property, including but not limited to Patent Law of the PRC, Trademark Law of the PRC and Copyright Law of the PRC.

During the year ended 31 December 2019, the Group was not aware of any non-compliance with relevant laws and regulations relating to product responsibility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Safeguarding Customer Privacy

The Group respects the privacy of each stakeholder. When negotiating with suppliers, customers or partners, the Group signs a confidentiality agreement to safeguard the interests of all parties. In addition, the Group also requires all employees to collect only the necessary personal or commercial information from customers and carefully process the information to ensure that the information is not leaked.

During the year ended 31 December 2019, the Group was not aware of any leaking of customer privacy.

B7. Anti-Corruption

General disclosure

Prevention of corruption and fraud

Preventive measures, enforcement and monitoring

The Group has implemented the relevant policies and stipulated in the "Employee Handbook", strengthening its internal control mechanism, anti-corruption and anti-bribery work so as to achieve the business philosophy of "abiding by the law, integrity and quality service".

Reporting mechanism

The mechanism includes the establishment of an inspection team and the establishment of a channel for evaluation and reporting. It is strictly forbidden to use the business opportunities or powers to obtain personal interests or benefits. If there is a conflict of interest, it needs to be reported to the management of the Group on a timely basis. The Group also encourages employees and all persons with whom the Group does business, including customers and suppliers, to report the suspected wrongdoing within the Group voluntarily.

The Group has complied with major relevant laws and regulations including the Corruption Ordinance of the PRC.

During the year ended 31 December 2019, the Group was not aware of any non-compliance with relevant laws and regulations relating to anti-corruption.

B8. Community Investment

General disclosure

Contributions to society

As a responsible company, the Group actively strives to become a positive force in the community and maintains close communication and interaction with the community to contribute to community development.

The Group enhances the quality of life of community through arts, culture and entertainment using on demand systems and activities. Following the development of culture, the community can gain a deeper understanding of history and culture and cultivate higher appreciation of the present and future cultural activities and to a greater level of enjoyment.

The Group will also actively encourage employees to contribute their time and skills to community volunteer works to benefit local communities by giving them opportunities to learn more about social and environmental issues and enhance the corporate value of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a moral and responsible enterprise, the Group will consider from time to time to make donations to charities when the Group records after-tax profits and has sufficient funds.

During the year ended 31 December 2019, the Group has funded a total of approximately RMB881,000 to The Community Chest and charity parties in the PRC (2018: RMB12,000 million to charity parties in the PRC).

Furthermore, amid the COVID-19 pandemic, the Company has surveyed immediately, formulated plans and has elaborated and implemented various prevention and control measures to actively heeded to the government's calls. We have worked remotely from home and online with the functions of online contract signature, order inquiry and logistics tracking provided by the application of GHW e-commerce system (金海威電商APP系統) upon full cooperation with government authorities to prevent and control the pandemic. The start of the new work model has ensured the procurement, sales and supply of important materials and raw materials even under the circumstances of a more severe situation and no personnel on the job. The Company will strictly comply with the nation’s various instructions, actively implement internal prevention and control, and fully cooperate with corresponding authorities to minimise the impact to our business operations.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF GHW INTERNATIONAL
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of GHW International (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 72 to 134, which comprise the consolidated statement of financial position of the Group as at 31 December 2019, 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") 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 Hong Kong Institute of Certified Public Accountants (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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
As at 31 December 2019, the Group has trade receivables amounting to RMB161,426,000, net of allowance amounting to RMB7,808,000. Management judgement is required to assess and determine the recoverability of trade receivables and adequacy of allowance made using the expected credit losses ("ECL") model under IFRS 9 Financial Instruments. These judgements include estimating and evaluating expected future receipts from customers based on the Group's historical default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The key assumptions and estimation on allowance for ECL and the Group's credit risk management are disclosed in notes 5 and 39 to the consolidated financial statements, and further information related to trade receivables is provided in note 20 to the consolidated financial statements.	In evaluating management's impairment assessment for trade receivables, our procedures included: • Obtaining an understanding of the relevant key controls over the assessment and monitoring of credit risks, and determination of allowance for expected credit losses; • Evaluating the model used by management in determining the allowance for expected credit losses; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables aging analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2019, including their identification of credit impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and • Obtaining confirmations and evidences of subsequent settlements on a sample basis for trade receivable balances.

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 matter communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter 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 the independent auditor's report is Wong Shun Yu.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	6	1,966,055	2,152,946
Cost of sales		(1,720,352)	(1,843,384)
Gross profit		245,703	309,562
Other income	7	5,948	3,731
Other gains and losses	7	6,867	(1,350)
Impairment losses, net of reversal		59	(773)
Selling and distribution expenses		(89,687)	(83,502)
Administrative expenses		(74,624)	(77,690)
Research and development expenses		(34,745)	(40,437)
Listing expenses		(10,994)	(7,458)
Finance costs	8	(16,681)	(10,831)
Profit before taxation	9	31,846	91,252
Taxation	10	(2,739)	(16,995)
Profit for the year		29,107	74,257
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		(3,167)	653
Fair value loss on bill receivables at fair value through other comprehensive income ("FVTOCI")		(444)	—
Income tax expenses relating to an item that may be reclassified to profit or loss		72	—
Other comprehensive (expense) income for the year, net of income tax		(3,539)	653
Total comprehensive income for the year		25,568	74,910
Profit for the year attributable to:			
owners of the Company		29,107	74,257
Total comprehensive income attributable to:			
owners of the Company		25,568	74,910
Earnings per share - Basic (RMB per share)	13	0.039	0.099

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	14	212,592	172,005
Prepaid lease payments	15	—	17,676
Right-of-use assets	16	58,216	—
Rental deposits		626	112
Deposit for land use right		—	15,790
Finance lease receivable	17	452	—
Deferred tax assets	18	475	744
		272,361	206,327
Current assets			
Inventories	19	166,797	164,601
Prepaid lease payments	15	—	410
Finance lease receivable	17	477	—
Trade receivables	20	161,426	150,572
Bill receivables at FVTOCI	21	54,802	13,602
Other receivables and prepayments	23	54,347	57,018
Amounts due from immediate holding companies	24	70	69
Tax recoverable		427	48
Restricted bank deposits	25	108,816	25,850
Bank balances and cash	25	35,716	30,261
		582,878	442,431
Current liabilities			
Trade and bill payables	26	154,912	153,308
Other payables and accrued charges	27	53,024	48,616
Lease liabilities	28	5,712	—
Contract liabilities	29	13,370	11,902
Amounts due to shareholders/former shareholders	24	5	83,604
Tax payables		2,395	6,183
Borrowings	30	311,987	194,225
Dividend payables		1,800	56,459
		543,205	554,297
Net current assets (liabilities)		39,673	(111,866)
Total assets less current liabilities		312,034	94,461

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Non-current liabilities			
Borrowings	30	189,510	4,132
Lease liabilities	28	6,193	—
Deferred tax liabilities	18	1,769	1,335
		197,472	5,467
Net assets		114,562	88,994
Capital and reserves			
Share capital	31	9	69
Reserves		114,553	88,925
Total equity		114,562	88,994

The consolidated financial statements on pages 72 to 134 were approved and authorised for issue by the board of directors on 31 March 2020 and are signed on its behalf by:

YIN YANBIN
DIRECTOR

CHEN ZHAOHUI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company							
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Safety reserve RMB'000 (Note b)	Translation reserve RMB'000	Statutory reserve RMB'000 (Note c)	FVTOCI reserve RMB'000	Accumulated losses/ retained earnings RMB'000	Total RMB'000
At 1 January 2018	73,037	56,124	–	(5,613)	26,741	–	(63,681)	86,608
Profit for the year	–	–	–	–	–	–	74,257	74,257
Other comprehensive income for the year	–	–	–	653	–	–	–	653
Total comprehensive income for the year	–	–	–	653	–	–	74,257	74,910
Deemed distribution to shareholders (note 24)	(73,037)	–	–	–	–	–	–	(73,037)
Deemed contribution from a shareholder	–	444	–	–	–	–	–	444
Issue of shares	69	–	–	–	–	–	–	69
Appropriation	–	–	–	–	8,303	–	(8,303)	–
At 31 December 2018	69	56,568	–	(4,960)	35,044	–	2,273	88,994
Profit for the year	–	–	–	–	–	–	29,107	29,107
Other comprehensive expense for the year	–	–	–	(3,167)	–	(372)	–	(3,539)
Total comprehensive (expense) income for the year	–	–	–	(3,167)	–	(372)	29,107	25,568
Effect of re-denomination of shares (note 31)	(60)	60	–	–	–	–	–	–
Transfer to safety reserve	–	–	1,459	–	–	–	(1,459)	–
Appropriation	–	–	–	–	2,267	–	(2,267)	–
At 31 December 2019	9	56,628	1,459	(8,127)	37,311	(372)	27,654	114,562

Note a: Capital reserve represented (i) the capital injection from owners of Nanjing Goldenhighway International Supply Chain Management Company Limited (formerly known as Nanjing Goldenhighway International Supply Chain Management Corporation) ("GHW International SCM") in excess of nominal value of share capital amounting to RMB26,071,000 prior to reorganisation; (ii) contribution from shareholders net of capital gain tax related to reorganisation amounting to RMB28,336,000; (iii) acquisition of additional interest in Taian Havay Group Co., Ltd. related to reorganisation amounting to RMB1,717,000; (iv) deemed contribution from a shareholder in relation to a waiver of amount due to a shareholder amounting to RMB444,000; and (v) effect of re-denominating the par value of the Company's shares amounting to RMB60,000.

Note b: Pursuant to the relevant regulation in the People's Republic of China (the "PRC"), two PRC subsidiaries of the Group are required to provide for safety reserve based on annual sales amount. The reserve can be used for improvements of safety storage and production process, and eligible to be transferred to retained earnings upon utilisation.

Note c: As stipulated by the relevant laws in the PRC, the PRC subsidiaries are required to maintain a statutory reserve fund. The minimum transfer to statutory reserve is 10% of profit after tax of the PRC subsidiaries according to the PRC subsidiaries' statutory financial statements. No appropriation is required if the balance of the statutory reserve has reached 50% of the registered capital of the PRC subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	31,846	91,252
Adjustments for:		
Finance costs	16,681	10,831
Bank interest income	(403)	(481)
Interest income on finance lease receivable	(28)	—
Depreciation of property, plant and equipment	20,717	16,109
Depreciation of right-of-use assets	5,482	—
Amortisation of prepaid lease payments	—	410
Write-down of inventories	1,116	197
Impairment losses for trade receivables, net of reversal	(59)	749
Impairment for other receivables	—	24
Losses on disposals of plant and equipment	33	1,390
Gain on sublease of right-of-use assets	(275)	—
Net foreign exchange (gains) losses	(3,667)	300
Operating profit before movements in working capital	71,443	120,781
Increase in inventories	(3,312)	(12,327)
Increase in trade receivables	(10,795)	(17,926)
Increase in bill receivables at FVTOCI	(41,644)	(12,723)
Decrease (increase) in other receivables and prepayments	5,773	(12,452)
Decrease in rental deposits	—	69
Increase in trade and bill payables	1,604	3,756
Increase (decrease) in other payables and accrued charges	1,790	(14,834)
Increase (decrease) in contract liabilities	1,468	(11,490)
Cash generated from operation	26,327	42,854
Income tax paid	(6,131)	(23,053)
Net cash from operating activities	20,196	19,801

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Interest received	403	481
Proceeds from disposals of property, plant and equipment	346	1,832
Purchases of property, plant and equipment	(57,366)	(23,270)
Upfront payments for right-for-use assets	(29,827)	—
Deposit for acquisition of land use right	—	(15,790)
Withdrawal of deposit for acquisition of land use right	15,790	—
Payments for rental deposits	(514)	—
Proceeds from release of restricted bank deposits	25,850	43,246
Placements of restricted bank deposits	(108,816)	(25,850)
Proceeds from finance lease receivable	245	—
Net cash used in investing activities	(153,889)	(19,351)
FINANCING ACTIVITIES		
Dividend paid	(54,659)	(8,961)
Issue costs paid	(3,591)	(2,494)
Interest paid	(16,966)	(10,581)
Repayments of lease liabilities	(4,436)	—
Repayments of bank loans	(290,301)	(211,732)
New bank loans raised	592,860	230,667
Advance from shareholders/former shareholders	—	1,510
Repayments to shareholders/a former shareholder	(83,666)	(2,457)
Net cash from (used in) financing activities	139,241	(4,048)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,548	(3,598)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	30,261	34,620
Effects of foreign exchange rate change	(93)	(761)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	35,716	30,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL

GHW International (the "Company") is a public limited company incorporated in Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands as an exempted company with limited liability on 25 April 2018 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 21 January 2020. The controlling shareholders of the Company are Mr. Yin Yanbin ("Mr. Yin") and Ms. Wu Hailing, the spouse of Mr. Yin. The addresses of the Company's registered office and the principle place of business are Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and 6th Building, Xincheng Science Park, No. 69 Aoti Street, Nanjing, PRC, respectively.

The Company is an investment holding company. The principal activities of its subsidiaries are the manufacture and sale of chemical and pharmaceutical products. Details of the subsidiaries are disclosed in note 41.

2. REORGANISATION, BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Historically, the operation of the Company and its subsidiaries (collectively referred to as the "Group") was carried out by GHW International SCM and its subsidiaries. In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the entities now comprising the Group underwent a group reorganisation (the "Reorganisation"), as more fully explained in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus dated 31 December 2019. The Reorganisation was completed on 31 July 2018 by interspersing the Company, GOHI Int'L Limited, GHW Holdings Limited between the shareholders and GHW International SCM and the Company became the holding company of the companies now comprising the Group. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity and the consolidated financial statements have been prepared as if the Company had always been the holding company of the Group as at 1 January 2018 and throughout the year ended 31 December 2018.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2018 include the results, changes in equity and cash flows of the companies now comprising the Group, as if the group structure has been in existence throughout the year ended 31 December 2018, or since the respective dates of incorporation/ establishment, where there is a shorter period.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. APPLICATION OF NEW AND AMENDMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has consistently adopted the IFRSs issued by the International Accounting Standards Board ("IASB"), which are effective for the accounting period beginning on 1 January 2019, except that the Group adopted IFRS 16 *Leases* on 1 January 2019 and IAS 17 *Leases* ("IAS 17") for the year ended 31 December 2018.

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17, and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by relevant group entities range from 4.05% to 6.09%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. APPLICATION OF NEW AND AMENDMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 16 Leases (Continued)

As a lessee (Continued)

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	9,092
Extension options reasonably certain to be exercised	775
Inclusion of non-lease components in leases as single lease components	205
Contracts committed but not yet commenced at 1 January 2019	(553)
Effect from discounting at the incremental borrowing rates as at 1 January 2019	(690)
Lease liabilities as at 1 January 2019	8,829
Analysed as	
Current	4,687
Non-current	4,142

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

		Right-of-use assets RMB'000
Lease liabilities relating to operating leases recognised upon application of IFRS 16		8,829
Adjusted by prepayments for rental	(a)	151
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		8,980
Reclassified from prepaid lease payments	(b)	18,086
		27,066

(a) Upfront payments for leases of properties were recognised as prepayments for rental as at 31 December 2018. Upon application of IFRS 16, prepayments for rental amounted to RMB151,000 were reclassified to right-of-use assets.

(b) Upfront payments for leasehold lands in the PRC for own use properties were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB410,000 and RMB17,676,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. APPLICATION OF NEW AND AMENDMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 16 Leases (Continued)

As a lessor (Continued)

	Notes	Carrying Amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
Non-current assets				
Prepaid lease payments	(b)	17,676	(17,676)	—
Right-of-use assets	(a), (b)	—	27,066	27,066
Current assets				
Prepaid lease payments	(b)	410	(410)	—
Other receivables and prepayments	(a)	57,018	(151)	56,867
Current liability				
Lease liabilities		—	4,687	4,687
Non-current liability				
Lease liabilities		—	4,142	4,142

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

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

2 *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020*

3 *Effective for annual periods beginning on or after a date to be determined*

4 *Effective for annual periods beginning on or after 1 January 2020*

5 *Effective for annual periods beginning on or after 1 January 2022*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. APPLICATION OF NEW AND AMENDMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective (Continued)

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRSs*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to IFRSs and the revised Conceptual Framework mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRSs

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based payment*, leasing transactions that are within the scope of IFRS 16 (since 1 January 2019) and IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principle accounting policies adopted are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group's revenue primarily arises from manufacture and sale of chemical related products and medicine, which is recognised at a point in time when the control of goods has transferred, i.e. when the goods have been delivered to customers.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease (upon application IFRS 16 in accordance with transitions in accordance with note 3)

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.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application IFRS 16 in accordance with transitions in accordance with note 3)

Allocation of consideration to components of a contract

For a contract that contains a lease component and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application IFRS 16 in accordance with transitions in accordance with note 3) (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) when the lease term has changed by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease liabilities are presented as separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application IFRS 16 in accordance with transitions in accordance with note 3) (Continued)

Lease modifications (Continued)

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as a lease

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

The Group as a lessor (upon application IFRS 16 in accordance with transitions in accordance with note 3)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

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

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the defined contribution retirement benefit plan, Hong Kong's Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on property, plant and equipment and right-of-use assets (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customer which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial assets or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial assets or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Amortised cost and effective interest method

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income ("OCI") and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, bill receivables at FVTOCI, rental deposits starting from 1 January 2019, other receivables, amounts due from immediate holding companies, restricted bank deposits and bank balances) and other items (representing finance lease receivable), which is subject to impairment test under IFRS 9. The amount of ECL is updated at the reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, twelve-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within twelve months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to debtors, general economic conditions and an assessment of both the current condition at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for credit impaired debtors and collectively using a provision matrix with appropriate grouping for the remaining debtors' balances.

For all other instruments, the Group measures the loss allowance equal to twelve-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a debt to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g.when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over five years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (prior to 1 January 2019).

Where ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables are assessed as a separate group. Loans to related parties and other receivables are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For receivables that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of receivables classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity
Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost
Financial liabilities including borrowings, trade and bill payables, other payables, dividend payables and amounts due to shareholders/former shareholders are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in note 4, management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are 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 within the next financial year.

Write-down of inventories to net realisable value

The Group performs regular review of the carrying amounts of inventories to determine whether any write-down of inventories to net realisable values is required after considering, inter alia, ageing analysis of the Group's inventories and subsequent sales made and materials used. Write-down of inventories will be made when the estimated net realisable values of inventories decline below their carrying amounts. Net realisable value of inventories is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. These estimates are made with reference to the current market conditions and the historical experience of manufacturing and selling products of a similar nature. Actual future selling prices and sale ability/usage of goods/materials might be different from estimations and profit or loss could be affected by differences in the estimations. As at 31 December 2019, the carrying amount of inventories for the Group is RMB166,797,000 (2018: RMB164,601,000), net of allowance for inventories of RMB1,129,000 (2018: RMB151,000).

Estimated impairment of trade receivables

The Group recognises lifetime ECL for trade receivables, using a provision matrix based on the Group's historical default rates, as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with credit impaired are assessed for ECL individually. As at 31 December 2019, the carrying amount of trade receivables is RMB161,426,000 (2018: RMB150,572,000), net of allowance for credit losses of RMB7,808,000 (2018: RMB8,002,000). The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

6. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from manufacture and sale of chemical related products and medicine for both years.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Types of goods		
Polyurethane *raw materials*	654,573	881,563
Animal nutrition	603,530	702,657
Medicine	438,141	270,650
Fine chemicals	256,982	286,801
Others	12,829	11,275
	1,966,055	2,152,946
Timing of revenue recognition		
A point in time	1,966,055	2,152,946

The Group's revenue are under fixed price arrangement with corporate customers. Under the Group's standard contract terms, the credit term is generally 60 days and customers have a right to exchange or return the goods only under the condition of quality issue tested by a third-party testing institution. In the opinion of the directors of the Company, based on historical experiences, the impact of revenue reversal would be immaterial.

All performance obligations for sales of goods are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to unsatisfied performance obligations as at the end of the reporting period is not disclosed.

For the purpose of resources allocation and performance assessment, the key management of the Group, being the chief operating decision maker, reviews the consolidated results as a whole when making decisions about allocating resources and assessing performance of the Group and hence, the Group has only one reportable segment and no further analysis of this single segment is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

6. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers Year ended 31 December		Non-current assets (excluding deferred tax assets, finance lease receivable and financial instruments) As at 31 December	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
PRC	1,530,269	1,677,947	221,488	162,191
Europe	151,228	191,242	1,067	931
Vietnam	133,163	127,842	36,901	31,347
Other countries in Asia (excluding PRC and Vietnam)	78,521	88,098	10,624	10,785
Others	72,874	67,817	728	329
	1,966,055	2,152,946	270,808	205,583

Information about major customers

There was no revenue from individual customer contributing over 10% of total revenue of the Group during both years.

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Other income		
Government grants (note)	5,181	2,399
Rental income	287	815
Bank interest income	403	481
Interest income on finance lease receivable	28	—
Others	49	36
	5,948	3,731
Other gains and losses		
Net exchange gains (losses)	6,351	(509)
Losses on disposals of plant and equipment	(33)	(1,390)
Gain on sublease of right-of-use assets	275	—
Others	274	549
	6,867	(1,350)

Note: The relevant government authority granted one-off and unconditional subsidies to the Group amounting to RMB5,181,000 (2018: RMB2,399,000) in relation to the Group's contribution in local district, which were recognised in the profit or loss in the year which they received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

8. FINANCE COSTS

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	14,159	10,598
Interest on discounted bills	2,201	233
Interest on lease liabilities	321	—
	16,681	10,831

9. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Profit before taxation has been arrived at after charging (crediting) to profit and loss:		
Auditors' remuneration	2,318	306
Cost of inventories recognised as expenses	1,719,236	1,843,187
Depreciation of property, plant and equipment	20,717	16,109
Depreciation of right-of-use assets	5,482	—
Amortisation of prepaid lease payments	—	410
Total depreciation and amortisation	26,199	16,519
Capitalised as cost of inventories manufactured	(16,496)	(12,344)
	9,703	4,175
Directors' remuneration (note 11)	4,560	4,282
Other staff costs		
Salaries and other benefits	57,158	53,588
Retirement benefits	9,249	11,903
Total staff costs	70,967	69,773
Minimum lease payments under operating leases in respect of land and buildings	—	4,659
Gross rental income	(287)	(815)
Less: direct operating expenses	184	589
	(103)	(226)
Write-down of inventories	1,116	197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. TAXATION

The Company was incorporated in the Cayman Island and is exempted from Cayman Islands income tax.

No provision for income tax has been made for subsidiaries in India, Hong Kong and Canada, as there was no estimated assessable profit during both years.

Pursuant to the Enterprise Income Tax Laws and Implementation Regulations of the Law of the PRC (the "PRC EIT Law"), the applicable tax rate of PRC subsidiaries is 25% for both years.

In 2016, Taian Havay Group Co., Ltd. was recognised as a High and New Technology Enterprise and enjoyed a tax rate of 15% since 2016, and further extended for three years in 2019, according to the PRC EIT Law.

Taian Yueda Logistics Co., Ltd. and Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd. were qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 50% reduction of their taxation income during the years ended 31 December 2018 and 2019 (i.e. 10%). Nanjing Tianyu Transportation Co., Ltd., Wuhan Jinruntai Chemicals Co., Ltd., Taian Yueda Logistics Co., Ltd., Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd., Xuzhou Havay Feeds Co., Ltd. and Tianjin Nuowei Trading Co., Ltd. were qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 75% reduction of their taxation income during the year ended 31 December 2019 (i.e. 5%).

Under the tax law in Vietnam, GHW (Vietnam) Co., Ltd. has been granted to enjoy 2-years exemption of income tax followed by 4-years 50% reduction of income tax from the first profit making year. No assessable profit was generated during both years.

Pursuant to the relevant tax law of Ukraine, Ukraine profits tax has been provided at the rate of 18% on the estimated assessable profits arising in Ukraine during both years.

Pursuant to the relevant tax law of Russia, Russia profits tax has been provided at the rate of 20% on the estimated assessable profits arising in Russia during both years.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Current tax	2,931	15,268
(Over) under provision in prior years	(967)	269
	1,964	15,537
Deferred tax (note 18)	775	1,458
Total	2,739	16,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. TAXATION (Continued)

The taxation for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Profit before taxation	31,846	91,252
Tax at PRC enterprise income tax rate of 25%	7,962	22,813
Tax effect of expenses not deductible for tax purpose	669	3,592
Tax effect of income not taxable for tax purpose	(2,308)	(2,905)
Tax effect of tax losses not recognised	2,986	5,043
Utilisation of tax losses previously not recognised	(204)	(518)
Additional deduction of research and development expenses	(2,950)	(2,058)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(574)	(58)
Income tax at concessionary rates	(1,496)	(7,171)
Tax effect of deductible temporary differences not recognised	229	853
Utilisation of deductible temporary differences previously not recognised	(608)	(2,865)
(Over) under provision in prior years	(967)	269
Taxation for the year	2,739	16,995

As at 31 December 2019, the carrying amount of unrecognised deductible temporary differences was RMB9,473,000 (2018: RMB10,989,000), while tax losses not recognised was RMB49,180,000 (2018: RMB38,052,000). In the opinion of the directors of the Company, no deferred tax assets are recognised due to the unpredictability of future profit streams. Such unrecognised losses for the Group entities will expire in various years up to and including 2020, 2021, 2022, 2023 and 2024.

11. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive officer's emoluments

Name	Position	Date of appointment as the directors of the Company
Mr. Yin	Executive director and chief executive officer	25 April 2018
Mr. Zhuang Zhaohui	Executive director	25 April 2018
Mr. Chen Zhaohui	Executive director	25 April 2018
Mr. Zhou Chunnian	Executive director	25 April 2018
Mr. Chen Hua	Executive director	25 April 2018
Mr. Sun Guibin	Executive director	25 April 2018
Ms. Zheng Qin	Independent non-executive director	16 December 2019
Mr. Sun Hongbin	Independent non-executive director	16 December 2019
Mr. Wang Guangji	Independent non-executive director	16 December 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

11. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and chief executive officer's emoluments (Continued)

Details of the emoluments paid or payable (including emoluments for the services as directors of the group entities prior to becoming directors of the Company) to the directors of the Company for their service rendered are as follows:

	Directors' fee RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note)	Retirement benefit scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2019					
Executive directors					
Mr. Yin	—	960	420	89	1,469
Mr. Zhuang Zhaohui	—	588	78	83	749
Mr. Chen Zhaohui	—	504	78	83	665
Mr. Zhou Chunnian	—	432	78	83	593
Mr. Chen Hua	—	402	78	83	563
Mr. Sun Guibin	—	360	78	83	521
Sub-total	—	3,246	810	504	4,560
Independent non-executive directors					
Ms. Zheng Qin	—	—	—	—	—
Mr. Sun Hongbin	—	—	—	—	—
Mr. Wang Guangji	—	—	—	—	—
Sub-total	—	—	—	—	—
Total					4,560
For the year ended 31 December 2018					
Executive directors					
Mr. Yin	—	960	420	51	1,431
Mr. Zhuang Zhaohui	—	588	78	35	701
Mr. Chen Zhaohui	—	504	78	35	617
Mr. Zhou Chunnian	—	432	78	35	545
Mr. Chen Hua	—	402	78	35	515
Mr. Sun Guibin	—	360	78	35	473
	—	3,246	810	226	4,282

Note: The discretionary bonuses are determined with reference to the Group's and individual performance.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

During both years, no remuneration was paid by the Group to the directors and the chief executive officer of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any remuneration during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

11. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS

(Continued)

(b) Employees' emoluments

Four (2018: five) of the highest paid individuals' were directors of the Company and their emoluments were disclosed in (a) above. The emoluments of the remaining highest paid individual during the year were as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	898	—
Discretionary bonus (note)	75	—
Contributions to retirement benefit schemes	16	—
	989	—

Note: Discretionary bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

The number of the highest paid employee who is not directors nor the chief executive officer of the Company has his emoluments within the following band:

	2019	2018
HK$1,000,001 to HK$1,500,000	1	—

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

No dividend was paid or declared by the Company since its incorporation, the directors of the Company did not propose dividend for the year subsequent to the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Earnings:		
Earnings for the purposes of calculating basic earnings per share attributable to the owners of the Company	29,107	74,257

	Year ended 31 December	
	2019 '000	2018 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	750,000	750,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and Capitalisation Issue (as defined in note 43) had been effective on 1 January 2018.

No diluted earnings per share is presented as there was no potential dilutive shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Buildings, properties and structures RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2018	110,676	64,127	3,013	5,793	12,740	18,073	214,422
Additions	4,648	917	299	857	1,234	20,990	28,945
Transfers	10,463	14,933	315	—	—	(25,711)	—
Disposals	(9,263)	(23)	(240)	(829)	(176)	—	(10,531)
Exchange adjustment	603	914	5	29	75	186	1,812
At 31 December 2018	117,127	80,868	3,392	5,850	13,873	13,538	234,648
Additions	1,958	1,166	1,939	218	4,576	50,813	60,670
Transfers	52,647	3,853	—	146	118	(56,764)	—
Disposals	(663)	—	(372)	(72)	(2,007)	—	(3,114)
Exchange adjustment	643	643	(51)	(12)	56	41	1,320
At 31 December 2019	171,712	86,530	4,908	6,130	16,616	7,628	293,524
DEPRECIATION AND IMPAIRMENT							
At 1 January 2018	(31,019)	(9,825)	(2,330)	(3,604)	(6,832)	—	(53,610)
Provided for the year	(9,724)	(3,257)	(707)	(724)	(1,697)	—	(16,109)
Eliminated on disposals	6,247	18	238	639	167	—	7,309
Exchange adjustment	(101)	(99)	(3)	(8)	(22)	—	(233)
At 31 December 2018	(34,597)	(13,163)	(2,802)	(3,697)	(8,384)	—	(62,643)
Provided for the year	(13,586)	(3,913)	(789)	(662)	(1,767)	—	(20,717)
Eliminated on disposals	390	—	372	66	1,907	—	2,735
Exchange adjustment	(177)	(136)	24	9	(27)	—	(307)
At 31 December 2019	(47,970)	(17,212)	(3,195)	(4,284)	(8,271)	—	(80,932)
CARRYING AMOUNTS							
At 31 December 2019	123,742	69,318	1,713	1,846	8,345	7,628	212,592
At 31 December 2018	82,530	67,705	590	2,153	5,489	13,538	172,005

As at 31 December 2019, the factory buildings located in Xuzhou, the PRC, with total net carrying amounts of approximately RMB802,000 (2018: RMB883,000) respectively, have no certificate of ownership.

As at 31 December 2019, the Group's buildings, properties and structures with net book values of RMB8,106,000, RMB985,000 and RMB10,360,000 (2018: RMB8,547,000, RMB865,000 and RMB10,742,000) were located in Vietnam, Ukraine and Hong Kong, respectively. The remaining buildings, properties and structures were located in the PRC.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated after taking into account the estimated residual value on a straight-line basis at the following rates per annum:

Plant and machinery	9.5%
Buildings, properties and structures	Shorter of lease terms or useful lives
Leasehold improvements	Shorter of lease terms or useful lives
Office equipment	10.0% to 20.0%
Motor vehicles	16.7% to 23.8%

As at 31 December 2019, the Group has pledged buildings, plant and machinery and motor vehicles with a net book value of approximately RMB8,106,000 (2018: RMB9,051,000) to secure general banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

	As at 31 December 2018 RMB'000
Analysed for reporting purpose as:	
Non-current assets	17,676
Current assets	410
	18,086

The prepaid lease payments represented land use rights in PRC and Vietnam held under medium-term leases of 45 to 50 years.

As at 31 December 2018, the Group has pledged leasehold land with a net book value of approximately RMB18,086,000 to secure general banking facilities granted to the Group.

Upon application of IFRS 16 on 1 January 2019, the prepaid lease payments were reclassified to right-of-use assets.

16. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	18,086	8,980	27,066
As at 31 December 2019			
Carrying amount	47,504	10,712	58,216
For the year ended 31 December 2019			
Depreciation charge	(465)	(5,017)	(5,482)
Total cash outflow for leases			34,521
Additions to right-of-use assets			38,427

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

16. RIGHT-OF-USE ASSETS (Continued)

As at 31 December 2019, the Group has pledged leasehold land with a net book value of approximately RMB17,727,000 to secure general banking facilities granted to the Group.

For both years, the Group leases various offices, warehouses and parking spaces for its operations. Lease contracts are entered into for fixed term of 1 month to 70 months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, lease liabilities of RMB11,905,000 are recognised with related right-of-use assets of RMB10,712,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

17. FINANCE LEASE RECEIVABLE

In July 2019, the Group, as a lessor, subleased an office premise to an independent third party. The lease period of the sub-lease is 30 months, which is the same as the remaining contract lease term of the head lease, and the sub-lease is thus classified as a finance lease ("Sub-lease Arrangement"). The interest rate inherent in the lease is fixed at the contract date over the lease terms.

For the year ended 31 December 2019, the finance lease receivable arising from Sub-lease Arrangement are set out below.

	Minimum lease payments 31/12/2019 RMB'000	Present value of minimum lease payments 31/12/2019 RMB'000
Finance lease receivable comprise:		
Within one year	490	477
In the second year	490	452
	980	929
Gross investment in the lease	980	N/A
Less: unearned finance income	(51)	N/A
Present value of minimum lease payment receivables	929	929
Analysis as:		
Current	490	477
Non-current	490	452
	980	929

Interest rates implicit in the above finance lease is 5.5%

The Group is not exposed to foreign currency risk as a result of the lease arrangement, as the lease was denominated in the respective functional currency of group entity.

Details of impairment assessment are set out in note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

18. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Deferred tax assets	475	744
Deferred tax liabilities	(1,769)	(1,335)
	(1,294)	(591)

The followings are the major deferred tax liability and assets recognised and movement thereon during the current and prior year:

	Accelerated tax depreciation RMB'000	ECL provision RMB'000	Fair value adjustment on bill receivables at FVTOCI RMB'000	Total RMB'000
At 1 January 2018	—	867	—	867
Charge to profit or loss	(1,335)	(123)	—	(1,458)
At 31 December 2018	(1,335)	744	—	(591)
(Charge) credit to profit or loss	(810)	35	—	(775)
Credit to other comprehensive income	—	—	72	72
At 31 December 2019	(2,145)	779	72	(1,294)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to RMB74 millions (2018: RMB41 millions) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

19. INVENTORIES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials and consumables	46,522	45,631
Work in progress	18,245	9,387
Finished goods	102,030	109,583
	166,797	164,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

20. TRADE RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables	169,234	158,574
Less: allowance for credit losses	(7,808)	(8,002)
	161,426	150,572

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB140,119,000.

Generally, credit terms of 60 days is granted to customers. An aging analysis of the trade receivables presented based on the invoice dates, which approximate the dates of revenue recognition, at the end of the reporting period:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
0-30 days	102,043	88,080
31-60 days	38,661	35,738
61-90 days	7,941	14,633
Over 90 days	12,781	12,121
	161,426	150,572

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have good credit quality.

The Group does not hold any collateral over these balances.

The Group applied internal credit rating for its customers. The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables
Group A	The counter party has a low risk of default based on historical repayment records and has a good reputation	Lifetime ECL – not credit-impaired
Group B	The counter parties, which are hospitals, have higher creditability but sometimes repays in full after due dates	Lifetime ECL – not credit-impaired
Group C	The counter party usually settles after due day with a higher risk of default	Lifetime ECL – not credit-impaired
Group D	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Group E	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

20. TRADE RECEIVABLES (Continued)

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit impaired). As at 31 December 2019, the debtors with credit-impaired amounted to RMB890,000 (2018: RMB799,000) are assessed individually, and the rest of debtors amounted to RMB168,344,000 (2018: RMB157,775,000) are assessed under a provision matrix based on internal credit rating.

Gross carrying amount

Internal credit rating	Average loss rate	Trade receivables As at 31 December 2019 RMB'000	2018 RMB'000
Group A	1.90%	125,157	107,956
Group B	1.90%	12,432	15,533
Group C	13.98%	30,755	34,286
		168,344	157,775

The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

As at 31 December 2019, included in the Group's trade receivables balance within Group A, B and C are debtors with aggregate carrying amount of RMB21,611,000 (2018: RMB28,034,000) which are past due as at the reporting date. Out of the past due balances, RMB2,736,000 (2018: RMB4,271,000) has been past due 90 days or more and is not considered as in default. In the opinion of the directors of the Company, the trade receivables within Group A, B and C at the end of the reporting period which have been past due over 90 days are not considered as in default by considering the historical and expected subsequent repayment from the trade debtors.

Movement in the allowance for impairment of trade receivables:

	Lifetime ECL (not credit - impaired) RMB'000	Lifetime ECL (credit - impaired) RMB'000
As at 1 January 2018	6,724	1,399
Changes due to financial instruments recognised as at 1 January 2018:		
– Transfer to credit-impaired	(48)	48
– Impairment losses recognised	—	780
– Impairment losses reversed (note)	(6,648)	(558)
– Amounts written off as uncollectible	—	(870)
New financial assets originated	7,175	—
As at 31 December 2018	7,203	799
Changes due to financial instruments recognised as at 1 January 2019:		
– Transfer to credit-impaired	(25)	25
– Impairment losses recognised	—	201
– Impairment losses reversed (note)	(7,076)	—
– Amounts written off as uncollectible	—	(135)
New financial assets originated	6,816	—
As at 31 December 2019	6,918	890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

20. TRADE RECEIVABLES (Continued)

Gross carrying amount (Continued)

Note: The reversals of loss allowance are mainly due to settlement in full by trade debtors with a gross carrying amount of RMB157,418,000 (2018: RMB140,375,000).

The carrying amounts of the Group's trade receivables that were denominated in foreign currencies are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
United States Dollar ("U.S.$")	24,794	31,971

21. BILL RECEIVABLES AT FVTOCI

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Bill receivables at FVTOCI	54,802	13,602

The following is an aging analysis of bill receivables at FVTOCI presented based on bill issuance date at the end of the reporting period:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
0-180 days	54,802	13,602

22. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2019 and 2018, the Group has discounted bank issued bill receivables to banks or transferred bank issued bill receivables to its suppliers to settle its payables through endorsing the bank issued bills to its suppliers. The Group has limited exposure in respect of the settlement obligation of these bank issued bill receivables under the relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the risk of non-settlement by the issuing banks with good credit quality on maturity is insignificant. In the opinion of the directors of the Company, the Group transferred and did not retain substantially all the risks and rewards of ownership of this part of bank issued bills. Accordingly, the Group has derecognised this part of bank issued bill receivables and the payables to the suppliers in their entirety.

As at 31 December 2019, the Group's maximum exposure to loss, which is the same as the amount payables by the Group to banks or the suppliers in respect of the discounted bank issued bills and endorsed bank issued bills, should the issuing banks fail to settle the bills on maturity, amounted to RMB51,327,000 and RMB104,845,000 (2018: RMB9,502,000 and RMB130,873,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

22. TRANSFERS OF FINANCIAL ASSETS (Continued)

For the part of transferred bank issued bills that were not derecognised as the Group has not transferred the significant risks and rewards relating to these receivables, the Group continued to recognise the remaining part of bank issued bills and has recognised the cash received on the transfer as a collateralised borrowing. These financial assets are carried at amortised cost and recognised as bill receivables at FVTOCI in the consolidated financial statements. As at 31 December 2019, the carrying amounts of these transferred bank issued bills were RMB51,327,000 (2018: RMB9,502,000), which were the same as the carrying amounts of associated liabilities.

All the bank issued bill receivables discounted to banks or endorsed to suppliers of the Group have a maturity date of less than one year from the end of the reporting period.

23. OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Prepayments for materials	19,166	17,565
Deferred and prepaid expenses	11,646	6,013
PRC value added tax recoverable	9,791	22,475
Deferred issue costs	9,053	5,800
Deposits paid to suppliers	2,124	1,726
Advance to staff	1,141	670
Other taxes prepaid	—	1,474
Other receivables	1,426	1,295
	54,347	57,018

24. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANIES/AMOUNTS DUE TO SHAREHOLDERS/FORMER SHAREHOLDERS

Amounts due from immediate holding companies

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Commonwealth B Limited	36	35
Commonwealth GHW Limited	17	17
Commonwealth Happy Elephant Limited	16	16
Commonwealth Feibear Limited	1	1
	70	69

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANIES/AMOUNTS DUE TO SHAREHOLDERS/FORMER SHAREHOLDERS (Continued)

Amounts due to shareholders/former shareholders

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Name		
Mr. Yin	5	5
Nanjing Hanhe Enterprises Co., Ltd. (note 1)	—	69,974
Mr. Xu Zhengwei	—	5,900
Mr. Chen Yankang (note 2)	—	3,064
Nanjing Hanhe Investment Co., Ltd. (note 1)	—	2,000
Mr. Tang Jianpin (note 2)	—	1,606
Commonwealth Armyfeibear (HK) Limited (note 1)	—	1,055
	5	83,604

Notes:

1. The balances represented the consideration payables in respect of transferring the entire equity interest in GHW International SCM to GHW Holdings Limited by Nanjing Hanhe Enterprises Co., Ltd. (being a company owned as to 89.53% by Nanjing Hanhe Investment Co., Ltd., which is controlled by Mr. Yin), Nanjing Hanhe Investment Co., Ltd. and Commonwealth Armyfeibear (HK) Limited (being a company with common shareholders as Commonwealth Feibear Limited) on 31 July 2018, which is a part of group reorganisation. During the current year, the consideration was fully settled.

2. Former shareholders of the Group

The amounts are non-trade nature, unsecured, interest-free and repayable on demand.

25. BANK BALANCES AND CASH AND RESTRICTED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.05% to 0.30% (2018: 0.05% to 0.30%) per annum.

Restricted bank deposits represent the deposits pledged to banks for securing short-term banking facilities granted to the Group and are therefore classified as current assets. The restricted bank deposits carry interest at market rates which range from 0.30% to 2.8% (2018: 0.30% to 1.55%) per annum.

The Group's bank balances and cash that were denominated in foreign currencies other than the functional currencies of the relevant group entities are set out below:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
U.S.$	3,887	5,647
Other	1,319	1,737
	5,206	7,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. TRADE AND BILL PAYABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables	128,069	134,308
Bill payables	26,843	19,000
Total trade and bill payables	154,912	153,308

The following is an aging analysis of bill payables at the end of the reporting period:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
0-180 days	26,843	19,000

The credit period on purchase of inventories is generally 90 days. The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
0-30 days	81,242	86,042
31-60 days	28,608	20,786
61-90 days	5,431	9,249
Over 90 days	12,788	18,231
	128,069	134,308

The carrying amounts of the Group's trade payables that were denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
U.S.$	20,682	—
European dollar ("EUR")	425	213
	21,107	213

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FOR THE YEAR ENDED 31 DECEMBER 2019

27. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Payables for property, plant and equipment	16,228	12,924
Payables for freight charge and storage fee	10,063	8,474
Accrued salaries and welfare expenses	9,120	9,811
Listing expenses and issue costs payable	7,834	9,459
PRC value-added tax payable and other tax payables	4,528	3,961
Accrued repair and maintenance expense	134	444
Advance from staff	132	95
Others	4,985	3,448
	53,024	48,616

28. LEASE LIABILITIES

	As at 31 December 2019 RMB'000
Lease liabilities payable:	
Within one year	5,712
Within a period of more than one year, but not more than two years	2,450
Within a period of more than two years, but not more than five years	3,743
Present value of lease liabilities	11,905
Less: Amounts due for settlement within 12 months shown under current liabilities	5,712
Amounts due for settlement after 12 months shown under non-current liabilities	6,193

29. CONTRACT LIABILITIES

The amounts represent advance payments from customers for goods. The amounts of RMB11,902,000 (2018: RMB23,392,000) that represented the entire contract liabilities balances at the beginning of the respective years, were recognised as revenue during the year.

The Group generally offer 100% credit term for customers with long-term relationship and request deposit of 40% to 100% on acceptance of orders for customers accessed to be of lower creditability.

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30. BORROWINGS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Secured bank loans (note)	203,756	68,526
Unsecured bank loans	297,741	129,831
	501,497	198,357
The carrying amounts of the above borrowings are repayable based on scheduled repayment terms:		
Within one year	311,987	194,225
More than one year but not exceeding two years	2,800	4,132
More than two years but not exceeding five years	186,710	—
	501,497	198,357
Less: Amounts shown under non-current liabilities	189,510	4,132
Amounts shown under current liabilities	311,987	194,225

Note: The Group's bank borrowings were guaranteed by the related parties and shareholders of the Group and secured by assets of the Group as detailed in notes 14, 15, 16, 25, 36 and 37.

Analysis as followings:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Fixed-rate borrowings	454,938	129,870
Variable-rate borrowings	46,559	68,487
	501,497	198,357

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

	As at 31 December	
	2019	2018
Effective interest rate:		
Variable-rate borrowings	4.7%-7.8%	4.7%-7.8%
Fixed-rate borrowings	3.0%-8.6%	5.6%-8.6%

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30. BORROWINGS (Continued)

Borrowings that are denominated in foreign currencies other than the functional currencies of the relevant group entities are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
RMB	70,710	—
U.S.$	11,273	13,216

31. SHARE CAPITAL

As at 1 January 2018, the share capital of the Group represented the combined share capital of GHW International SCM and Havay Industry Inc.

As at 31 December 2018 and 2019, the share capital represents the share capital of the Company.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 April 2018. At the time of its incorporation, the initial authorised share capital of the Company was U.S.$50,000 divided into 50,000,000 Shares of U.S.$0.001 each.

On 25 April 2018, the Company has allotted and issued one share, credited as fully paid at a par value of U.S.$0.001 each, to Commonwealth B Limited and further allotted and issued 4,999,999, 2,375,220, 2,480,780 and 144,000 shares of a par value of U.S.$0.001 each to Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth GHW Limited and Commonwealth Feibear Limited, respectively.

On 3 January 2019, for the purpose of redenomination of shares of the Company from U.S.$ to Hong Kong Dollar ("HK$"), (a) the Company increased the authorised share capital to HK$100,000,000 divided into 10,000,000,000 shares of a par value of HK$0.01 each; (b) allotted and issued 500,000 nil-paid shares of a par value of HK$0.01 each, 237,522 nil-paid shares of a par value of HK$0.01 each, 248,078 nil-paid shares of a par value of HK$0.01 and 14,400 nil-paid shares of a par value of HK$0.01 each to Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth GHW Limited and Commonwealth Feibear Limited, respectively, for an aggregate price of U.S.$10,000 (the "Subscription Price"); (c) repurchased all the old shares for an aggregate price of U.S.$10,000, which was offset against the Subscription Price; (d) cancelled all the old shares following the repurchase and diminished the authorised but unissued share capital of the Company by the cancellation of all the 50,000,000 unissued shares of a par value of U.S.$0.001 each in the share capital of the Company, and the authorised share capital of the Company became HK$100,000,000 divided into 10,000,000,000 shares of a par value of HK$0.01 each.

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FOR THE YEAR ENDED 31 DECEMBER 2019

31. SHARE CAPITAL (Continued)

Details of the movement in the Company's shares are disclosed as follows:

	Number of Shares	Amount U.S.$
Ordinary shares of U.S.$0.001 each		
Authorised		
At 25 April 2018 (date of incorporation) and 31 December 2018	50,000,000	50,000
Cancelled during the year	(50,000,000)	(50,000)
At 3 January 2019 and 31 December 2019	—	—
Issued and fully paid		
At date of incorporation and 31 December 2018	10,000,000	10,000
Cancelled during the year	(10,000,000)	(10,000)
At 3 January 2019 and 31 December 2019	—	—

	Number of Shares	Amount HK$
Ordinary shares of HK$0.01 each		
Authorised		
At 3 January 2019 and 31 December 2019	10,000,000,000	100,000,000
Issued and fully paid		
At 3 January 2019 and 31 December 2019	1,000,000	10,000

	RMB'000
Presented as at date of incorporation and 31 December 2018	69
Presented as at 31 December 2019	9

32. SHARE OPTION SCHEME

On 16 December 2019, the share option scheme of the Company (the "Share Option Scheme") is conditionally approved and adopted by a resolution in writing passed by the shareholders of the Company.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Group will grant options to any full-time or part-time employees, non-executive directors, suppliers, customers shareholders, consultants and advisors of the Company, any of its subsidiaries and any entity which, in the opinion of the board of directors of the Company, have contributed to the Group to subscribe for shares in the Company.

The subscription price per share under the Share Option Scheme shall be determined at the discretion of the directors of the Company, provided that it shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Share.

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

32. SHARE OPTION SCHEME (Continued)

An offer for the grant of options must be accepted within 21 days inclusive of the day on which such offer was made. The nominal consideration HK$1 will be paid by the grantee of an option to the Company on acceptance of the offer.

Unless otherwise determined by the directors of the Company and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The total number of Shares which may be allotted and 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 Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the day on which dealings in the shares first commence on the Stock Exchange (i.e. not exceeding 100,000,000 Shares).

No share options have been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

33. RETIREMENT BENEFITS SCHEMES

The employees of the PRC subsidiaries are members of state-managed retirement benefits schemes operated by the local PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The Group also participates in the Mandatory Provident Fund Scheme for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the scheme, which contribution is matched by the employee.

For the year ended 31 December 2019, the total expense recognised in profit or loss of RMB9,753,000 (2018: RMB12,129,000) represents contributions paid to these schemes by the Group at rates specified in the rules of the schemes. As at end of the reporting period, there was no outstanding contributions payable to the schemes.

There is no statutory requirement to operate any retirement benefit schemes in other jurisdictions.

34. OPERATING LEASE COMMITMENTS

The Group as lessee

	2018 RMB'000
Minimum lease payments paid under operating leases during the year	4,659

As at 31 December 2018, The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December 2018 RMB'000
Within one year	3,929
In the second to fifth years inclusive	4,864
Over five years	299
	9,092

Leases are negotiated with fixed monthly rentals for term of two to seven years.

Certain lease agreements entered into between the landlord and the Group include a renewal option at the discretion of the Group for a further two years from the end of the existing lease without specifying rental to be charged. Accordingly, this is not included in the above commitment.

The Group as lessor

Minimum lease payments receivable on leases are as follows:

	As at 31 December 2019 RMB'000
Within one year	34

The Group had contracted with lessees for the following future minimum lease payments:

	As at 31 December 2018 RMB'000
Within one year	499
More than one year but not exceeding two years	980
	1,479

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35. CAPITAL COMMITMENTS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	4,163	4,760

36. RELATED PARTY TRANSACTIONS

During the year, other than those disclosed in elsewhere in the consolidated financial statements, the Group had the following significant transactions with related companies:

Provision of guarantees and security by related parties of the Group

Certain related parties of the Group have provided guarantees and assets security to banks to support facilities granted by those banks to the Group as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Assets security		
Organic Chemicals Co. (defined as below) (note)	10,000	22,000
Provision of guarantee		
Mr. Yin	10,000	10,000
Ms. Wu Hailing	10,000	—
	20,000	10,000

Note: Nanjing Organic Chemicals Co., Ltd. ("Organic Chemicals Co.") is under common control of certain shareholders of the Group and directors of the Company.

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Short-term benefits	5,474	4,906
Post-employment benefits	626	280
	6,100	5,186

37. PLEDGE OF ASSETS

At the end of the reporting period, assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Restricted bank deposits	108,816	25,850
Right-of-use assets	17,727	—
Property, plant and equipment	8,106	9,051
Prepaid lease payments	—	18,086
	134,649	52,987

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt balance, which includes the borrowings, lease liabilities and amounts due to shareholders/former shareholders, net of cash and cash equivalents, and equity balances. Equity balance consists of equity attributable to owners of the Company, comprising share capital, capital reserve, safety reserve, translation reserve, statutory reserve and accumulated losses/retained earnings.

The management of the Group reviews the capital structure on an on-going annual basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

39. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Financial assets		
At amortised cost	312,274	210,443
At FVTOCI	54,802	13,602
	367,076	224,045
Financial liabilities		
At amortised cost	697,456	526,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include restricted bank deposits, bank balances and cash, trade receivables, bill receivables at FVTOCI, other receivables, amounts due from immediate holding companies, rental deposits starting from 1 January 2019, finance lease receivable, trade and bill payables, other payables, dividend payables, borrowings and amounts due to shareholders/former shareholders. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risk or the manner in which it manages and measure the risks.

(i) Currency risk

Certain bank balances and cash, trade receivables, trade and bill payables, and borrowings are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are mainly as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Assets		
U.S.$	28,681	37,618
RMB	1,200	1,718
Liabilities		
U.S.$	31,955	13,216
RMB	70,710	—

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on a 5% increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in the Group's post-tax profit, where functional currency of respective group entities had strengthened 5% against the relevant foreign currency. For a 5% (2018: 5%) weakening of functional currency of respective group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit for the year.

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Increase (decrease) in the Group's profit after taxation		
– if functional currency of the relevant group entities denominated in RMB strengthens against U.S.$	192	(975)
– if functional currency of the relevant group entities denominated in U.S.$ strengthen against RMB	3,476	(72)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

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39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk for certain financial assets, financial liabilities, including fixed-rate bank deposits, fixed-rate bank borrowings, finance lease receivable and lease liabilities.

The Group is also exposed to cash flow interest rate risk for its interest bearing financial liabilities and certain of its interest bearing financial assets, including bank balances, restricted bank deposits and variable-rate borrowings, which carried interests at variable interest rates.

The Group currently does not have an interest rate hedging policy. The management monitors interest rate risk exposure and will consider hedging significant interest rate exposure should the need arises. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable bank borrowings. The analysis is prepared assuming the variable-rate bank borrowings at the end of the reporting period were outstanding for the whole year and 50 basis points increase or decrease are used. The restricted bank deposits and bank balance are excluded from the sensitivity analysis as the management of the Group considers that the interest rate fluctuation is not significant.

If interest rates have been 50 basis points (2018: 50 basis points) higher/lower for variable-rate bank borrowings, the Group's profit for the year ended 31 December 2019 would decrease/increase by RMB220,000 (2018: RMB284,000).

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group performs impairment assessment under ECL model on trade receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has applied the simplified approach to measure the loss allowance on trade receivables at lifetime ECL as disclosed in note 20.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The credit risk on bill receivables at FVTOCI are limited as those bills are issued by banks with high credit ratings assigned by international credit-rating agencies and no history of default in the past, thus no loss allowance provision for bills was recognised for the year ended 31 December 2019.

For other receivables, rental deposits and finance lease receivable with gross carrying amounts of RMB4,691,000, RMB626,000 and RMB929,000 (2018: RMB3,691,000, RMB112,000 and nil), respectively, as at 31 December 2019, management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of these receivables based on historical settlement records, past experience and also available and supportive forward-looking information. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balances of other receivable, rental deposits and finance lease receivable.

In the opinion of the directors of the Company, the Group has no significant credit risk for the receivable from the related parties because they can closely monitor the repayment of the related parties, and the Group assesses that the ECL on these balances is insignificant.

The Group have concentration of credit risk on bank balances and restricted bank deposits which are deposited with several banks. However, the credit risk on bank balances and restricted bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies, and ECL is insignificant.

The Group has no significant concentration of credit risk on trade and bill receivables and other receivables, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows.

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39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019						
Non-derivative financial liabilities and lease liabilities:						
Trade and bill payables	—	154,912	—	—	154,912	154,912
Borrowings						
– fixed rate	4.20	291,196	7,902	180,781	479,879	454,938
– variable rate	5.05	37,174	1,797	9,840	48,811	46,559
Other payables and accrued charges	—	39,242	—	—	39,242	39,242
Amount due to a shareholder	—	5	—	—	5	5
Dividend payables	—	1,800	—	—	1,800	1,800
Lease liabilities	5.50	5,853	2,645	4,530	13,028	11,905
		530,182	12,344	195,151	737,677	709,361
At 31 December 2018						
Non-derivative financial liabilities:						
Trade and bill payables	—	153,308	—	—	153,308	153,308
Borrowings						
– fixed rate	5.90	133,155	—	—	133,155	129,870
– variable rate	5.52	67,240	4,202	—	71,442	68,487
Other payables and accrued charges	—	34,400	—	—	34,400	34,400
Amounts due to shareholders/former shareholders	—	83,604	—	—	83,604	83,604
Dividend payables	—	56,459	—	—	56,459	56,459
		528,166	4,202	—	532,368	526,128

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39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Fair value measurement of financial instruments

The following provides information about how the Group determines fair value of various financial assets and financial liabilities.

(i) **Fair value measurement of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

Some of the Group's financial assets are measured at fair values at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at 31 December			
unobservable	2019	2018	Fair value hierarchy	Valuation techniques and key inputs
Bill receivables at FVTOCI	RM54,802,000	RMB13,602,000	Level 2	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the bill receivables

(ii) **Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis**

The management of the Group considers that the carrying amounts of the financial assets and financial liabilities of the Group recorded at amortised cost in the consolidated financial statements at the end of each reporting period approximate their fair values.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

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40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amounts due to shareholders/ former shareholders RMB'000	Borrowings RMB'000	Dividend payables RMB'000	Accrued issue costs RMB'000	Accrued interest RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2018	11,966	178,866	65,420	2,223	325	—	258,800
Financing cash flows	(947)	18,935	(8,961)	(2,494)	(10,581)	—	(4,048)
Interest expenses	—	—	—	—	10,831	—	10,831
Foreign exchange translation	(8)	556	—	—	—	—	548
Accrued issue costs	—	—	—	2,475	—	—	2,475
Deemed contribution from a shareholder	(444)	—	—	—	—	—	(444)
Deemed distribution to shareholders (note 24)	73,037	—	—	—	—	—	73,037
At 31 December 2018	83,604	198,357	56,459	2,204	575	—	341,199
Adoption of IFRS 16	—	—	—	—	—	8,829	8,829
At 1 January 2019 (restated)	83,604	198,357	56,459	2,204	575	8,829	350,028
Financing cash flows	(83,666)	302,559	(54,659)	(3,591)	(16,708)	(4,694)	139,241
Interest expenses	—	—	—	—	16,360	321	16,681
Foreign exchange translation	67	581	—	—	—	—	648
Accrued issue costs	—	—	—	3,253	—	—	3,253
Inception of leases	—	—	—	—	—	8,600	8,600
Termination of lease contracts	—	—	—	—	—	(1,151)	(1,151)
At 31 December 2019	5	501,497	1,800	1,866	227	11,905	517,300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are as follow:

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital/ paid in capital	Equity interest attributable to the Company as at 31 December 2019	2018	Principal activities
Directly held						
GOHI Int'L Limited	British Virgin Islands ("BVI") 28 May 2018	BVI	U.S.$10,000	100%	100%	Investment holding
Indirectly held						
GHW Holdings Limited	Hong Kong 25 June 2018	Hong Kong	HK$1	100%	100%	Investment holding
GHW International SCM	The PRC 18 November 2008	The PRC	RMB73,031,800	100%	100%	Trading of chemical products
南京金海威化工實業有限公司 Nanjing Goldenhighway Chemicals Co., Ltd.	The PRC 25 October 1995	The PRC	RMB40,000,000	100%	100%	Trading of chemical products
南京金海威國際投資有限公司 Nanjing Goldenhighway Investment Co., Ltd.	The PRC 13 January 2005	The PRC	RMB10,000,000	100%	100%	Investment holding
南京瀚商微搜電子商務有限公司 Nanjing Hanshang Weisou Electronic Commerce Co., Ltd.	The PRC 14 January 2016	The PRC	RMB1,000,000	100%	100%	Provision of E-commerce service
天津諾威貿易有限公司 Tianjin Nuowei Trading Co., Ltd.	The PRC 17 May 2013	The PRC	RMB1,000,000	100%	100%	Trading of chemical products
張家港保稅區海金沙國際貿易有限公司 Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd.	The PRC 30 March 2012	The PRC	RMB2,000,000	100%	100%	Trading of chemical products
武漢金潤泰化工有限公司 Wuhan Jinruntai Chemicals Co., Ltd.	The PRC 16 February 2011	The PRC	RMB1,000,000	100%	100%	Trading of chemical products
南京天宇運輸有限公司 Nanjing Tianyu Transportation Co., Ltd.	The PRC 7 May 1999	The PRC	RMB3,000,000	100%	100%	Trading of chemical products
廣州金海威貿易有限公司 Guangzhou Goldenhighway Trading Co., Ltd.	The PRC 22 January 2010	The PRC	RMB2,000,000	100%	100%	Trading of chemical products
泰安岳達物流有限公司 Taian Yueda Logistics Co., Ltd.	The PRC 24 October 2016	The PRC	RMB10,000,000	100%	100%	Provision of delivery service
金海威(越南)責任有限公司 GHW (Vietnam) Co., Ltd.	Vietnam 23 July 2013	Vietnam	U.S.$10,000,000	100%	100%	Manufacture and sale of chemical products
金海威(越南)化工責任有限公司 GHW (Vietnam) Chemicals Limited Company	Vietnam 7 May 2014	Vietnam	U.S.$300,000	100%	100%	Trading of chemical products

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FOR THE YEAR ENDED 31 DECEMBER 2019

41. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital/ paid in capital	Equity interest attributable to the Company as at 31 December 2019	2018	Principal activities
Golden Highway International (Hong Kong) Limited	Hong Kong 6 August 2008	Hong Kong	HK$19,987,364	100%	100%	Trading of chemical products
GHW USA LLC	United States of America ("USA") 17 March 2015	USA	U.S.$20,000	100%	100%	Trading of chemical products
GHW Eurochemicals s.r.o.	Slovakia 1 January 2014	Slovakia	EUR5,000	100%	100%	Trading of chemical products
Goldray International Enterprises Co., Ltd.	Seychelles 7 January 2016	Seychelles	U.S.$1	100%	100%	Trading of chemical products
Nuovomondo Chemicals Private Limited	India 25 March 2011	India	Indian Rupee 100,000	100%	100%	Trading of chemical products
Star International Saint-Petersburg LLC	Russia 26 March 2007	Russia	Russian Ruble 2,281,591	100%	100%	Trading of chemical products
Ukrhimformacia Limited Company	Ukraine 27 April 2006	Ukraine	Ukrainian Hryvnia 7,329,110	100%	100%	Trading of chemical products
Havay Industry Inc.	Canada 23 September 2015	Canada	Canadian Dollar 1,000	100%	100%	Trading of chemical products
Golden Highway Mexico, S. De R.L. De C.V.	Mexico 10 September 2018	Mexico	U.S.$49,470	100%	100%	Trading of chemical products
江蘇省信諾醫藥對外貿易有限公司 Jiangsu Xinnuo Pharmaceutical Trading Co., Ltd.	The PRC 5 January 1998	The PRC	RMB10,000,000	100%	100%	Trading of chemical products
泰安漢威集團有限公司 Taian Havay Group Co., Ltd.	The PRC 9 November 2010	The PRC	RMB50,000,000	100%	100%	Manufacture and sale of chemical products
徐州漢威飼料有限公司 Xuzhou Havay Feeds Co., Ltd.	The PRC 23 July 2003	The PRC	RMB10,000,000	100%	100%	Manufacture and sale of chemical products

All subsidiaries now comprising the Group are limited liability companies. None of the subsidiaries had issued any debt securities at the end of the year.

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company at the end of the reporting period includes:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Non-current asset		
Investment in a subsidiary	69	69
Current assets		
Deferred issue costs	9,053	5,800
Amounts due from shareholders	70	69
Bank balances and cash	12	—
	9,135	5,869
Current liabilities		
Other payables	7,839	9,459
Amounts due to subsidiaries	19,846	3,868
	27,685	13,327
Net current liabilities	(18,550)	(7,458)
Net liabilities	(18,481)	(7,389)
Capital and reserves		
Share capital	9	69
Reserves	(18,490)	(7,458)
	(18,481)	(7,389)

Movement in reserves

	Capital reserve RMB'000	Accumulated losses RMB'000
At 25 April 2018 (date of incorporation)	—	—
Loss and total comprehensive expense for the year	—	(7,458)
At 31 December 2018	—	(7,458)
Loss and total comprehensive expense for the year	—	(11,092)
Effect of re-denomination of shares	60	—
At 31 December 2019	60	(18,550)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

43. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the consolidated financial statements, subsequent events of the Group are detailed as below.

a. Capitalisation Issue, Initial Public Offering and Listing

Pursuant to written resolutions of the Company's shareholders passed on 16 December 2019, on 21 January 2020, the Company allotted and issued a total of 749,000,000 shares, by way of capitalisation of the sum of approximately HK$7,490,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company.

On 21 January 2020, the Company issued 250,000,000 new Shares at HK$0.51 each by initial public offering and then the Company's shares have been listed on the Stock Exchange.

b. Impact of Coronavirus Outbreak

As of the date of the consolidated financial statements being authorised to issue, business operations of the Group in China have been impacted by the outbreak of the novel coronavirus ("COVID-19") since the latter half of January 2020, which has endangered the health of many people residing in China. As a result, certain short-term measures have been undertaken by the PRC Government and various provincial or municipal governments including but not limited to implementation of travel restrictions, extension of national holidays and suspension of construction projects, which has significantly disrupted the travel and the local economy. In addition, the Group's production facilities were required for a temporary closure by the PRC Government in the early of February 2020 and they were approved to resume operation on 10 February. Despite the financial impact was not significant up to the date of this report, in the long run, COVID-19 may bring a negative impact to the global or China economy which may have an adverse effect on our business.

In the opinion of the directors of the Company, the overall impact of the COVID-19 to the Group is uncertain up to the date of this report. Management will remain alert to the development of the epidemic and take appropriate measures as appropriate.