DONGWU CEMENT INTERNATIONAL LIMITED
東吳水泥國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 695

ANNUAL REPORT 2019

CONTENTS

DEFINITIONS

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

Articles of Association	the Memorandum and Articles of Association of the Company
associated corporation(s)	has the same meaning ascribed to it under the SFO
associate(s)	has the same meaning ascribed to it under the Listing Rules
Audit Committee	the audit committee of the Company
Board	the board of Directors
Company	Dongwu Cement International Limited
controlling shareholder(s)	has the same meaning ascribed to it under the Listing Rules
Corporate Governance Code	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
Director(s)	the director(s) of the Company
Goldview	Goldview Development Limited, a controlling shareholder and an associated corporation of the Company, wholly-owned by Mr. Tseung Hok Ming, a non-executive Director
Group	the Company and its subsidiaries
HK$	Hong Kong dollars, the lawful currency of Hong Kong
independent third Party(ies)	has the same meaning ascribed to it under the Listing Rules
Latest Practicable Date	25 March 2020
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers contained in appendix 10 to the Listing Rules
"PRC" or "China"	The People's Republic of China, which only for the purpose of this report, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

Reporting Period	the twelve months ended 31 December 2019
RMB or Renminbi	Renminbi, the lawful currency of the PRC
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai Xihua	Xihua Shanghai Investment Management Co., Ltd.*（熙華（上海）投資管理有限公司）, a company registered in the PRC with limited liability, being a wholly-owned subsidiary of the Company
Shares	shares of the Company in issue, all of which are listed on the Stock Exchange
Shareholder(s)	holder(s) of Shares
Stock Exchange	The Stock Exchange of Hong Kong Limited
Substantial Shareholder(s)	has the same meaning ascribed to it under the Listing Rules
%	per cent

CORPORATE INFORMATION

Board of Directors

Executive Directors

Xie Yingxia *(Chairman)*
Ling Chao
Peng Cheng (Resigned on 20 August 2019)
Liu Dong (Appointed on 15 May 2019)
Wang Jun
Chan Ka Wing

Non-executive Director

Tseung Hok Ming

Independent Non-executive Directors

Cao Guoqi
Cao Kuangyu
Lee Ho Yiu Thomas (Resigned on 10 January 2020)
Yu Xiaoying (Appointed on 19 February 2020)

Company Secretary

Sun Xin

Auditor

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

Authorized Representatives

Xie Yingxia
Sun Xin

Audit Committee

Yu Xiaoying (Appointed on 19 February 2020) *(Chairman)*
Cao Guoqi
Cao Kuangyu

Remuneration Committee

Cao Guoqi *(Chairman)*
Cao Kuangyu
Yu Xiaoying (Appointed on 19 February 2020)

Nomination Committee

Cao Guoqi *(Chairman)*
Cao Kuangyu
Yu Xiaoying (Appointed on 19 February 2020)

Stock Code

695

Company Website

www.dongwucement.com

Registered Office

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

Principal Place of Business in the PRC

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

Principal Place of Business in Hong Kong

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

Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queens Road East
Wan Chai, Hong Kong

Hong Kong Legal Advisor

Li & Partners
22nd Floor, World-Wide House
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FINANCIAL HIGHLIGHTS

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

	2019	2018 (Re-presented)
Revenue	**571,150**	519,403
Operating profit	**76,513**	71,931
Profit before income tax	**102,538**	131,203
Profit for the year attributable to owners of the Company	**66,669**	90,334
Basic and diluted earnings per share (expressed in RMB per share)	**0.121**	0.164

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

	2019	2018
Non-current assets	**309,692**	244,503
Current assets	**494,221**	464,562
Total assets	**803,913**	709,065
Total equity	**526,529**	497,416
Non-current liabilities	**26,559**	17,018
Current liabilities	**250,825**	194,631
Total liabilities	**277,384**	211,649
Total equity and liabilities	**803,913**	709,065

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

	2019	2018
Net cash flows from operating activities	**228,711**	146,713
Net cash flows used in investing activities	**(116,280)**	(142,232)
Net cash flows generated from financing activities	**(66,308)**	2,648
Net increase in cash and cash equivalents	**46,123**	7,129

FINANCIAL HIGHLIGHTS

Financial Highlights in Previous Years

Results

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Re-presented)			
Revenue	**571,150**	519,403	357,563	255,914	222,512
Cost of sales	**(432,826)**	(378,662)	(289,475)	(231,164)	(226,382)
Gross profit/(gross loss)	**138,324**	137,375	68,088	24,750	(3,870)
Operating profit/(loss)	**76,513**	71,931	46,366	8,632	(13,021)
Profit/(loss) before tax	**102,538**	131,203	43,484	5,657	(16,110)
Income tax (expense)/credit	**(41,836)**	(41,533)	(18,388)	(1,442)	4,373
Profit/(loss) for the year attributable to owners of the Company	**66,669**	90,334	25,899	2,564	(11,737)

Assets and liabilities

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**803,913**	709,065	597,700	507,890	502,799
Total liabilities	**277,384**	211,649	184,572	119,858	138,982
Total equity	**526,529**	497,416	413,128	388,032	363,817

BUSINESS REVIEW

In 2019, in the context that the macroeconomy recorded steady growth and the cement industry witnessed recovery under the significant contributions of supply side, the Group proactively adjusted its operation strategies, strengthened internal management, diversified its revenue sources and enhanced cost reduction, controlled production and operation cost, maintained consistent product quality and expanded sales channels. During the Reporting Period, the Group recorded growth for its production volume, sales volume, revenue and profit as compared with that of 2018.

During the Reporting Period, the Group strengthened the management in the procurement of raw and auxiliary materials, the consumption of each item and the production equipment and technologies, and strictly controlled the production cost. In 2019, the output for cement clinker amounted to approximately 861,000 tonnes, and cement output amounted to approximately 1,532,000 tonnes, among which, approximately 649,000 tonnes were grade 32.5R cement and approximately 883,000 tonnes were grade 42.5R cement. The annual production costs for grade 32.5R cement, grade 42.5R cement and cement clinker increased to some extent as compared to 2018. The supply of raw and auxiliary materials for the production and the equipment operation were basically at normal levels, and the production safety were at normal levels throughout the year, and the quality acceptance rate of the outgoing cement reached 100% throughout the year.

During the Reporting Period, under the influence of the recovery in cement sector, sales within cement market was active. During the year, the Group recorded product sales volume of approximately 1,537,000 tonnes, among which, approximately 653,000 tonnes were grade 32.5R cement and approximately 884,000 tonnes were grade 42.5 cement, the income of the cement segment from principal business amounted to approximately RMB571,150,000. Both the sales volume and income showed a significant increase as compared to last year.

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

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

BUSINESS REVIEW

During 2019, the Board had a discussion on business planning of the Group and formulated its business strategies for the coming years. It considered that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify and broaden its revenue source by investing in businesses with growth potential. The Board is actively looking into the possibility of further development in the environmental protection sector and seeking for investment opportunities to explore emerging industry; trying to enhance the operation efficiency by capital operation, to strengthen our overall competitiveness.

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

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

CHAIRMAN'S STATEMENT

On behalf of the Board of Dongwu Cement International Limited and its subsidiaries, I would like to present to the Shareholders the report of the Group for the year ended 31 December 2019, together with audited consolidated financial statements.

Financial Results

In 2019, as for the cement segment of the Group, the sales volume amounted to approximately 1,536.6 thousand tonnes, representing an increase of approximately 6.3% from 2018; the revenue amounted to approximately RMB571,150,000, representing an increase of approximately 10.5% from 2018; the gross profit margin amounted to approximately 24.2%, representing a decrease of approximately 2.4% from 2018. Further details are set out in the section headed Management Discussion and Analysis. For the year ended 31 December 2019, profit attributable to the owners of the Company and the basic earnings per share were approximately RMB66,669,000 and RMB0.121, respectively.

Dividends

The Board does not recommend the payment of any final dividend for the ended 31 December 2019.

Business Operation in 2019

In 2019, as the macroeconomy recorded steady growth and the cement industry witnessed continuous recovery under the significant contributions of supply side, the Group's sale volume, turnover and gross profit margin recorded obvious increase in 2019 as compared with the same period of the previous year.

In 2015, the Group entered into an acquisition agreement with an independent third party through its wholly-owned subsidiary Shanghai Xihua, and acquired the entire equity interests in Shanghai Biofit Environmental Technology Co. Ltd ("Biofit", together with its subsidiaries, the "Biofit Group"). Biofit is a company possessing tier-3 professional contractor qualification for environmental engineering, and mainly engaged in organic wastewater treatment, sludge treatment and disposal, comprehensive treatment of urban organic waste and other integrated environment services. The Group expected that the acquisition of Biofit may generate synergy with its existing operations and diversify business income streams of the Group. In addition to the existing business, the Group has been proactively exploring other aspects of environmental protection, including disposal of iron and steel dust and nonferrous solid waste, however, there is no progress for now. Moreover, based on our operation experiences, the Board believed that the existing business of Biofit was not developed as expectation. After the discussions of the Board, the Group has entered a sale and purchase agreement with an independent third-party on 16 December 2019 to dispose the entire equity interests it holds in Biofit (representing approximately 62.26% of equity interests of Biofit) at the aggregate consideration of RMB22 million. Details of the above transaction please refer to the announcement of the Company dated 16 December 2019. As of the latest practicable date, the above transaction has not been completed.

CHAIRMAN'S STATEMENT

Future Prospect

In 2020, under the guidance of long-term development strategy, the Group will continue to enhance current manufacturing facility reform, proactively promote disposal of municipal sewage sludge and domestic waste unanimously, continue the transformation towards environmental preservation-oriented cement manufacturing entity, and improve the comprehensive competitiveness and market position, to ensure the Group becoming a leading cement manufacturing company within the region while focusing on local market. Meanwhile, the Group will also look into further developments in the environmental protection sector, with an aim to diversify the business of the Group and achieve synergies.

Appreciation

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

In the new fiscal year, we will strive to move forward together, and believe that we will achieve better results in 2020. Thank you!

Xie Yingxia
Chairman

28 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Cement Segment

In 2019, China's various macroeconomic indicators experienced steady growth. The gross domestic product for the year amounted to RMB99,086.5 billion, representing a growth of 6.1% over the corresponding period of last year (2018: 6.6%). According to the statistics announced by National Bureau of Statistics (NBS) on 17 January 2019, in 2019, fixed asset investment of China (excluding rural households) reached RMB55,147.8 billion, representing a year-on-year growth of 5.4%. National property development and investment reached RMB13,219.4 billion, representing a year-on-year nominal growth of 9.9% (Source: NBS). According to the NBS, accumulated domestic cement production in 2019 amounted to 2,330 million tonnes, representing a year-on-year increase of 6.1%, while accumulated domestic clinker production was 1,520 million tonnes, reaching a record high. In respect of the growth of the cement production and clinker production by region, the northeast region and the east China region ranked the first and second places among six regions, with a year-on-year increase of 13% and 9.4%, respectively. Among 31 provinces in our country, only five of them recorded a negative growth on a year-on-year basis, namely Beijing, Hainan, Henan, Guizhou and Qinghai. 26 provinces saw positive year-on-year growth, particularly Jilin, Xizang, Gansu, Shandong, Liaoning, Shanxi, Jiangsu and Anhui recording an increase of over 10%. Thus, the market demand continued to vary by region significantly. According to Digital Cement of China Cement Association, the domestic price of PO42.5 cement increased by RMB11 per tonne from RMB427 per tonne in 2018 to RMB439 per tonne in 2019, representing a year-on-year increase of 2.67% and reaching a record high. In view of the trend throughout the year, the domestic cement price basically continued the overall trend of 2018 and remained at a high level. Cement prices rose from RMB433 per tonne in September to RMB471 per tonne in December, an increase of 8.8% on a month-on-month basis, and the fourth quarter reached its record high price (Source: Digital Cement).

From the region perspective, the east China region where the Group locates took the lead in terms of price among six regions in two consecutive years. The average price in east China was RMB479 per tonne in 2019, representing an increase of 1.45% as compared to that of last year. The south-central region ranked the second place in terms of price after the east China region, with the average price of RMB468 per tonne in 2019, representing an increase of 3.27% as compared to that of 2018. The north China region saw the biggest price rise, with the average price of RMB431 per tonne in 2019, representing an increase of 8.45% as compared to that of 2018. Prices in the northeast and southwest were 9.65% and 0.55% down respectively as compared with 2018. The overall price in the northwest remained low despite a year-on-year increase of 3.9% recorded (Source: Digital Cement).

As a result of increases in both sales volume and price in China's domestic cement industry, operating income of cement segment of the Group for 2019 increased steadily as compared with the corresponding period of last year. The Group recorded a profit of approximately RMB92,853,000 from the cement segment in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Environmental Protection Segment

The PRC government and all parties from the society are increasingly paying concern to the environmental protection issues, and have listed the environmental protection industry as one of the strategic industries in the long term development. With the promulgation of the Action Plan on Prevention and Control of Water Pollution (the "Ten Measures for Water Pollution") by the State Council on 16 April 2015, it is proposed that by 2020, China's water quality will gradually improve, the quality of drinking water will be safeguarded and the underground water pollution will be under strict control. It is expected that external investment in the environmental protection industry will increase rapidly. "The Thirteen Five Year Plan" intends to invest RMB6 trillion on environmental protection in terms of air, water and soil, representing an increase of RMB1 trillion as compared to RMB5 trillion in the "Twelfth Five Year Plan", among which, RMB4.6 trillion is to be invested in water pollution prevention and control. Overall control on pollutants such as the total nitrogen and phosphorus in the key areas and the key industries including areas around rivers, lakes and seas will be implemented. The environmental protection industry in the PRC will continue to expand in the near future, and sewage and sludge treatment as the key component of environmental governance is expected to generate more investment returns. According to the annual report issued by the United Nations on 20 March 2015, 40% of the countries and regions around the world will face drought issues by 2030. China lacks water resource, and the average water resource amount per capita is only one-fourth of the average level of the world, being listed as one of the 13 most water-deficient countries in the world. Therefore, advocating scientific water consumption is urgent. With the continuous development of the economy, increase in population and the urbanization process, discharge of sewage and sludge in China has been increasing in successive years. Industries related to traditional fossil energy and water-usage intensive industries usually consume plenty of water resources and cause pollution accordingly. The development of these industries provides good opportunities for the development of the sewage and sludge treatment market. Recently, China has imposed high standards for sewage and sludge treatment, strictly monitored environmental pollution and protection while increasing environmental protection subsidies for enterprises, as a result of which, sewage and sludge treatment in cities and towns is currently in a stage of rapid development. In this stage, with the increasing investment in projects and the promotion under the national strategies, enterprises and investors in the capital market are paying more attention to the environmental protection industry.

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

With the consideration and approval of the Board, the Group entered into a sales and purchase agreement with an independent third party on 5 January 2018 to dispose of the entire equity interests it holds in Shanghai Biofit (representing approximately 62.26% of equity interests) at the total consideration of HK$40 million. For details of the above transaction, please refer to the Company's announcement dated 5 January 2018. On 14 December 2018 (after trading hours of the Stock Exchange), the Vendor and the Purchaser entered into a termination deed (the "Termination Deed"), details of which please refer to the Company's announcement dated 14 December 2018. In addition to the existing business, the Group has been proactively exploring other aspects of environmental protection, including disposal of iron and steel dust and nonferrous solid waste, but it was unable to make breakthroughs. Based on operating experience, the Board confirms that Shanghai Biofit has not achieved the expected development in its existing business. With the consideration and approval of the Board, the Group entered into a sales and purchase agreement with an independent third party on 16 December 2019 to dispose of the entire equity interests it holds in Shanghai Biofit (representing approximately 62.26% of equity interests) at the total consideration of RMB22 million. For details of the above transactions, please refer to the announcement of the Company dated 16 December, 2019. As of the date of this report, the above transactions have not been completed.

Money Lending and Financial Services Segment

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Revenue

During the Reporting Period, the Group's revenue amounted to approximately RMB571,150,000, representing an increase of approximately RMB51,747,000 or 10% from approximately RMB519,403,000 in the corresponding period in 2018.

Among others, revenue of the cement segment amounted to approximately RMB571,150,000, representing an increase of approximately RMB55,113,000 or 11% from approximately RMB516,037,000 in the corresponding period in 2018. The increase was primarily attributable to the increase in pricing of cement during the Reporting Period.

During the Reporting Period, revenue of the environmental protection segment amounted to nil, representing an decrease of RMB3,366,000 or 100% as compared to the corresponding period in 2018. The decrease was primarily attributable to the stagnation of its business during the Reporting Period.

The table below sets forth the analysis of the Group's revenue by product type:

	2019			2018		
	Sales Volume	**Average selling price**	**Revenue**	Sales Volume	Average selling price	Revenue
	Thousand Tonnes	***RMB/Tonne***	***RMB'000***	*Thousand Tonnes*	*RMB/Tonne*	*RMB'000*
PO 42.5 Cement	**884.1**	**405.65**	**358,633**	791.2	392.88	310,846
PC 32.5 Cement	**652.5**	**322.62**	**210,511**	654.3	311.96	204,117

Categorized by product type, the sales volume of cement products in 2019 amounted to approximately 1,536.6 thousand tonnes, representing an increase of approximately 6.3% from 2018, while the sales income of cement products was approximately RMB569,144,000, representing an increase of approximately 10.5% from 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth an analysis of the Group's revenue by geographical region:

	2019		2018	
	Revenue	**% of total**	Revenue	% of total
	RMB'000	**revenue**	*RMB'000*	revenue
Jiangsu Province	**461,140**	**81.02%**	446,213	86.65%
Wujiang District	**344,617**	**60.55%**	402,038	78.07%
Suzhou (excluding Wujiang District)	**116,523**	**20.47%**	44,175	8.58%
Zhejiang Province	**80,286**	**14.11%**	50,070	9.72%
Southern Zhejiang Province (Taizhou, Zhoushan and Ningbo)	**42,285**	**7.43%**	47,925	9.31%
Jiaxing	**38,000**	**6.68%**	2,145	0.41%
Shanghai	**27,718**	**4.87%**	18,680	3.63%
Total	**569,144**	**100.00%**	514,963	100%

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

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

As at 31 December 2019, a total of 4 projects have been completed or are in progress. 2 new project has been initiated in 2019. During the Reporting Period, 4 projects have 0%, 0%, 100% and 68% work finished respectively.

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

During the Reporting Period, the environmental protection segment achieved revenue of RMB nil, representing a decrease of RMB3,366,000 or 100% as compared to approximately RMB3,366,000 of 2018. The decrease was mainly due to the stagnation of Biofit Group's business.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

During the Reporting Period, the gross profit amounted to approximately RMB138,324,000, all of which were derived from cement segment.

As to cement segment, the gross profit amounted to approximately RMB138,324,000, representing an increase of approximately RMB949,000 or approximately 0.7% as compared to the gross profit of approximately RMB137,375,000 in 2018, while the gross profit margin amounted to approximately 24.2% in 2019, representing a decrease of approximately 2.4% as compared to the net value of approximately 26.6% in 2018. The decrease was mainly attributable to the increase in the price of limestone in raw materials used in production. There was no gross profit derived from environmental protection segment.

Other Income

The Group's other income amounted to approximately RMB12,948,000 during the Reporting Period, representing a decrease of approximately RMB32,532,000 or approximately 71.5% compared to approximately RMB45,480,000 in 2018, which is mainly due to (1) a decrease in fixed income of approximately RMB6,408,000 resulting from the recovery of principal amount of fixed income from cement segment; and (2) guarantee profits from the former shareholders of approximately RMB24,679,000 recognized in environmental protection segment in 2018.

Sales and Distribution Expenses

The Group's sales and distribution expenses, all generated from cement segment, amounted to approximately RMB4,219,000 during the Reporting Period, representing an increase of approximately RMB154,000 or approximately 3.79% as compared to approximately RMB4,065,000 in 2018. The increase was mainly due to the increase in revenue of cement in 2019. Sales and distribution expenses in 2019 accounted for approximately 0.8% of the consolidated revenue of the cement segment, which remained unchanged as compared to approximately 0.8% in 2018.

General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately RMB32,747,000 during the Reporting Period.

As to the cement segment, the general and administrative expenses amounted to approximately RMB30,229,000, representing an decrease of approximately RMB9,572,000 or 24% as compared to approximately RMB39,801,000 in 2018. The decrease in the general and administrative expenses was primarily due to impairment on goodwill amounted to RMB9,396,000 recognised in 2018.

As to the environmental protection segment, the general and administrative expenses decreased by approximately RMB2,541,000 or 50.23% from approximately RMB5,059,000 in 2018 to approximately RMB2,518,000 during the Reporting Period. The decrease was mainly due to the decrease of administrative expenses resulting from the stagnation of business and reduction in staff number.

Tax

The Group's income tax expense amounted to approximately RMB41,836,000 during the Reporting Period.

As to the cement segment, the income tax expense amounted to approximately RMB41,853,000 in 2019, representing an increase of approximately RMB3,513,000 or 9.16% as compared to income tax expense of approximately RMB38,340,000 in 2018, which was primarily due to an increase in results of cement segment in 2019.

As to the environmental protection segment, during the Reporting Period, the income tax credit amounted to approximately RMB17,000 in 2019, representing a decrease of approximately RMB3,210,000 or 100.5% as compared to the income tax expense of approximately RMB3,193,000 in 2018. The decrease was mainly due to the guarantee profits from the former shareholders of approximately RMB24,679,000 recognised in the environmental protection segment in 2018, and the significant increase of income tax expenses, which increased by approximately RMB3,700,000.

Details of the Group's income tax are set out in note 8 to the consolidated financial statements of this report.

Net Profit Margin

During the Reporting Period, the Group's net profit margin was approximately 10.6%.

As to the cement segment, the net profit margin was approximately 13.4%, representing a decrease of 0.5% as compared to the net value of approximately 13.9% in 2018. The decrease of net profit margin was mainly attributable to the increase in the price of limestone in raw materials used in production, and the net profit increased from approximately RMB71,931,000 in 2018 to approximately RMB76,513,000 in 2019.

As to the environmental protection segment, during the Reporting Period, the net loss was approximately RMB15,811,000, as the business was in a stagnant condition, and no revenue was generated, thus no calculation of net profit margin could be made. In 2018, the net profit amounted to approximately RMB17,739,000, and the net profit margin was approximately 527%, which was mainly attributable to the guarantee profits from the former shareholders of approximately RMB24,679,000 recognised in the environmental protection segment in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

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

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Cash and cash equivalents – (including discontinued operations)	**81,849**	35,726
– Cement Segment	**80,161**	34,227
– Environmental Protection Segment – (discontinued operations)	**23**	1,490
– Money lending and financial services segment	**1,665**	9
Borrowings – (including discontinued operations)	**40,028**	71,553
– Cement Segment	**22,000**	50,000
– Environmental Protection Segment – (discontinued operations)	**3,000**	5,000
– Unallocated	**15,028**	16,553
Debt to equity ratio – (including discontinued operations)	**7.6%**	14.4%
– Cement Segment	**4.2%**	10.7%
– Environmental Protection Segment – (discontinued operations)	**10.1%**	9.8%
Debt to asset ratio – (including discontinued operations)	**34.5%**	29.8%
– Cement Segment	**28.6%**	25.3%
– Environmental Protection Segment – (discontinued operations)	**53.2%**	35.2%

Cash Flow

As at 31 December 2019, the Group's cash and cash equivalents amounted to approximately RMB81,849,000.

As to the cement segment, the cash and cash equivalents amounted to approximately RMB80,161,000, representing increase of approximately 134.2% from approximately RMB45,934,000 as at 31 December 2018, which was primarily due to the increase in payables during the Reporting Period.

Borrowings

	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
Current:		
Borrowings		
– Cement segment	**22,000**	50,000
– Environmental protection segment	**3,000**	5,000
– Unallocated	**15,028**	16,553
Borrowings	**40,028**	71,553

As at 31 December 2019, the Group's bank borrowings amounted to approximately RMB40,028,000, representing decrease of approximately 44.06% from approximately RMB71,553,000 as at 31 December 2018.

As at 31 December 2019 and 31 December 2018, the aforesaid borrowings were not secured, pledged and guaranteed by the Group's properties, plant and equipment, land use rights, bill receivables and restricted bank deposits. As at 31 December 2019, bank borrowings of approximately RMB3,000,000 (as at 31 December 2018: approximately RMB5,000,000) was secured by personal guarantees provided by the Director, Mr. Ling Chao and his close family members and borrowings of approximately RMB12,328,000 was secured by corporate guarantees from the Company (2018: RMB2,656,000).

As at 31 December 2019, the Group had no unutilised bank financing facilities.

Debt to Equity Ratio

As at 31 December 2019, the Group's debt to equity ratio was 7.6%.

Among others, the debt to equity ratio of the cement segment was 4.2%, which decreased as compared with 10.7% as at 31 December 2018.

As to the environmental protection segment, the debt to equity ratio was 10.1%, representing a slight decrease from 9.8% as at 31 December 2018.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure and Capital Commitments

The Group's capital expenditure amounted to approximately RMB52,502,000 in 2019.

Among others, the capital expenditure of the cement segment amounted to approximately RMB52,496,000, representing a notable decrease from approximately RMB47,448,000, in 2018.

As to the environmental protection segment, the capital expenditure amounted to approximately RMB6,000 (2018: RMB Nil).

As at 31 December 2019, he Group had capital commitments of approximately RMB1,464,000 (2018: RMB3,140,000).

Pledge of Assets

As at 31 December 2019, bank deposal of RMB 13,000,000 are pledged as security for bill payables.

Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

Foreign Currency Risk

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

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

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

Substantial Acquisitions and Disposals of Subsidiaries and Associated Companies

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

MANAGEMENT DISCUSSION AND ANALYSIS

As disclosed in announcements of the Company dated 16 December 2019 and 18 December 2019, regarding the disposal of 62.26% equity interest in a subsidiary. Xihua Shanghai Investment Management Co., Ltd.* (the "Xihua"), a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement (the "Sale and Purchase Agreement") with Mr. Huang Jihong ("Mr. Huang"), pursuant to which Xihua agreed to sell, and Mr. Huang agreed to purchase the Sales Equity of Shanghai Biofit, at a total consideration of RMB22 million. For the further details, please refer to announcements of the Company dated 16 December 2019 and 18 December 2019.

As disclosed in the announcement of the Company dated 23 December 2019, regarding the subscription of perpetual bond. Suzhou Dongwu Cement Co., Ltd.* (the "Suzhou Dongwu"), a wholly-owned subsidiary of the Company, and the Company entered into the Perpetual Bond Investment Agreement in relation to the Subscription. Pursuant to the Perpetual Bond Investment Agreement, Suzhou Dongwu agreed to subscribe for the Perpetual Bond in the principal amount of RMB110 million. For the further details, please refer to the announcement of the Company dated 23 December 2019.

Dividend

The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2019.

Employees and Remuneration Policies

As at 31 December 2019, the Group had a total of 240 employees. The total remuneration of our employees amounted to approximately RMB28,122,000 during the Reporting Period. The remuneration levels of employees are commensurate with their responsibilities, performance and contributions and set on the basis of their merits, qualification and competence as well as the opinions from the remuneration committee of the Company (if applicable).

Future Prospects

In 2020, the Group will continue to reduce costs in an effective manner through improving its internal control; expand market share and increase profitability of our products by refining customer services; continue to conduct prudent research and promote the businesses in environmental protection field, while positively exploring investment opportunities in emerging industries; and make attempts in capital operation to enhance operating efficiency and improve overall competitiveness.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Compliance with the Corporate Governance Code

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

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period and as of the Latest Practicable Date, the Company has complied with Code Provision A.1.1 of the Code, saved as deviations disclosed in this report (where deviation reasons are set out).

Code Provision A.1.1 stipulates that board meetings should be held at least four times a year at approximately quarterly intervals. During the Reporting Period, the Board held two regular meetings, all the Directors had been presented at such meetings. The Board considers that during the Reporting Period, the Group had no other significant matters which required to convene formal Board meetings for discussion. Nevertheless, the Board maintains good communications with each Director through other informal means and ensures that each Director is updated with the latest developments of the Group in a timely manner. The Board also holds provisional meetings to review, discuss and decide specific matters related to the development and strategy of the Group as and when required. During the Reporting Period, the Board held three provisional meetings in aggregate to consider and approve, inter alia, termination of the acquisition of a licensed corporation authorized to carry out type 1 regulated activities, acquisition of properties and termination of disposal of a subsidiary.

Compliance with the Model Code

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

Audit Committee

The Company has established an audit committee (the "Audit Committee") in accordance with the requirements of the Listing Rules with written terms of reference.

The Audit Committee has reviewed the Group's annual financial statements for the year ended 31 December 2019 and has discussed the financial statements issues with the management of the Company. The Audit Committee is of the opinion that the preparation of such financial statements has complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

Publication of the Annual Results and the Annual Report

The annual results announcement of the Company for the year ended 31 December 2019 is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.dongwucement.com. The 2019 annual report will be dispatched to the shareholders of the Company and published on the aforementioned websites in due course.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. Xie Yingxia (謝鶯霞), aged 43, is the Chairman and an executive Director of the Company, responsible for the overall planning and budget management of the Group. Ms. Xie also served as the authorized representative of the Company (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Ms. Xie obtained a bachelor degree in investment economics from Fudan University (復旦大學) and a master degree in business administration from China Europe International Business School (中歐國際工商學院), an accredited institution authorized by the PRC Ministry of Education to grant the said degree. Ms. Xie has extensive experience in financial management. From 1998 to 2001, Ms. Xie had worked for Xiamen International Bank as the account manager and the deputy head of the credit department, responsible for marketing, running account credit and account services. Subsequently from 2001 to 2008, Ms. Xie had worked for Orient Holdings Group Limited ("Orient Holdings"), an investment holding company, as the manager of the investment department, the chief financial officer and the vice president, responsible for evaluation and management of project investment, financial management, human resources and administrative matters, etc. Since joining our Group in July 2008, Ms. Xie has been serving as a Director of the Company and was responsible for formulating annual budget, business plan, long term/strategic development of the Company and monitoring the implementation, conducting internal audit as well as reviewing and monitoring the performance of our senior management. Ms. Xie has served as authorized representatives of the Company since 28 May 2015 (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Through active involvement in daily operation and management of the Company, Ms. Xie gained specific knowledge and experience in cement industry. Ms. Xie did not hold any directorship in any other listed companies in the past three years.

Mr. Ling Chao (凌超), aged 41, is an executive Director of the Company. Mr. Ling, is the chairman of Biofit since 1 April 2003. He has extensive experience in the financial and investment sectors and held senior position in investment, finance and risk management industries. Mr. Ling obtained his bachelor degree in management accounting from Xi'an University of Technology in 2001; master degree in industrial economics from Fudan University in 2004; master degree in finance from Arizona State University USA in 2009 and EMBA degree from Tsinghua University in 2013. Mr. Ling also qualifies as a financial controller. Mr. Ling has not held any other directorships in listed public companies in the last three years.

Mr. Peng Cheng (彭程), aged 37, was appointed as an executive Director of the Company on 17 October 2016. Mr. Peng completed a Bachelor of Commerce/Bachelor of Information Systems double degrees from the University of Melbourne in 2004. In addition to his Chartered Financial Analyst designation, he is also a member of The Institute of Chartered Accountants in Australia. Mr. Peng has extensive experience in corporate strategy, corporate finance and financial advisory. Prior to joining the Company, he worked in a global institutional bank as an associate director responsible for advising on cross border merger and acquisition transactions as well as ancillary financing and risk management. Mr. Peng had also previously worked in a large listed company in Australia during 2009 to 2012 focusing on corporate development and strategy, as well as a global investment bank during 2006 to 2008 focusing on investment analysis. Save as disclosed above, Mr. Peng has not held any other directorships in listed public companies in the last three years. Mr. Peng has resigned as a Director on 20 August 2019.

Mr. Wang Jun (汪俊), aged 38, was appointed as an executive Director of the Company on 14 November 2016. Mr. Wang graduated from Chongqing Normal University majoring in Finance. He has extensive experience in public relations, leadership, management and business development strategies. Mr. Wang held senior management positions in various private companies. Mr. Wang was an executive director of Enterprise Development Holdings Limited (stock code: 1808), the shares of which are listed on the Main Board of the Stock Exchange, from January 2014 to November 2016. Save as disclosed above, Mr. Wang did not hold any directorship in any other listed companies in the past three years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Ka Wing（陳嘉榮）, aged 37, was appointed as an executive Director of the Company on 1 September 2017. Mr. Chan graduated from The Hong Kong University of Science and Technology with a bachelor's degree in Business Administration in Accounting. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since 2010. Mr. Chan has over 10 years of experience in financial accounting and auditing of listed companies in Hong Kong. He has been involved in the management and business development of two listed companies and several private companies, having operations in integrated resort development, property development, consultancy and financial services in Hong Kong.

Mr. Liu Dong（劉東）, aged 51, was appointed as an executive Director of the Company on 15 May 2019. Mr. Liu has worked for years as diplomat in Chinese Embassies and UN-subordinate organizations since university graduation. He has been admitted to the degree of Master of Philosophy by the University of Cambridge. From April 2005 to August 2016, Mr. Liu served as Assistant to Chairman of Board and then Vice President of Orient Holdings Group Co. Ltd., Executive Vice President of Huilitong Industry Co. Ltd. and Senior Vice President of Sunshine Oilsands Ltd. Since September 2016, Mr. Liu has been acting as Vice President of Orient Holdings International Group Ltd., General Manager of Orient International Resources Group Ltd, Director of Board and General Manager of Global Mining Co. Ltd. and Director of Board of Sino-Sindh Resources PL. Mr. Liu owns over ten years' experience in capital market and investor relationship areas in Hong Kong.

Non-Executive Directors

Mr. Tseung Hok Ming（蔣學明）, aged 58, is a non-executive Director of the Company. Mr. Tseung possesses over 25 years of experience in business and investment. Mr. Tseung has been a director of Orient Financial Holdings Limited since July 2002, a director of Far East International since March 2004, a director of Orient International Petroleum & Chemical Limited since December 2004, a director of Orient International Resources Group Limited since April 2010 and a director of Fidelix Co., Ltd., a company listed on KOSDAQ (stock code: 032580) since 30 June 2015. Mr. Tseung began his career in 1986 as a director of a factory in Suzhou City and was responsible for overseeing textile manufacturing and trading. In 1996, he established Orient International Group (HK) Limited, a company principally engaged in textile trading and investment business, and managed the business as a director of the company until 2005. In 1995, Mr. Tseung invested into Wujiang Yuan Tong Highway Construction and Development Limited, a company principally engaged in highway construction and operations management business. He has acted as its vice chairman since 1995, and has been responsible for its investment and construction business. In 2003, Mr. Tseung invested in Anhui Hefei-Caohu-Wuhu Highway Limited, which principally engaged in the business of highway construction and maintenance, and acted as its chief representative until 2005. In June 2003, Mr. Tseung invested in the Company, whose main business scope is manufacture and sales of clinker and cement. Mr. Tseung acted as a director of the second session of the board of directors of China Foreign Affairs University since 2005. Mr. Tseung is currently a vice chairman of the Hong Kong Financial Services Institute and the Hong Kong China Education Fund. Mr. Tseung graduated from the Chinese Academy of Social Sciences（中國社會科學院）in 1998 majoring in International Trading. Save as disclosed above, Mr. Tseung did not hold any directorship in any other listed companies in the past three years.

Independent Non-Executive Directors

Mr. Cao Guoqi（曹國琪）, aged 57, is an independent non-executive Director of the Company. Mr. Cao specializes in project investment, finance and management, fund operation and management, mergers and acquisitions, assets and capital operations, human resources management and project consultation. Mr. Cao obtained a doctoral degree in political economics from Shanghai Academy of Social Sciences（上海社會科學院）

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

Mr. Cao Kuangyu（曹貺予）, aged 70, is an independent non-executive Director of the Company. Mr. Cao has over 30 years of experience in the banking industry. Mr. Cao graduated from Hunan University in 1981 with a bachelor degree in economics, and obtained his master's degree in financial management from the University of London in 1998. Mr. Cao worked in the Bank of China, Hunan branch as a director and senior management from 1981 to 1996 and his last position was the deputy general manager of the branch. In 1996, Mr. Cao was transferred to the Singapore branch of Bank of China as deputy general manager until 1999. Mr. Cao worked in the Citic Bank, Shenzhen branch from 1999 to 2003 and his last position was the president of the branch. Mr. Cao came to Hong Kong in 2003 when he worked as a managing director and head of global investment banking division of BOCI Asia Limited until 2007. Mr. Cao served as an independent non-executive director of Simsen International Corporation Limited (stock code: 00993) from April 2010 to June 2010. Mr. Cao also served as an independent non-executive director of King Stone Energy Group Limited (stock code: 00663, formerly known as Yun Sky Chemical (International) Holdings Limited) from February 2010 to April 2012. Mr. Cao also served as a non-executive director of Continental Holdings Limited (stock code: 00513) from April 2010 to December 2011. Mr. Cao is currently an independent non-executive director of JLF Investment Company Limited (stock code: 00472, formerly known as Applied (China) Limited), Huili Resources (Group) Limited (stock code: 01303), Junefield Department Store Group Limited (stock code: 00758) and Dingyi Group Investment Limited (stock code: 00508). All the aforesaid companies are listed on the Stock Exchange. Save as disclosed above, Mr. Cao did not hold any directorship in any other listed companies in the past three years.

Mr. Lee Ho Yiu, Thomas（李浩堯）, aged 42, is an independent non-executive Director of the Company. Mr. Lee has extensive experience in auditing, accounting and financial management. Mr. Lee is currently a partner of Messrs. Lee, Au & Co., Certified Public Accountants. Mr. Lee previously worked as an assistant financial controller in a multinational luxury brands group and worked at one of the big four international accounting firms. Mr. Lee is a fellow member of the Association of Chartered Certified Accountants, a practicing member of the Hong Kong Institute of Certified Public Accountants, a certified tax advisor and member of the Hong Kong Taxation Institute, a certified internal auditor of the Institute of Internal Auditors and a certified information systems auditor of the ISACA. Mr. Lee obtained a bachelor's degree in science from the University of Warwick and a second bachelor's degree in Chinese law from Tsinghua University（清華大學）in Beijing, and subsequently attained his Master of Business Administration Degree from the University of London in 2016. Mr. Lee served as an independent non-executive director of SunCorp Technologies Limited (Stock Code: 1063) from August 2012 to June 2018 and Sino Energy International Holdings Group Limited (formerly known as Active Group Holdings Limited, Stock Code: 1096) from September 2011 to June 2018, which were listed on the Main Board of the Stock Exchange. Mr. Lee served as an independent non-executive director of Shenglong Splendecor International Limited (Stock Code: 8481) from July 2017 to May 2018, and served on Inno-Tech Holdings Limited (Stock Code: 8202) as an independent non-executive director from January 2013 to February 2018, which were listed on the GEM of the Stock Exchange. Save as disclosed above, Mr. Lee did not hold any directorship in any other listed companies in the past three years. Mr. Lee has resigned as a Director on 10 January 2020.

Ms. Yu Xiaoying（俞曉穎）, aged 32, worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP in the People's Republic of China from September 2010 to August 2014 as a senior consultant. From September 2014 to November 2018, she worked at Visa Information Systems (Shanghai) Co., Ltd.*（維薩信息系統（上海）有限公司）as the manager of the finance department. From December 2018 to January 2020, she worked at Kimberly-Clark (China) Co., Ltd.*（金佰利（中國）有限公司）as the tax manager of the finance department. She has obtained a bachelor's degree in accounting and a master's degree in business administration from Antai College of Economics and Management, Shanghai Jiao Tong University. She is also a Chinese certified public accountant and a member of the Association of Chartered Certified Accountants. Ms. Yu has not held any directorship in any other listed public companies during the last three years.

Senior Management

Mr. Jin Chungen（金春根）, aged 58, is the Chief Executive Officer of the Company, responsible for the Group's general operation. Mr. Jin has extensive experience in cement related industries such as highway operation, maintenance and renovation, etc. From 1995 to 2005, Mr. Jin had been the general manager of Wujiang Yuan Tong Road Construction and Development Co., Ltd.（吳江遠通公路建設發展有限公司）, a company principally engaged in the operation and toll collection of the National Highway Road No. 318 (Wujiang Section), responsible for the company's day-to-day management such as operation of toll roads, daily maintenance and renovation of roads, human resources, financial and administrative matters, etc. During the said period, Mr. Jin was actively involved in the operation of toll highways as well as maintenance and renovation of roads, and since the operation, maintenance and renovation of roads involve substantial use of, inter alia, cement, Mr. Jin has also gained specific knowledge and experience in cement. Mr. Jin also possesses over 34 years of experience in corporate management. Between 1979 and 1990, Mr. Jin had worked for Jiangsu Orient as an officer and supervisor, responsible for the company's daily operational and management affairs. Subsequently from 1991 to 1994, Mr. Jin had served as a general manager for Wujiang Fuyuan Garment Co., Ltd（吳江富源製衣有限公司）, a company principally engaged in the garment processing, responsible for the company's overall management. Since joining our Group in January 2007, Mr. Jin has served as the Director, chairman and general manager, respectively, of the Company, and is responsible for the management of the Company's daily operation, such as making production plan, raw materials procurement and sales etc. On 11 September 2013, Mr. Jin resigned as general manager of Suzhou Dongwu, but remained as chairman and legal representative of Suzhou Dongwu. Currently, Mr. Jin is the vice chairman of the Cement Committee (the third session) of Jiangsu Province Building Material Industry Association（江蘇省建材行業協會第三屆水泥分會）. Mr. Jin did not hold any directorship in any other listed companies in the past three years.

Mr. Wu Junxian (吳俊賢), aged 39, is the general manager of Suzhou Dongwu. Mr. Wu is responsible for general management and operation of the Group. Mr. Wu joined our Group in March 2009, and has held various positions in Suzhou Dongwu such as assistant to general manager and deputy general manager. Mr. Wu assumed the title of general manger of Suzhou Dongwu on 11 September 2013. Prior to joining our Group, Mr. Wu worked for Orient Holdings, an investment holding company, as an officer of the assets management department, responsible for project research and development from 2003 to 2007. Mr. Wu subsequently worked for Shanghai Keli Communications Technology Co., Ltd. (上海科立通訊科技有限公司), a company principally engaged in communication construction and services, as a project manager and was responsible for project development and customer service from 2007 to 2009. Mr. Wu graduated from Nanjing Audit University (南京審計學院) in 2003 with a bachelor degree in management administration.

Mr. Feng Bing Song (馮炳松), aged 51, is the deputy general manager of Suzhou Dongwu. Mr. Feng is responsible for marketing and sales of the Group. Prior to joining to the Group in December 2014, Mr. Feng, having been engaged in the finance matters and sales in the cement industry for about 20 years, has a knowledge of market trends and possesses extensive experience in sales. Mr. Feng once served as the financial controller of Piaoyang Orient Cement Company (漂陽東方水泥公司) and then was promoted to the deputy general manager, in charge of corporate finance and business planning. Later, Mr. Feng joined in Wujiang Xingyuan Cement Co., Ltd. as the vice president of sales responsible for making the strategic plans for the company.

Ms. Cai Linfen (蔡林芬), aged 49, is the deputy general manager of Suzhou Dongwu. Ms. Cai is responsible for production of the Group. Ms. Cai possesses more than 25 years of experience in production management of cement. She has served as deputy general manager of Zhejiang Tongxing Cement Company Limited (浙江桐星水泥股份有限公司) and Tongxiang South Cement Company Limited (桐鄉南方水泥有限公司) before and was responsible for production respectively. Ms. Cai joined the Group in 2014, and had taken the position of chief engineer and deputy general manager etc. Ms. Cai graduated from Tongxiang Radio and TV University (桐鄉廣播電視大學) in 2013 and obtained a college degree in Management.

Ms. Sun Xin (孫馨), aged 36, was appointed as the joint company secretary of the Company on 28 May 2012, and has been the chief financial controller of the Company since 16 August 2013. Ms. Sun also served as the authorized representative of the Company (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Ms. Sun joined the Group in August 2010. From August 2006 to August 2010, Ms. Sun acted as the senior consultant of the business advisory and tax consultancy department of Deloitte Touche Tohmatsu CPA Ltd. During the office term, Ms. Sun was responsible for the provision of due diligence service and structuring support to the foreign multi-national companies and the private equity funds concerning acquisition activities in the PRC, as well as the provision of tax consultancy services, including international tax consultancy, indirect tax consultancy, general domestic tax consultancy and tax standardization. From September 2002 to July 2006, Ms. Sun studied at Shanghai International Studies University (上海外國語大學) majoring in international economic law and obtained a bachelor degree in law. From September 2003 to June 2005, she studied at Shanghai University of Finance and Economics (上海財經大學) and obtained the Certificate for Second Major (輔修專業證書) in Accounting. Ms. Sun is currently a member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會), an associate of the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) (ACS), and an associate of the Institute of Chartered Secretaries and Administrators (ACIS).

Company Secretary

Ms. Sun Xin (孫馨), aged 36, was appointed as the joint company secretary of the Company on 28 May 2012. For details of the biography of Ms. Sun Xin, please refer to paragraph headed "Senior Management" of this section. Ms. Sun was confirmed by the Stock Exchange that she had sufficient experience to fulfill the responsibility of company secretary and served as company secretary of the Company with effect from 21 March 2014.

DIRECTORS' REPORT

Principal Activities

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 November 2011. The Group mainly operates through its subsidiaries in the PRC. The Group is principally engaged in the production and sales of cement, and provision of sewage and sludge treatment operation and construction services. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2019.

Results and Dividends

The Group's results for the year ended 31 December 2019 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 88 to 89.

No final dividend was recommended by the Board for the year ended 31 December 2019.

Business Review

A review of the business of the Group for the year ended 31 December 2019, a discussion on the Group's future prospects, and an account of the principal risks and uncertainties facing the Group are provided in "Management Discussion and Analysis" in pages 10 to 21 in this annual report, an analysis of the Group's performance during the Reporting Period using key performance indicators are provided in "Financial Highlights" in pages 05 to 06 in this annual report.

Environmental Policy and Performance

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

In order to strengthen environmental protection, strictly control the arising of pollutant and comprehensively achieve the emission standard, the Group invested in approximately RMB10,000,000 on upgrading technology for environmental protection facilities and energy-saving and emission reduction projects in 2019. The Group implemented energy conservation and emissions reduction from several aspects, such as raw material removal system improvement and energy saving and consumption reduction; carried out in-depth emission reduction technology transformation of nitrogen oxides to reduce nitrogen oxide emissions; upgraded humidifying tower and chimney to reduce dust emissions; and upgraded technology for high pressure blowers with frequency converters to achieve energy conservation, environmental protection and consumption reduction.

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

Compliance of Laws and Regulations

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

Important Relationship with Employees, Clients and Suppliers

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

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

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

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

DIRECTORS' REPORT

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 26 May 2020 to Thursday, 28 May 2020 (both days inclusive), during which period no transfer of shares will be registered. For determining Shareholders' entitlement to attend and vote at the annual general meeting to be held on Thursday, 28 May 2020, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 25 May 2020 (Hong Kong time).

Property, Plant And Equipment

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

Bank Loans And Other Borrowings

Details of bank loans and other borrowings are set out in note 30 to the consolidated financial statement of this annual report.

Share Capital

As at 31 December 2019, the authorised share capital of the Company was HK$100,000,000 divided into 10,000,000,000 Shares including issued capital of HK$5,520,000 divided into 552,000,000 Shares with nominal value of HK$0.01 per share. During the Reporting Period, the Company has not issued any new Shares.

Reserves

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

Distributable Reserves

The Group's reserves available for distribution to Shareholders was approximately RMB167,841,000 (31 December 2018: approximately RMB144,759,000) as at 31 December 2019.

Public Float

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

Pre-Emptive Rights

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

DIRECTORS' REPORT

Tax Reduction

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

Charge on The Assets and Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities, guarantees or any litigation against the Group (2018: nil).

Subsidiaries and Associates

Details on the business performance of the Company's major subsidiaries and associates respectively are set out in notes 21 and 22 to the consolidated financial statement of this annual report.

Directors and Chief Executive

The directors of the Company during the year ended 31 December 2019 and up to the date of this annual report were as follows:

Chairman and Executive Director	Ms. Xie Yingxia
Chief Executive Officer	Mr. Jin Chungen
Executive Directors	Mr. Ling Chao
	Mr. Peng Cheng (Resigned on 20 August 2019)
	Mr. Liu Dong (Appointed on 15 May 2019)
	Mr. Wang Jun
	Mr. Chan Ka Wing
Non-executive Director	Mr. Tseung Hok Ming
Independent Non-executive Directors	Mr. Cao Guoqi
	Mr. Cao Kuangyu
	Mr. Lee Ho Yiu Thomas (Resigned on 10 January 2020)
	Ms. Yu Xiaoying (Appointed on 19 February 2020)

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

Independence

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

Emolument Policy and Long-Term Incentive Plan

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

Emolument Policy for Executive Directors

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

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

3. Factors for defining performance-based remuneration:

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

    (b) Examples of performance indicators:

        (i) share price

        (ii) net earnings figure

Emolument Policy for Non-executive Directors

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

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

Principles of Long-Term Incentive Schemes

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

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

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

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

DIRECTORS' REPORT

Directors' Service Contracts

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

In accordance with the Articles of Association of the Company, Mr. Chan Ka Wing, Mr. Wang Jun and Mr. Ling Chao will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Directors' Emoluments and Five Highest Paid Individuals of the Company

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

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

For the years of 2018 and 2019, senior management of the Company comprises 7 and 6 individuals, respectively. The emoluments of senior management of the Company fell within the following bands:

	Number of individuals Year ended 31 December	
Emolument band	**2019**	2018
Nil to HK$1,000,000	**6**	4
HK$1,000,001 to HK$2,000,000	**1**	2
	7	6

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

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

Contract of Significance

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

Directors' Rights to Acquire Shares or Debentures

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

Directors' Interests in a Competing Business

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

Pension Scheme

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

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

During the year ended 31 December 2019, the employee benefit scheme contributions made by the Group amounted to approximately RMB3,818,000.

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

As at 31 December 2019, the interests of the Directors, chief executive or their respective associates in the Shares and underlying Shares of the Company and its associated corporations which were required, pursuant to section 352 of the SFO, to be recorded in the register maintained by the Company, or pursuant to the Model Code, had to be notified to the Company and the Stock Exchange are as follows:

Name	Capacity	Long position/ Short position	Number of Shares held	Approximate percentage of shareholding interest
Mr. Tseung Hok Ming *(note 1)*	Interest of a controlled corporation	Long position	297,500,000	53.89%
Mr. Ling Chao	Beneficial owner	Long position	3,504,000	0.63%

note:

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

Save as disclosed in the above, as at 31 December 2019, so far as is known to the Directors, no Directors or chief executive of the Company or their respective associates had or were deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations by virtue of part XV of the SFO which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which, pursuant to the Model Code, had to be notified to the Company and the Stock Exchange.

As at 31 December 2019, none of the Directors and chief executive of the Company (including their respective spouses and children under the age of 18) had or were granted any rights to subscribe for the securities and share options of the Company and its associated corporations, nor had they exercised any such rights.

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

As at 31 December 2019, so far as is known to the Directors, the person(s), not being the Directors or chief executive of the Company, who had any interests or short positions in the Shares and underlying Shares required to be recorded in the register kept under section 336 of the SFO are set out below:

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

Notes:

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

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

Save as disclosed in the above, as at 31 December 2019, so far as is known to the Directors, no other persons had any interest or short position in the Shares and underlying Shares which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

Share Option Scheme

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

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

DIRECTORS' REPORT

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

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

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

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

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

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

No options under the Share Option Scheme have been granted and no options remain outstanding and unexercised during the year ended 31 December 2019.

As of the Latest Practicable Date, the remaining life of the Share Option Scheme is about 5 years and 2 month.

Purchase, Sale or Redemption of Listed Securities

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

Management Contracts

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

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2019 is as follows:

	Percentage of the Group's total sales (%)		**Percentage of the Group's total purchases (%)**
The largest customer	8.48%	The largest supplier	16%
Five largest customers in aggregate	22.15%	Five largest suppliers in aggregate	37.55%

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

DIRECTORS' REPORT

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by BDO Limited ("BDO"), who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution on re-appointment of BDO as the external auditor of the Company will be proposed at the forthcoming annual general meeting for Shareholders' approval.

Material Litigation and Arbitration

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

Permitted Indemnity Provisions

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

Chairman
Xie Yingxia

25 March 2020

CORPORATE GOVERNANCE REPORT

Compliance with the Corporate Governance Code

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

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

Code Provision A.1.1

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

Compliance with the Model Code

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

Board of Directors

Duties and Divisions

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

CORPORATE GOVERNANCE REPORT

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

During the Reporting Period and up to the Latest Practicable Date, the Board had, among other things, considered and approved the annual budget, management performance and the latest performance as compared with the annual budget as well as the business reports of the management, the annual results for the year ended 31 December 2019, monitored the significant operational management and assessed the internal control and financial matters of the Group.

Board Composition

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

Board Meetings

The Board shall meet regularly and hold at least four Board meetings each year, so as to discuss the overall strategies and operational and financial performances of the Group. For the year ended 31 December 2019, the Board held 5 meetings in accordance to the operational and business development of the Group, including 2 regular meetings and 3 provisional meetings. The attendance of each Director is detailed as follows:

	Attended meetings/ convened meetings	**Attendance rate**
Executive Directors		
Ms. Xie Yingxia *(Chairman)*	5/5	10%
Mr. Ling Chao	2/5	40%
Mr. Peng Cheng (Resigned on 20 August 2019)	1/5	20%
Mr. Liu Dong (Appointed on 15 May 2019)	3/5	60%
Mr. Wang Jun	2/5	40%
Mr. Chan Ka Wing	0/5	0%
Non-executive Director		
Mr. Tseung Hok Ming	5/5	100%
Independent Non-executive Directors		
Mr. Cao Guoqi	5/5	100%
Mr. Cao Kuangyu	5/5	100%
Mr. Lee Ho Yiu Thomas	5/5	100%

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

Chairman and Chief Executive Officer

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

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

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

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

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

Independent Non-executive Directors

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

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

Time Commitment of the Directors

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

Directors' Continuous Training

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

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

Directors' Insurance

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

Board Committees

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

Audit Committee

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

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2019, the audit committee held 3 meetings to discuss with the management the accounting standards and practices adopted by the Group, auditing start-up meeting, and to approve the results and financial statements of the Company for the year ended 31 December 2018 as well as the interim results and financial statements of the Company for the six months ended 30 June 2019.

The attendance of the meetings is as follows:

	Attended meetings/ convened meetings	Attendance rate
Mr. Lee Ho Yiu Thomas *(Chairman)*	3/3	100%
Mr. Cao Guoqi	3/3	100%
Mr. Cao Kuangyu	3/3	100%

Remuneration Committee

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

For the year ended 31 December 2019, the remuneration committee held 2 meeting to consider and review the employee's salary and benefit, as well as the remuneration policies and structure of Directors and senior management of the Company.

The attendance of the meetings is as follows:

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

CORPORATE GOVERNANCE REPORT

Nomination Committee

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

For the year ended 31 December 2019, the nomination committee held 2 meeting to consider and review the structure and composition of the Board, assess the independence of independent non-executive Directors, nominate the Directors to be retired by rotation and review the board diversity policy.

The attendance of the meetings is as follows:

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

Board Diversity Policy

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

CORPORATE GOVERNANCE REPORT

Company Secretary

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

According to Rule 3.29 of the Listing Rules, Ms. Sun Xin took no less than 15 hours of relevant professional training for the year ended 31 December 2019.

Shareholders' Rights

Procedures for Shareholders to convene an extraordinary general meeting

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

Procedures for making enquiries to the Board

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

Procedures for putting forward proposals at general meetings

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

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

CORPORATE GOVERNANCE REPORT

General Meeting

During the Reporting Period, the Company convened an annual general meeting on 15 May 2019 to approve (among others) the audited consolidated financial statements of the Group for the year ended 31 December 2018, the reports of Directors and auditor and the re-election of Directors. All Directors have attended the annual general meeting. The attendance of each Director is detailed as follows:

	Attended general meetings/convened meetings	Attendance rate
Executive Directors		
Ms. Xie Yingxia *(Chairman)*	1/1	100%
Mr. Ling Chao	1/1	100%
Mr. Peng Cheng	1/1	100%
Mr. Liu Dong	0/0	N/A
Mr. Wang Jun	0/1	100%
Mr. Chan Ka Wing	0/1	100%
Non-executive Director		
Mr. Tseung Hok Ming	1/1	100%
Independent Non-executive Directors		
Mr. Cao Guoqi *(chairman of the remuneration committee and the nomination committee)*	1/1	100%
Mr. Cao Kuangyu	1/1	100%
Mr. Lee Ho Yiu Thomas *(chairman of the audit committee)*	1/1	100%

Nomination of Director

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

CORPORATE GOVERNANCE REPORT

Internal Control

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

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

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

For the year ended 31 December 2019, the Board considered the internal control system of the Company was adequate and effective, excepted as described below, the Company complied with the code provisions in relation to internal control as set out in the Corporate Governance Code. The Audit Committee will constantly review and assess the effectiveness of the internal control system of the Group, and report the results to the Board. The Board would conduct review and assessment of the internal control system of the Group at least once a year, so as to ensure that it is free from any major supervisory deficiency.

Pursuant to Code Provision I(f), the Company shall have sufficient number of independent non-executive directors. The Company failed to comply with the relevant code provision during the reporting period. However, the Company in the end of the Reporting Period and currently has sufficient independent non-executive directors to comply with the relevant code provision.

Directors' Responsibilities in respect of Financial Statements

The Directors acknowledge that they are responsible for giving honest, clear, and plain assessment on the performance, position and prospect of the consolidated financial statements as set out in annual and interim reports of the Group in accordance with the statutory requirements and the applicable accounting standards. The Directors also acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2019. Having made all reasonable enquiries, the Directors confirm, to the best of their knowledge, information and belief, that they were unaware of any significant uncertainties relating to the events or situations that may seriously cause doubt on continuing operation of the Company on an ongoing basis. To prepare the financial statements for the year ended 31 December 2019, the Directors have adopted appropriate accounting policies and applied consistently, and made prudent and reasonable judgments and estimates.

Risk Management and Internal Control

In order to ensure efficient operation and efficiency of our business as well as compliance with relevant laws and regulations, the Group emphasizes the importance of establish a sound internal control system. Further, the system is an integral part in mitigating the risks borne by the Group. The Group's internal control system is designed to provide reasonable but not absolute assurance against material misstatement or loss; to manage but not eliminate risks of failure in operational systems or failure to achieve business objectives; and to achieve business objectives. The Board continues to review the internal control system, enabling it an effective and viable system that can provide reasonable assurance, protect our important assets and identify business risks. According to the information available to the Board and its observation, the Board believes that the Group's existing internal control is satisfactory. The Group strives to identify, control and manage risks related to its business activities and implement effective and viable control system, including management structure with specific written terms of reference, sound cash management system as well as regular review on the Group's performance carried out by the Audit Committee and the Board. The Board has reviewed the effectiveness of the internal control system of the Group. It is of the opinion that the internal control system adopted during the year ended 31 December 2019 was sound and effective, and is sufficient to safeguard the investment benefits of the Shareholders and the Company's assets.

Main features of the risk management and internal control systems

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Procedures on identifying, assessing and management material risks

The risk management procedures of the Group are as follows:

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

Risk identification — to identify the current risk exposure.

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

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

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

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

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

Procedures on handling and disseminating inside information and internal control measures

The Group handles and disseminates inside information in accordance with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information. In addition, the Company keeps the Directors, senior management and employees appraised of the latest regulatory updates. The Company shall prepare or update appropriate guidelines or policies to ensure the compliance with regulatory requirements. The Board has reviewed the risk management and internal control systems for the year ended 31 December 2019 to ensure the effectiveness and adequacy of the systems. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of Company for the year ended 31 December 2019 were effective and adequate.

Auditor's Remuneration

BDO Limited was the independent auditor of the Company. For the year ended 31 December 2019, the remuneration payable by the Company to BDO Limited is set out below:

Services rendered by the auditor	**Remuneration**
	(RMB'000)
Annual audit service	1,080
Non-audit services (for review of the interim results of the Group)	140
	1,220

Investor Relationship

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

This report is the fourth Environmental, Social and Governance ("ESG") Report of Dongwu Cement International Limited (thereafter referred to as the "Company" or "Dongwu Cement", together with its subsidiaries, the "Group"), which presents the management approaches and performance relating to ESG during the Reporting Period from 1st January 2019 to 31st December 2019, with our aim to promote further understandings of the Group's sustainable development strategy among stakeholders.

The Board acknowledges its responsibility for ensuring the authenticity of this report. To the best of its knowledge, this ESG Report addresses all relevant material topics and fairly and accurately presents the ESG performance of the Group. The Board has reviewed this report and confirmed its content to be true and complete.

Reporting Guideline and Principle

This report has been prepared in compliance with ESG Reporting Guide set out in Appendix 27 of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited ("HKEX"). It complies with the reporting obligation of "comply or explain" with reporting principles of "Materiality", "Quantitative", "Balance" and "Consistency". The quantitative data in this report has been reviewed and is presented in a way that makes year-on-year comparison for stakeholders to review.

Reporting Boundary and Scope

This report mainly discloses the environmental and social performance of the Group's cement segment. The information and data in this report have covered "Suzhou Cement Co., Ltd.", a subsidiary of the Group in cement segment. For a section on corporate governance, please refer to pages 40 to 52 of the annual report. For an overview of the disclosure of the indicators, please refer to the content index at the end of this report. The Group will consistently enhance its data collection and gradually expand the scope of disclosure.

Feedback

This report is published both in English and Chinese version. In the event of any discrepancies, the Chinese version shall prevail. Your advise and suggestions play a vital role on our continuous improvement of disclosure. You are welcome to provide your valuable opinions through following ways:

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MESSAGE FROM THE CHAIRMAN

Dear stakeholders,

On behalf of the Board, I am pleased to present the fourth Environmental, Social and Governance ("ESG") Report of the Group, so that all stakeholders can further understand the sustainable development strategy of the Group.

Dongwu Cement is committed to promoting the transformation of its green and environmentally-friendly cement production. On the one hand, it has leveraged its core expertise in manufacturing high-quality, environmentally-friendly and safe cement products; on the other hand, it has continued to deepen its sustainable development concept and actively fostered the sustainability and vigorous development of infrastructure in China. We have comprehensively considered the concerns and expectations of customers, staff, suppliers, investors and other stakeholders during our business operations, established the principles of ESG management, and set specific management goals towards three aspects of quality, environment, and occupational health and safety, with an aim of providing direction guidance for daily sustainable development work of the Group.

Consolidating "DONGWU" Brand

The Group adheres to the building of the "DONGWU" brand and is committed to manufacturing high-quality products. Currently, "DONGWU" brand has been well recognized by customers in the markets of municipal engineering, transportation and construction in Suzhou City. We have carried out the principle of quality control "Quality First, Customers-Oriented", implemented ISO 9001 Quality Management System, and equipped with professional laboratories and technical staff to carefully monitor the quality assurance tasks such as inspection, control, statistics and factory certification. During the year, the quality conformity rate of ex-factory cement of the Group was 100%, our customer satisfaction rate was 95.8%, an increase of 1% as compared to last year, and after-sales service rating was up to 98%. We will continuously maintain our high-quality products and consolidate the brand image of DONGWU Cement in the region.

Fulfilling Environmental Responsibility

The Group understands that the daily operation of the cement industry has a certain impact on the environment. Therefore, we insist on using new production technique and strive to minimize the amount of bituminous coal used in the cement process. Through a series of technological transformation projects, we have optimized energy consumption and reduced emissions in the production process. During the year, the Group carried out energy-saving transformation of raw meal mills, which could save about 3.5 million kWh of electricity throughout the year. The Group also carried out technical transformations on reducing emissions of cement kilns during the year. After the transformation, the denitration efficiency was up to 80%, achieving emissions reductions of nitrogen oxides greater than 182,000 kg in 2019. We commissioned a third party to regularly measure the level of pollutants, and dust and noise generated in the cement production met the emission standard during the year.

Caring for Employees from Heart

The Group respects and cares for every employee. It endeavors to create a fair, harmonious and inclusive working environment for employees by constantly improving its human resources system. As we pay high attention to employee training, we held 91 training sessions targeted at scopes including environment, quality, safety and special types of work for our employees during the year, which benefited employees in improving their professional skills and promoting their development with the Group towards sustainability. The Group performed assessment on occupational safety risks in order to manage the sources of identified occupational health and safety risks by risk control and planning. During the year, work injury-related accident rate was lower than 1%.

Looking forward, we will continue to promote technical reform for enhancing production efficiency and integrate the sustainable development concept into the operation model of the Group. Therefore, I would like to express my sincere gratitude for attentions and contributions from all stakeholders, from whom the ongoing support will always be appreciated by the Group.

Xie Yingxia
Chairman of the Board
Dongwu Cement International Limited

ESG Management Approach

The Group attaches importance to the work in relation to ESG aspects. It forms a management structure leaded by our general manager, who will appoint representatives at management and staff levels to coordinate and harmonize the works of relevant parties for ensuring the constant and effective operation of the quality, environment and occupational health and safety management system. In accordance with requirements under ESG-related laws and regulations as well as international standards, the Group has formulated the "Quality, Environment and Occupational Health and Safety Management System Handbook" (the "Management Handbook"), through which the Group improved its quality, environment and occupational health and safety management system. The Group has been accredited with ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 for its quality, environment and occupational health and safety management system.

During its operation, in a comprehensive consideration of the needs and expectations from all stakeholders and based on its understanding of the risks and opportunities arising from ESG, the Group has established the principles of ESG management and set up specific management objectives in relation to quality, environment and occupational health and safety, which will provide guidance for the Group's daily sustainability work.

The Principles of ESG Management

We continuously monitor, measure, analyze and evaluate ESG related issues by tracking customer satisfaction and compliance condition, and use the findings of such internal review to implement corrective measures for ensuring the sufficiency and efficiency of our management system. In July 2019, the Group performed a comprehensive internal review, which covered all requirements for ISO 9001, ISO 14001 and OHSAS 18001 and included review on all relevant departments engaging in the quality, environment and occupational health and safety management system of the Group, and implemented precautions against 1 ascertained irregularity.

Stakeholder Engagement

The Group maintains regular communication with all stakeholders, and is committed to understanding and balancing the demands and expectations of all parties, and recognizing the risks and opportunities of the Group for sustainable development, based on which management and operation approaches can be adjusted in time.

Stakeholder	Communication Channel	Related Topic	Work and Achievement in the year 2019	Corresponding section
Government Authority	• Attending government meeting • Reporting to relevant authorities actively • Accepting supervision voluntarily	• Operation compliance • Environmental emission compliance • Legitimacy of our products	• Complying with relevant laws and regulations • Accepting environment supervision and evaluation to ensure emission meeting relevant standards	Operational Excellence, Environmental Responsibility
Investor and Shareholder	• General Meeting • Disclosing listing information • Activities such as annual or interim results press conference	• Corporate governance • Business operation • Information disclosure	• Releasing annual ESG report	Operational Excellence
Customer	• Customer complaint mechanism • Customer satisfaction survey	• Customer satisfaction • Product quality and safety • Privacy protection	• The annual comprehensive customer satisfaction reached 95.8% • Customer complaint handling rate was 100% • The quality conformity rate of ex-factory cement was 100%	Operational Excellence
Employee	• Regular and irregular interviews with employees • Employee trainings • Employee activities	• Training and development • Remuneration and benefits • Occupational health and safety	• Risk assessment of occupational safety hazard sources • Keeping the general injury accident rate below 1% • Organizing staff training for 91 times	Caring for Our People
Supplier	• Supplier meeting • Telephone inquiry • On-site inspection	• Communication with suppliers • Third party risk management	• Visiting suppliers on a regular basis and holding supplier meeting • All suppliers are qualified in the annual review	Operational Excellence
Media	• Press conference • Email communication • Telephone interview	• Information disclosure	• Releasing annual ESG report	Operational Excellence
Community	• Participating community activities • Social donation	• Environment protection • Social contribution	• Identifying environmental factors and risk assessment • Donating RMB280,000 in total to poor mountainous areas and charity funds of Guizhou	Environmental Responsibility, Caring for Our People

Operational Excellence

Dongwu Cement maintains efficient quality control and supply chain management to provide customers and users with excellent experience, with an aim to establish a regional and internationally renowned brand.

Product Quality Management

The Group is committed to providing customers with quality products and services by implementing comprehensive quality management. The Group passed the certification of ISO 9001:2015 Quality Management System and GB 175-2007 Common Portland Cement standards and held the certificate of Cement Enterprise Laboratory. The Group also implements a series of relevant policies on internal quality management. The Production Technology Department strictly controls the product quality in the production process to ensure the strength of semi-finished products (clinker) in compliance with GB/T 21372-2008 Portland Cement Clinker standards, and regularly inspects, maintains and repairs production facilities to ensure their normal operation.

As the key department for product quality control, the Group's Cement Laboratory is responsible for the quality inspection, control, statistics and certification of ex-factory cement and its relevant experimental research. The Laboratory is equipped with devices and equipment and professional technical operators under the "Basic Conditions of Cement Enterprise Laboratory" to perform quality inspections on incoming goods, semi-products and final products by professional means and screen out nonconforming products. For those nonconforming products, the Group will dispose those after cataloging the quality problems in accordance with Control Procedure for Non-conformance Correction and Prevention Measure. Any nonconforming products are strictly prohibited to be delivered to customers and corrected nonconforming products shall only be delivered after passing quality inspection.

Our products are sold in bulk cement or under the registered brand "". Our product labels are marked with "ex-factory cement quality certificate" which contains the requirements of GB 175-2007 Common Portland Cement Standards. In terms of advertisement, we strictly comply with laws and regulations including the "Advertising Law of the People's Republic of China", without any false or intentionally misleading information.

Quality Management Objectives	**Progress of the Year**
100% of quality conformity rate of our ex-factory cement	Achieved
100% of strength conformity rate of our ex-factory cement	Achieved

Customer Satisfaction

Dongwu Cement values customers' experience and opinions on products and services and is committed to improving customer satisfaction by improving product and service quality. During the year, the Sales Department conducted a questionnaire survey on customer satisfaction in June to collect relevant opinions and evaluations from customers on the quality, price and delivery time of the Group's products as well as after-sales tracking, consulting or complaint handling and timeliness of goods supply. According to the questionnaire survey with a 100% recovery rate, the customers' comprehensive satisfaction was 95.8%, reaching the annual target of more than 90% of customer satisfaction, an increase of 1 percentage point when compared to 2018. Among them, the after-sales tracking service scores the highest with an average of 98 points. The Group handles customers' opinions and complaints in an active and proper way. During the year, the customer complaint handling rate reached 100%, completing the annual target of 100% of complaint handling rate.

Customer Satisfaction Target	Progress of the Year
Customer satisfaction rate over 90% (inclusively)	Achieved, all items scored 92% or above with the after-sales service scored 98%

Supply Chain Management

A stable and premium supply chain is an important foundation for quality products and customer services. Through regular visits, telephone consultations, supplier meetings and other channels, the Group closely communicates with qualified suppliers and maintains long-term partnerships with them to ensure product quality and efficient and stable production.

The Group has established a supplier management system in accordance with national laws and regulations and based on its own situation, and formulated and implemented relevant internal documents such as the "Purchase Control Procedure", so as to standardize a series of supplier management procedures from selection, assessment, tracking and re-evaluation to ensure the compliance of the quality, delivery and services of suppliers with national industry standards and the Group's requirements.

Admission and selection	• Assessment of environmental risks and corporate environmental responsibility • Assessment of social risks, employees' rights and occupational health and safety
Evaluation and assessment	• Regular follow-up evaluation and annual review by the Supply Department • Irregular assessment according to market conditions
Policies and documents	• Purchase Control Procedure • Management Procedures on the Influence Exerted on Interested Parties

The selection and evaluation of suppliers of the Group are under the unified responsibility of the Supply Department and the Purchasing Department. When selecting new suppliers, they will consider and compare at least three alternatives. In addition to sample testing and quality management capability assessments, we also collect information on environmental protection and occupational health and safety of new suppliers to conduct environmental and social risks assessments, so as to select the qualified ones and establish cooperative relationships with them. Considering the high pollution of raw materials such as bituminous coal, the Group attaches special importance to the environmental protection status and environmental responsibility of suppliers. The Group's laboratory inspect the purchased raw materials in accordance with the "Internal Control Standard for Quality of Raw Materials". If quality problems identified, the Supply Department will communicate with the suppliers and follow up and keep records. Inspectors will conduct on-site inspections of suppliers when necessary. In addition, we strictly review compliance reports of new suppliers such as the protection of employees' rights and occupational health and safety to ensure that their operations are legal and compliant and that there are no issues of employing child or forced labor.

In addition to regular follow-up evaluations, the Supply Department also conducts irregular evaluations of suppliers based on changes in market conditions, and conducts source verification of suppliers that need to be verified in accordance with the "Control Procedure for Inspection and Measurement of Products". Qualified suppliers will be listed in the "List of Qualified Suppliers", and their quality evaluation records will be properly kept by the Supply Department for tracking and inquiry. When the supplied materials are found to be substandard during the source inspection, the related materials will be returned. When a supplier is found to have supplied substandard materials two or more times, we will terminate the cooperation relationship with it. Moreover, the Group has the right to terminate the cooperative relationship with any supplier that is determined to be in violation of regulations or whose services are not up to standard.

During the year, Dongwu Cement had a total of 14 cooperating suppliers, all of which were from Mainland China. All of our suppliers had passed the annual re-evaluation.

Sustainable procurement

In active response to the national policy, the Group always persists in the sustainable principle of "green procurement" during the procurement process, in order to guarantee high efficiency and low energy consumption of the equipment used in the production and operation process. We prohibit the purchase of obsolete products and equipment specified in the "Catalogue for the Elimination of Obsolete Production Capacity, Technology and Products", the "Catalogue for the Elimination of Obsolete Mechanical and Electrical Equipment (Products) with High Energy Consumption", and the "Industrial Structure Guidance Catalogue". When replacing existing products and equipment, we also try our best to adopt energy-saving products and equipment encouraged by the State, so as to make active contributions to the energy conservation and environmental protection.

Privacy and Intellectual Property Protection

The Group highly emphasizes the protection of privacy of customers, strictly complies with the Hong Kong Personal Data Privacy Ordinance and carries out relevant measures during the operation process to protect the privacy and benefits. For the sake of information security, all confidential information of our customers is only accessible to employees who are responsible for the corresponding project. Meanwhile, technical specialists shall sign strict confidentiality agreements to prevent deliberate or unintentional divulge of relevant information. In terms of the handling of information leakage, the Group will immediately take remedial measures for the leaked information such as explaining the incident through media.

The Group strives to protect the intellectual property, and strictly complies with Hong Kong Intellectual Property Law. When entering into contracts with our customers or suppliers, we will incorporate the protection of intellectual property in the contractual terms, in order to avoid the infringement upon intellectual property and any losses incurred to the Group and its customers and suppliers. In addition, the Group's legal department will also review all the contracts in operation to ensure that the contractual terms protect both parties' intellectual property rights.

During the Year, the Group was not aware of any violation of relevant laws and regulations[1] that have a significant impact on the Group relating to health and safety, privacy or infringement upon intellectual property rights relating to products and services provided.

Honest Operation

The Group always values and adheres to the principles of honesty and fairness, and strives to build an incorruptible and upright corporate culture. We have established and implemented the Prevention of Commercial Bribery Management Policy in our operation, in order to regulate employees' behavior and ensure the business operation in a incorruptible and compliant manner.

Anti-corruption measures

Project management	• Make an open tendering for the project involving a significant amount • Hand over contracts with different amounts to different levels of management for approval
Supply chain management	• Available suppliers shall be jointly assessed by several departments • The procurement shall not be commenced without approval with signature
Employee management	• Set up several employees' WeChat groups to encourage employees to report any misconduct to the superior • Organize and establish inspection teams and appraisal and reporting channels • Where conflicts of interest are likely to arise, employees are required to report to the management

The Group strictly complies with laws and regulations related to anti-corruption[2]. During the year, the Group was not aware of any violation of laws and regulations that prevent bribery, extortion, fraud and money laundering and have a significant impact on the Group. The Group was not involved in any corruption cases.

1 *Please refer to the Relevant Laws and Regulations section of this report for product and service responsibility-related laws and regulations.*

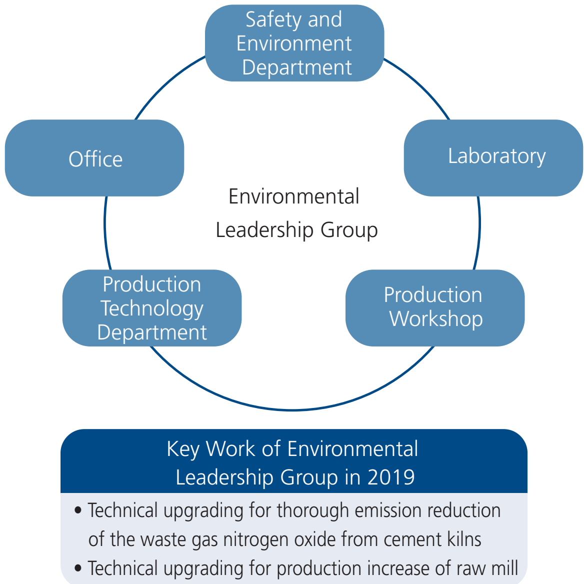
2 *Please refer to the Relevant Laws and Regulations section of this report for anti-corruption-related laws and regulations.*

Environmental Protection

Dongwu Cement strives to adopt a more environment-friendly operation mode, in order to reduce environmental impacts.

Environmental Management

Being well aware that the production of cement consumes resources and emits CO_2 which causes considerable impact on environment, the Group strives to enhance the environmental management efficiency and mitigate the environmental impacts to the largest extent by following the management principle of "anti-pollution, energy conservation, consumption and emission reduction and compliance with laws and regulations". The environmental management section of the Group's quality, environment and occupational health and safety management system has been certified by the ISO 14001:2015 Environmental Management System Standards.



We have specially set up an Environmental Leadership Group comprised the vice general manager of the Company and the heads of relevant departments to develop management guidelines and goals, and establish, implement and continually improve the environmental management system, in order to promote and monitor the effective operation of the environmental management system and ensure that the emissions generated from production process meet the standards.

During the year, the Group carried out comprehensive identification and risk assessment of 97 environmental factors and 8 key environmental factors, and conducted inspection of and recorded the operation of duct collection equipment, equipment noise, and emission of waste water, waste oil and solid waste from time to time, in order to guarantee the effective management and emission in compliance with relevant standards.

The Group strictly complies with laws and regulations related to environment[3]. The Safety and Environment Department has formulated the List of Applicable Laws and Regulations to update applicable environmental laws and regulations as and when necessary, and monitors and measures the emission of pollutants jointly with the Environmental Monitoring Department and Hygiene Supervision Department. During the year, the Group was not aware of any violation of laws and regulations that have a significant impact on the Group relating to the emission of exhaust gas and greenhouse gas, the discharge of pollutants to water or soil or the generation of hazardous or non-hazardous waste.

Environmental Management Objectives	Progress of the Year
Dust and noise emission meet standards	Achieved
100% solid waste classification and collection rate and 100% treatment rate	Achieved

Energy Management

The Group strictly complies with the Law of the People's Republic of China on Conserving Energy and has formulated Energy Management Handbook to manage the energy standardly and effectively. The energy management system obtained national certification in 2015. The Energy Leadership Group is actively studying new technologies with high energy efficiency and low environmental load, launching energy-saving technological transformation projects, and strengthening the management of production site to achieve sustainable development of the cement industry. We have successfully improved the overall energy efficiency of the Group by virtue of various environmental governance measures and energy saving measures.

3 *Please refer to the Relevant Laws and Regulations section of this report for environmental-related laws and regulations.*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy Leadership Group

The Energy Leadership Group of the Group comprises of the deputy general manager of the Company and persons in charge of different departments. It is responsible for establishing, implementing and continuously improving the Company's energy management system, and overseeing the efficiency of the Company's energy management. The group arranges various energy consuming departments to prepare the Energy Objectives and Targets Management Plan of the following year, which includes the focus of the year, the feasibility study for energy management projects and review of management approaches, in December of each year. In addition to the annual plan, the group summarizes energy management system operation information and energy performance on a quarterly basis and reports the summary to the Company to ensure the transparency of relevant information. The group is also responsible for receiving national and industrial energy management policies, standards and other requirements and reviewing the applicability of such received external information and delivering the same in a timely manner.

Key Work of Energy Leadership Group in 2019

- Technical upgrading for production increase of raw mill
- Technology upgrading project for high pressure blowers with frequency converters
- Strengthening the management on production site to eliminate leaks and improve energy efficiency

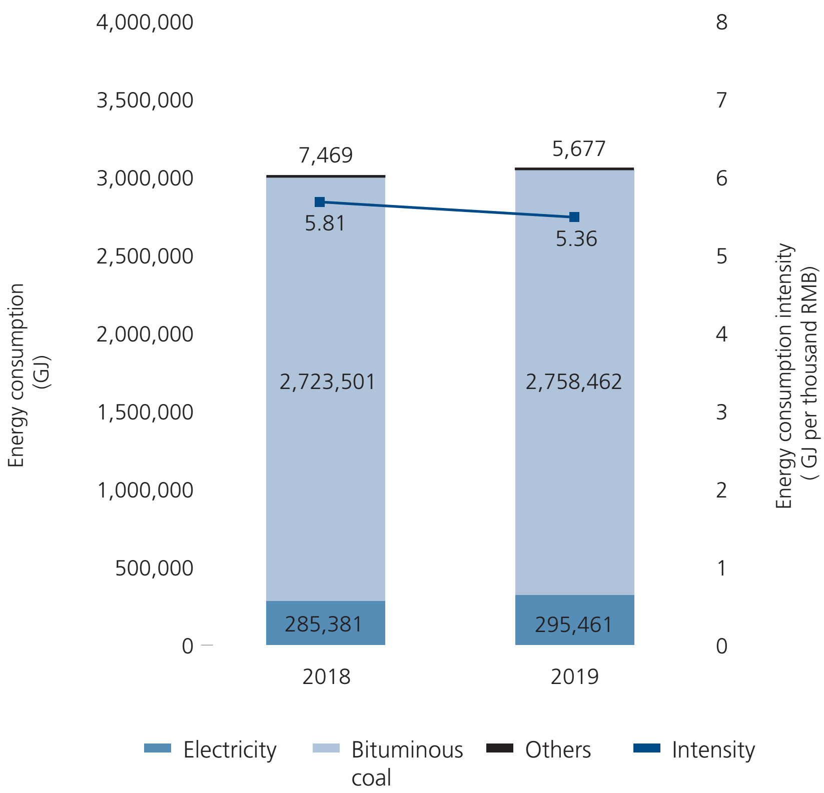
Adoption of New Production Process

The Group attaches great attention to the impact on the environment during the production process. With regard to the bituminous coal, the indispensable fuel during the cement production process, the Group adopts new production process to minimize the coal consumption and the pollution caused thereby. Dongwu Cement is the first and the only cement manufacturer in Suzhou at prefecture-level that adopts new dry process cement production process during the course of cement production, which can significantly reduce the coal consumption for per tonne of clinker and is advancing the industry innovation. We also use residual heat of waste gas from cement kilns as heat source to gain the necessary heat and to reduce our reliance on fossil fuels for heat, saving 10,412 tonnes of standard coal per year. During the year, the Energy Leadership Group continued the technology upgrading project for high pressure blowers with frequency converters, which was in line with the coal-saving policy of the Group.

Energy Consumption

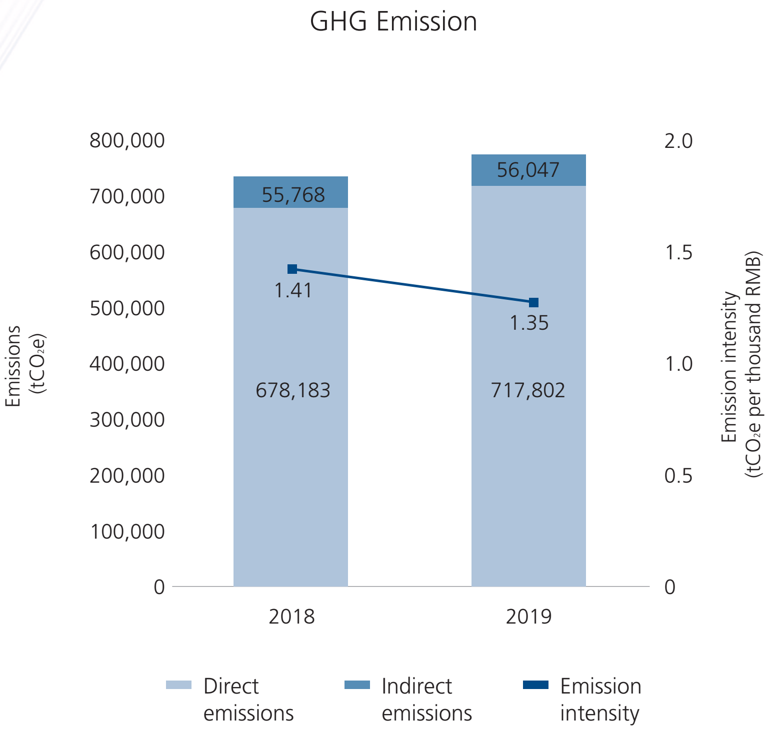
During the year under review, the total energy consumption of the Group amounted to 3,059,600 GJ, mainly including electricity, bituminous coal, petrol and diesel, among which bituminous coal accounted for 90%. Energy consumption intensity is 5.36 GJ per thousand RMB revenue in 2019.

Energy Consumption and Intensity



GHG emission

During the year, our total GHG emissions were 773,849 tonnes of carbon dioxide equivalent (tCO_2e), of which direct emissions and indirect emissions were 717,802 tCO_2e and 56,047 tCO_2e, respectively. The emission intensity was 1.35 tCO_2e per thousand RMB revenue.



Energy saving measures

Technical transformation of raw mills

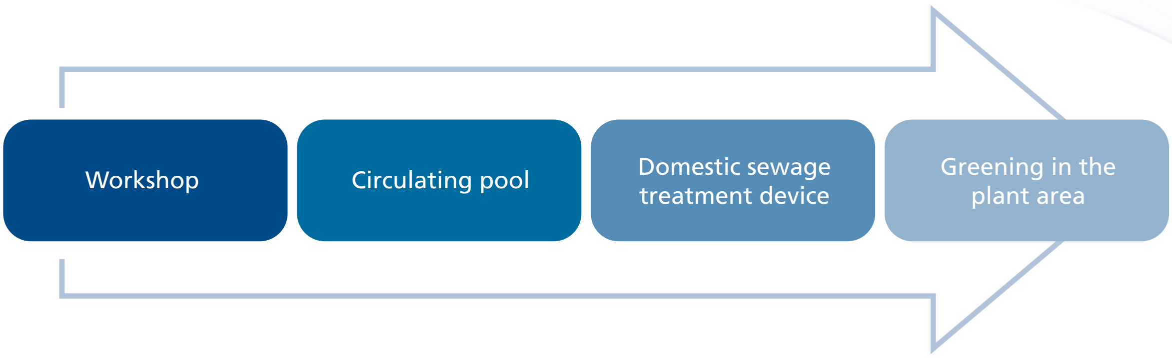
During the year, the Group invested more than RMB4 million to improve the production and energy efficiency of raw mills. By redesigning the vertical mill, the material flow rate can be effectively controlled, and the grinding efficiency and the powder selection efficiency can be improved. After the technical transformation was completed, the output of the raw mill increased by about 30 tons, the power consumption per ton of raw material decreased by 3 kWh, and the annual power saving was about 3.5 million kWh, achieving the Group's energy saving and consumption reduction goals.

Construction of pure low-temperature residual heat power station

The Group actively promotes the construction of energy-saving projects. In order to practice the best energy-saving method, the Group built a 4.5MW pure low-temperature residual heat power station in 2009, which generate electricity by driving the steam turbine using the furnace and kiln exhaust gas in the cement production process. Such pure low-temperature residual heat power station not only reduces the consumption of coal for power generation and the indirect greenhouse gas emissions arising from burning coal for power generation, but also reduces the annual purchase of electricity of the Group amounted to approximately 27.40 million kWh from the East Grid.

Water Resources Management

Our main water source is urban tap water, which is used for cement production and office operations. During the year, the Group consumed a total of 24,702 tonnes of water and the water consumption intensity is 0.043 tonnes per thousand RMB revenue. The Group did not have any issue in sourcing water that is fit for the purpose.



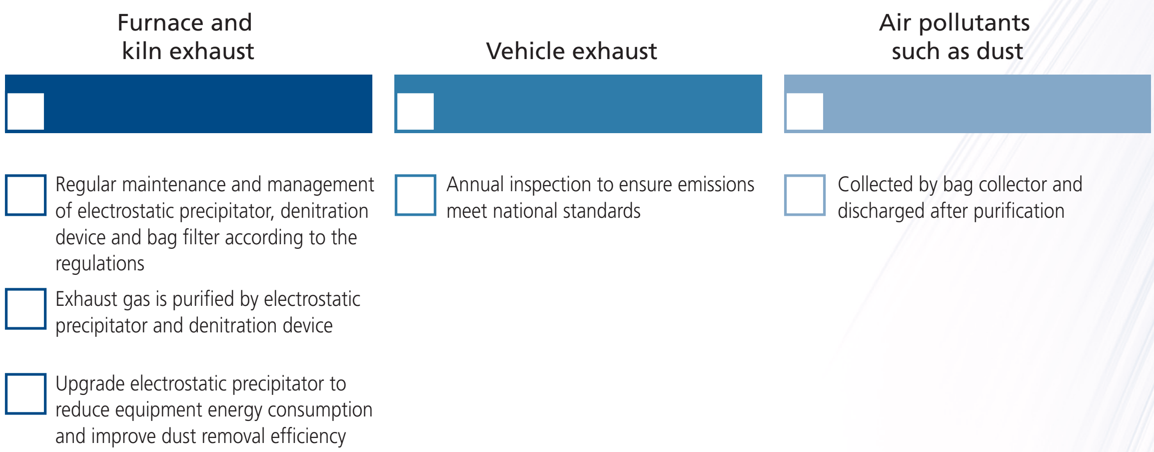
Closed-circuit circulating water system

In order to save water resources, properly handle the sewage treatment, and strive to achieve the goal of zero discharge, we adopt the closed-circuit circulating water system to recycle production water and purify sewage. We also collect domestic sewage and use it for greening after treated by the treatment device. During the year, the Group generated approximately 8,500 liters of sewage. After being treated by the circulating water system, the recycling rate reached 100%.

Emission Control

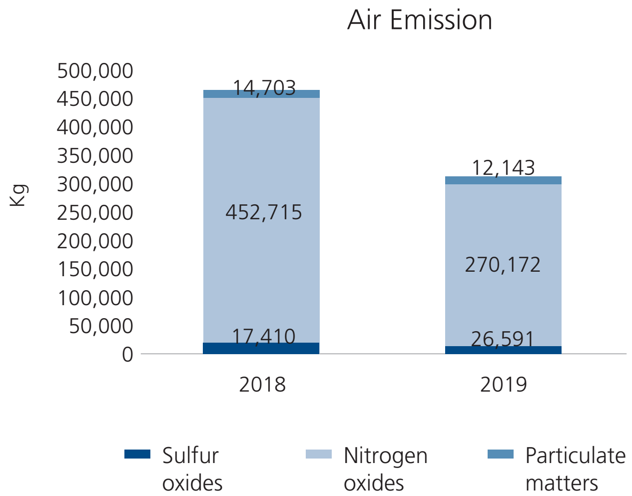
Air emissions

The sources of pollutants of the Group mainly come from kiln emissions from cement production and vehicle emissions. During the year, the Group emitted a total of 26,591 kg of sulfur oxides, 270,172 kg of nitrogen oxides and 12,143 kg of particulate matter, of which the nitrogen oxides emissions of cement kiln reduced by more than 182,000 kg as compared with last year.



Emission reduction technology transformation

To reduce nitrogen oxide emissions during cement production, the Group invested RMB3 million to carry out in-depth emission reduction technology transformation of nitrogen oxides in cement kiln exhaust gas during the year. As a result, the denitration efficiency can reach up to 80%, the annual emission reduction of nitrogen oxides in 2019 exceeded 182,000 kg, and the emission concentration was reduced by about 50% on the original basis, which has significant environmental benefits.

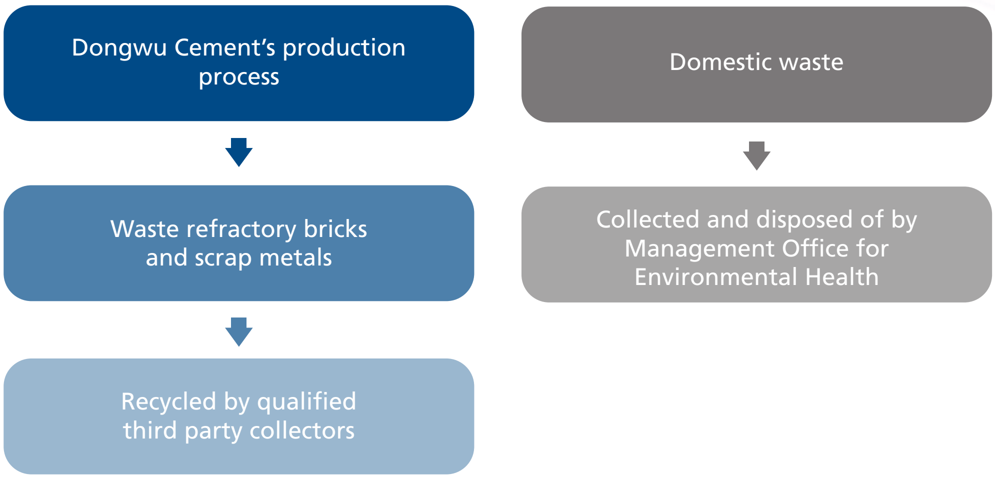


Air emission	Unit	Stationary source emission (kiln exhaust)	Mobile source emission (vehicle exhaust)	Total
Sulfur oxides (SO_x)	Kg	26,590	0.51	26,591
Nitrogen oxides (NO_x)	Kg	270,040	132	270,172
Particulate matters (PM)	Kg	12,130	13	12,143

The Group adopts targeted directives for different exhaust emissions to purify pollutants generated by its business as much as possible and reduce its impact on the environment. In order to ensure that the validity period of the instrument meets the requirements and that the treated exhaust gas meets national and industrial emission standards such as the "Integrated Emission Standards for Air Pollutants" and "Air Pollution Emission Standards from Cement Plants", the Group entrusts a third party to conduct testing and assessment every year.

Waste Disposal

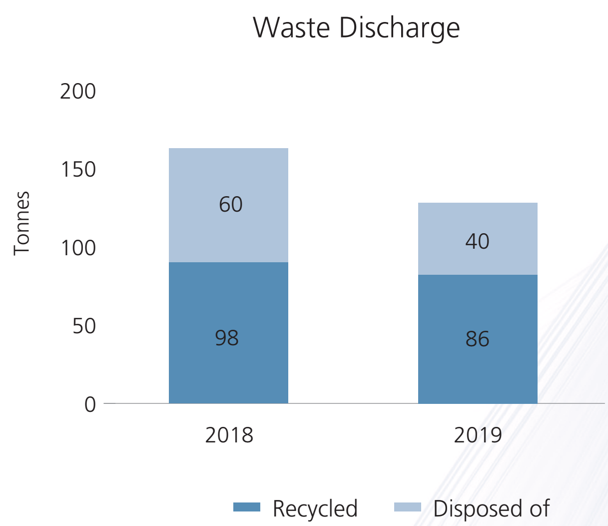
In order to reduce the environmental impact of waste generated by the business, the Group entrusts third parties to properly dispose of different types of waste, including solid waste and domestic waste from the production process.



The Group advocates repairing and utilizing old or discarded things, reducing the amount of waste generated by strengthening the daily maintenance of production equipment and extending the life of consumables.

During the year, the Group did not involve in the generation of hazardous waste. The production volume of non-hazardous waste was 126 tonnes, representing a decrease of about 20% compared with last year, and the waste recovery rate was close to 70%.

During the year, the Group consumed a total of 143 tonnes of plastic film woven bags, the main packaging material, representing a decrease of more than 20% from last year.



Noise Control

Regarding the noise in the industrial parks, the Group adopts qualified sound-absorbing equipment to mitigate the disturbance to the surrounding environment. In addition, in order to ensure that the noise emissions from the industrial parks are lower than the allowable limit of the "Emission Standard for Industrial Enterprises Noise at Boundary Sound-absorbing Equipment", the Group regularly cleans and inspects the use of equipment. During the year, the Group met the noise emission standards.

Response to Major Environmental Accidents

To prevent environmental emergencies, the Group strictly abides by the "Environmental Protection Law of the People's Republic of China" and "Emergency Management Measure for Environmental Emergencies" and has established internal policies such as "Flammable and Explosive Fire Control Procedure" to standardize the procedures for handling accidents that have a significant impact on the environment. During the year, the Group held a fire drill and trained all employees on how to respond to fire and other emergencies.

Green Office

In addition to the factory business, the Group encourages office staff to reduce waste in their daily work and work together to implement the Group's concept of saving resources. The specific measures adopted are as follows:

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

People-Oriented

Dongwu Cement attaches great importance to the rights and safety of its employees and is committed to improving its internal systems to create a fairer, more inclusive and healthier workplace.

Health and Safety

The Group regards the health and safety of its staff as one of its top priorities and is committed to creating a safe and comfortable working environment for them. We implement the health and safety management system certified with OHSAS 18001, continuously improve the relevant internal policies, and strictly comply with relevant laws and regulations in the management of health and safety related issues[4].

We have established comprehensive and effective operational procedures in terms of six aspects, including purchase control procedures, control procedures in relation to emergency preparation and response, control procedures in relation to accident treatment, control procedures in relation to the firefighting for inflammable and explosive articles, control procedures in relation to rectification and prevention measures in case of non-compliance as well as control procedures in relation to waste management. The Safety and Management Department is responsible for the supervision and inspection on the implementation, in order to reduce the occupational health and safety risks of each link in business operation. In order to control the source of occupational health and safety hazards, the Group conducted risk assessment during the year, identified a total of 67 different hazard sources and 4 important hazard sources, and managed them through risk control and planning.

During the year, the Group was not aware of any violations of laws and regulations concerning the provision of a safe working environment and the protection of employees from occupational hazards which have a significant impact on the Group.

Safe production

The Group ensures good condition of production equipment and timely updates equipment with safety hazards to reduce the risk of occupational injury. Through the monthly organization of environmental health, occupational health, production equipment and other major inspections, we timely identify problem relating to equipment, environment, safety and other aspects and make rectification. During the year, we implemented the replacement program of rotary kiln gear, replacing the existing equipment with serious wear and vibration on time to eliminate safety risks. In addition, in view of the serious corrosion of existing humidifying tower and chimney, which affects the safe operation of production, we formulated the replacement plan for the humidifying tower and chimney, and completed the installation and acceptance of new equipment on time.

We strictly strengthen the safety production and protection measures, standardize the safety production of essential goods and strengthen the distribution and use of labor protection supplies. During the year, we kept the incidence of general industrial accidents below 1% without any safety accident, fire accident or major production accident. We achieved the goal of 100% utilization rate of protective equipment for labor protection, and there are no cases of common occupational diseases such as pneumoconiosis and ear diseases.

[4] *Please refer to the Relevant Laws and Regulations section of this report for health and safety-related laws and regulations.*

Safety Management Objectives	Progress for the Year of 2019
Zero incident rate of major casualty	Achieved
Zero fire incident rate	Achieved
Zero occupational disease incident rate	Achieved
Less than 1% minor work-related injury	Achieved

Safety Training

Attaching great importance to the health and safety education, the Group enhances employees' safety awareness and strengthens their knowledge and skills related to safety by means of case introduction, training and drills. Through effective operation of the occupational health and safety management system, the management deepens their health and safety awareness, which motivates subordinate employees to implement relevant policies and use related knowledge in daily work.

The Group organizes the safety production month event, and strengthens the emergency preparation in key areas through drills. As for the occupational safety of special posts, the Group organized the training program integrating internal and external training, and realized 100% employment with certificates of special type of work such as inspectors in the laboratory within the year.

Employment Practices

The Group always strives to build a fair and mutual-respect working environment, and takes zero-tolerance attitude towards any kind of discrimination. It offers equal treatment and promotion opportunities to all employees regardless of their identity, race and sex. It is in strict compliance with the relevant laws and regulations including the Labor Law of the People's Republic of China[5], and has formulated the Human Resources Procedures and Human Resources Management System to protect employees' rights and interests.

The Group emphasizes the fairness during recruitment, and selects outstanding talents in line with the Group's development from the society through comprehensive capability assessment. Each employee of the Group is selected through fair and meticulous procedures. As for job vacancies, the Group first selects candidates from the internal employees to provide sufficient promotion space for employees. In the absence of proper internal candidates for promotion, the Group will conduct open recruitment. Meanwhile, we also protect employees' right for resignation. Department leaders would communicate with such resignation applicants to understand their reasons for resignation and retain outstanding employees.

The Group provides munificent remuneration and welfares for employees. Salaries of employees are composed of basic salaries, overtime payments and performance bonus. Performance bonuses are subject to adjustment in accordance with the annual performance appraisal of employees in reward of outstanding employees. We maintain five insurances and one fund, namely, pension, medical, unemployment, work injury and maternity insurances and housing provident fund for our employees. Employees are also entitled to marriage, maternity, annual leaves, etc. In addition, we also offer additional subsidies and allowance such as holiday allowance and heat allowance according to the system.

5 *Please refer to the Relevant Laws and Regulations section of this report for employment-related laws and regulations.*

In addition, the Group refuses to hire child labor and forced labor. During the recruitment, the Group makes it clear that it only hires people aged 16 or above and uses identity verification to prevent child labor.

During the reporting period, the Group was not aware of any legal and regulatory matters relating to compensation or dismissal, recruitment or promotion, working hours, holidays, equal opportunities, anti-discrimination, prevention of child labor or forced labor or other benefits which have a significant impact on the Group. There were also no related cases of child labor or forced labor during the year.

Staff Training

The Group attaches great importance to staff training, with particular emphasis on environmental, quality and safety aspects and training for posts with special types of work. In order to better implement the training plan, the Human Resources Department analyzes the training needs in detail and formulates an annual staff training plan, and tracks the training process to evaluate the effectiveness of staff training. The training adopts a combination of internal training and external training, and each functional department cooperates with the Human Resources Department to implement various trainings. During the year, the Group carried out 8 targeted trainings and completed 91 trainings.

Induction training

- Targeted on new or transferred employees
- Help employees improve work skills and adapt to new job requirements as soon as possible
- Adopt a training method in which new employees are assisted by old employees

Training abroad

- Pay part of the tuition fees for employees to support employees to participate in professional technical training
- Improve the professional knowledge and skills of employees in the workplace, and improve the comprehensive quality of employees

Job skills training

- Targeted on all employees
- Provide skills training for different positions according to the required skills

Safety education and training

- Targeted on all employees
- To ensure the employees to be equipped with necessary safety production knowledge and operation skills and improve employees' safety awareness

Staff self-training

- Encourage employees to self-train to enrich their experiences without affecting their work
- Allow taking leave for examination

Types of training

The Group uses monthly and annual assessments to conduct comprehensive evaluations of employees' work efficiency, operational ability, work attitude and professional knowledge. For employees with outstanding annual assessment results, the Group provides more career development options and benefits to encourage employees to pursue higher career development goals. Through diversified training and effective performance appraisal management, the Group helps employees improve their capabilities and develop together.

Training highlights in 2019

Product Quality Management Training

The Group carried out the training of "Quality Management Procedures of Cement Enterprise", explaining in detail the contents of the new regulations, various quality management systems and related operational requirements. Employees have understood the importance of quality inspection and further improved the level of quality inspection to achieve the intended purpose of training.

Laboratory Quality Management Training

The Group carried out content training on laboratory quality management manuals for laboratory personnel, conducted detailed content explanations for laboratory personnel, and clarified the requirements for internal control standards. At the end of the training, on site questioning, assessment and review were conducted, and all employees passed the review.

Safety Knowledge Training

The Group conducted training on production safety for all employees, mainly explaining the safety knowledge of summer high temperature operations, occupational disease prevention law, and limited space operation specifications. After the course, all staff members conducted relevant knowledge assessments, and all participating staff members achieved qualified results.

Community Investment

The Group values the connection with the communities in which it operates, and is committed to using its own resources to bring positive impact to the local community with a view to developing with the community. During the year, we donated RMB80,000 to the poor mountainous areas of Guizhou to promote local economic and social development. At the same time, we donated RMB200,000 to the Wujiang Charity Foundation to give back to the society by contributing charity.

Relevant Laws And Regulations

Regarding different aspects of sustainable development, the Group strictly complies with the applicable laws and regulations of our nation and set out below:

ASPECTS	LAWS AND REGULATIONS	RELEVANT SECTIONS
Emissions	Environmental Protection Law of the People's Republic of China Water Pollution Prevention and Control Law of the People's Republic of China Atmospheric Pollution Prevention and Control Law of the People's Republic of China Law of the People's Republic of China on Prevention and Control of Pollution from Environment Noise Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes Ambient Air Quality Standard Integrated Emission Standards for Air Pollutants Integrated Wastewater Discharge Standard Emission Standard for Industrial Enterprise Noise at Boundary	Environmental Protection – Environmental Management
Use of Resources	Energy Conservation Law of the People's Republic of China	Environmental Protection – Energy Management
The Environment and Natural Resources	Environmental Protection Law of the People's Republic of China Emergency Response Law of the People's Republic of China	Environmental Protection – Response to Major Environmental Accidents
Health and Safety	Production Safety Law of the People's Republic of China Law of the People's Republic of China on the Prevention and Control of Occupational Diseases Special Equipment Safety Law of the People's Republic of China Regulation of the People's Republic of China on Prevention and Control of Pneumoconiosis Fire Control Law of the People's Republic of China Regulations of Jiangsu Province on Firefighting and Prevention Regulation on work-related Injury Insurance of Jiangsu Province	People – Oriented – Health and Safety

ASPECTS	LAWS AND REGULATIONS	RELEVANT SECTIONS
Employment		
Labour Standards	Labour Law of the People's Republic of China Labour Contract Law of the People's Republic of China Provisions on the Prohibition of Using Child Labor of the People's Republic of China Social Insurance Law of the People's Republic of China Law of the People's Republic of China on the Protection of Women's Rights and Interest Law of the People's Republic of China on the Protection of Disabled Persons	People – Oriented – Employment Practices
Product Responsibility	Quality Management Procedures of Cement Enterprise Basic Conditions of Cement Enterprise Laboratory Product Quality Law of the People's Republic of China Advertising Law of the People's Republic of china Patent Law of the People's Republic of China Trademark Law of the People's Republic of China Copyright law of the People's Republic of China	Operational Excellence – Product Quality Management Operational Excellence – Privacy and Intellectual Property Protection
Anti-corruption	Criminal Law of the People's Republic of China Anti-Unfair Competition Law of the People's Republic of China	Operational Excellence – Honest Operation

Performance Data Summary

		Unit	2019	2018
Environment	Resources consumption			
	Energy consumption	GJ	3,059,600	3,016,351
	Energy consumption intensity	GJ per thousand RMB revenue	5.36	5.81
	Electricity	kWh	82,072,420	79,272,550
	Bitumite	Tonnes	130,770	126,088
	Petrol	Litres	21,372	19,470
	Diesel	Litres	139,521	191,162
	Water resources	Tonnes	24,702	22,967
	Water resources consumption intensity	Tonnes per thousand RMB revenue	0.043	0.044
	Emission			
	Greenhouse gas emission			
	Scope1: direct carbon emission	tCO_2e	717,802	678,183
	Scope2: indirect carbon emission	tCO_2e	56,047	55,768
	Total	tCO_2e	773,849	733,951
	Greenhouse gas emission intensity	tCO_2e per thousand RMB revenue	1.35	1.41
	Exhaust emission			
	NO_x	Kg	270,172	452,715
	SO_x	Kg	26,591	17,410
	PM	Kg	12,143	14,703
	Waste			
	Hazardous waste	Tonnes	No hazardous waste was generated from the operation of the Group.	
	Non-hazardous waste			
	General waste			
	Generated	Tonnes	126	158
	Recycled	Tonnes	86	98
	Disposed	Tonnes	40	60
	Sewage			
	Generated	Litres	8,500	9,000
	Recycled	Litres	8,500	9,000
	Packaging materials			
	Compound plastic bags	Tonnes	143	180
Social	Community Donations	RMB	280,000	160,000

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental, Social and Governance Reporting Guide Index

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

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

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

KPI	Requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange		Section/note
Aspect B4:			
Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		People-Oriented – Employment Practices
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	People-Oriented – Employment Practices
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	No non-compliance occurred during the year
Aspect B5:			
Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain.		Operational Excellence – Supply Chain Management

KPI	Requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange		Section/note
Aspect B6:			
Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Operational Excellence – Product Quality Management, Customer Satisfaction and Privacy and Intellectual Property Protection
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Operational Excellence – Privacy and Intellectual Property Protection
	KPI B6.4	Description of quality assurance process and recall procedures.	Operational Excellence – Product Quality Management
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Operational Excellence – Privacy and Intellectual Property Protection
Aspect B7:			
Anticorruption	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Operational Excellence – Honest Operation
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	No corruption litigation cases during the year.
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Operational Excellence – Honest Operation

KPI	Requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange		Section/note
Aspect B8:			
Community Investment	**General Disclosure** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		People-Oriented – Community Investment
	KPI B8.1	Focus areas of contribution.	People-Oriented – Community Investment
	KPI B8.2	Resources contributed to the focus area.	People-Oriented – Community Investment

INDEPENDENT AUDITOR'S REPORT

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TO THE MEMBERS OF DONGWU CEMENT INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Dongwu Cement International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 84 to 176, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters *(Continued)*

Impairment assessment of trade and loan receivables

Refer to Notes 5(c) and 25 to the consolidated financial statements.

The gross carrying amounts of the Group's gross trade and loan receivables as at 31 December 2019 were approximately RMB104,428,000 and RMB127,400,000, respectively, and provisions for impairment losses thereon were approximately RMB1,800,000 and RMB1,067,000, respectively.

Management applied judgement in assessing the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision of impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customers and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected credit loss rates are determined based on historical credit losses and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.

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

Our response:

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

– Assessing the competence, capabilities and objectivity of the independent qualified professional valuer;

– Challenging with the independent qualified professional valuer on the valuation process to understand the significant assumptions and inputs adopted in the valuation and the management's critical judgmental areas;

– Understanding and validating the credit control procedures performed by the management, including its procedures on periodic review of aged receivables and assessment on expected credit loss allowance of receivables;

– Evaluating the reasonableness of the methodologies adopted in the valuation models;

– Evaluating the reasonableness of the assumptions and inputs adopted, including the historical settlement pattern, correspondence with the customers, evidence from external sources including market research regarding the relevant forward-looking information such as macroeconomic factors;

Key Audit Matters *(Continued)*

Our response: *(Continued)*

– Agreeing input data applied, on selective basis, to supporting evidence; and

– Testing on a sample basis, the subsequent settlement of trade and loan receivables against bank receipts.

Other Information in the Annual Report

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

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

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

Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Hong Kong, 26 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019 RMB'000	2018 RMB'000 (Re-presented)
Revenue	7	**571,150**	516,037
Cost of sales and services		**(432,826)**	(378,662)
Gross profit		**138,324**	137,375
Distribution expenses		**(4,219)**	(4,065)
Administrative expenses		**(30,229)**	(39,801)
Other income	8	**12,413**	19,364
Other gain/(loss) – net	9	**7**	(1,286)
Operating income		**116,296**	111,587
Finance income		**988**	1,004
Finance expenses		**(3,245)**	(4,180)
Finance expenses – net	10	**(2,257)**	(3,176)
Share of results of an associate	22	**4,327**	1,860
Profit before income tax expense	11(a)	**118,366**	110,271
Income tax expense	15	**(41,853)**	(38,340)
Profit for the year from continuing operations		**76,513**	71,931
Discontinued operation			
(Loss)/profit for the year from a discontinued operation, after tax	11(b)	**(15,811)**	17,739
Profit for the year		**60,702**	89,670
Other comprehensive income for the year, net of tax			
Items that will not be reclassified to profit or loss:			
Changes in fair value of financial assets at fair value through other comprehensive income	23(a)	**2,466**	(2,466)
Other comprehensive income, net of tax		**2,466**	(2,466)
Total comprehensive income for the year		**63,168**	87,204

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019 RMB'000	2018 RMB'000 (Re-presented)
Profit for the year attributable to:			
Owners of the Company			
– From continuing operation		**76,513**	71,931
– From a discontinued operation		**(9,844)**	18,403
		66,669	90,334
Non-controlling interests			
– From continuing operation		**–**	–
– From a discontinued operation		**(5,967)**	(664)
		(5,967)	(664)
		60,702	89,670
Total comprehensive income for the year attributable to:			
Owners of the Company			
– From continuing operation		**78,979**	69,465
– From a discontinued operation		**(9,844)**	18,403
		69,135	87,868
Non-controlling interests			
– From continuing operation		**–**	–
– From a discontinued operation		**(5,967)**	(664)
		(5,967)	(664)
		63,168	87,204
Earnings per share from continuing and discontinued operations			
– Basic and diluted (RMB per share)	13	**0.121**	0.164
Earnings per share from continuing operations			
– Basic and diluted (RMB per share)	13	**0.139**	0.130

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**169,102**	119,440
Land use rights	19	–	15,296
Intangible assets	20	**403**	403
Investment in an associate	22	**30,187**	25,860
Financial assets at fair value through other comprehensive income	23(a)	–	6,534
Financial assets at fair value through profit or loss	23(b)	**110,000**	–
Deposit paid for acquisition of a property	25	–	20,500
Loan and other receivables	25	–	51,000
Contract assets	25	–	5,470
Total non-current assets		**309,692**	244,503
Current assets			
Inventories	24	**27,906**	27,188
Trade and other receivables	25	**272,053**	357,248
Short-term bank deposits	27	**49,180**	44,400
Cash and cash equivalents	28	**81,826**	35,726
		430,965	464,562
Assets of a discontinued operation classified as held for sale	11(b)	**63,256**	–
Total current assets		**494,221**	464,562
Current liabilities			
Lease liabilities	17	**63**	–
Trade and other payables	29	**161,039**	101,194
Income tax payables		**19,047**	21,884
Borrowings	30	**37,028**	71,553
		217,177	194,631
Liabilities of a discontinued operation classified as held for sale	11(b)	**33,648**	–
Total current liabilities		**250,825**	194,631
Net current assets		**243,396**	269,931
Total assets less current liabilities		**553,088**	514,434

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	31	**26,559**	17,018
Total non-current liabilities		**26,559**	17,018
Net assets		**526,529**	497,416
EQUITY			
Equity attributable to owners of the Company			
Share capital	32	**4,490**	4,490
Reserves		**514,344**	479,264
		518,834	483,754
Non-controlling interests		**7,695**	13,662
Total equity		**526,529**	497,416

On behalf of the Board

Xie Yingxia
Director

Ling Chao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to owners of the Company						
	Notes	Share capital RMB'000	Other reserves RMB'000 (Note 33)	Fair value through other comprehensive income reserve RMB'000 (Note 33(d))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017 as originally presented		4,490	327,474	–	66,838	398,802	14,326	413,128
Initial application of HKFRS 9		–	–	–	(2,916)	(2,916)	–	(2,916)
Restated balance as at 1 January 2018		4,490	327,474	–	63,922	395,886	14,326	410,212
Profit/(loss) for the year		–	–	–	90,334	90,334	(664)	89,670
Other comprehensive income								
Changes in fair value of financial assets at fair value through other comprehensive income	*23(a)*	–	–	(2,466)	–	(2,466)	–	(2,466)
Total comprehensive income		–	–	(2,466)	90,334	87,868	(664)	87,204
Appropriations to statutory reserves	*33(a)*	–	9,497	–	(9,497)	–	–	–
As at 31 December 2018 and 1 January 2019		4,490	336,971	(2,466)	144,759	483,754	13,662	497,416
Initial application of HKFRS 16		–	–	–	(9)	(9)	–	(9)
Restated balance as at 1 January 2019		4,490	336,971	(2,466)	144,750	483,745	13,662	497,407
Profit/(loss) for the year		–	–	–	66,669	66,669	(5,967)	60,702
Other comprehensive income								
Changes in fair value of financial assets at fair value through other comprehensive income	*23(a)*	–	–	2,466	–	2,466	–	2,466
Total comprehensive income		–	–	2,466	66,669	69,135	(5,967)	63,168
Appropriations to statutory reserves	*33(a)*	–	9,532	–	(9,532)	–	–	–
Dividends declared and paid in respect of the previous year		–	–	–	(34,046)	(34,046)	–	(34,046)
At 31 December 2019		4,490	346,503	–	167,841	518,834	7,695	526,529

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019 RMB'000	2018 RMB'000 (Re-presented)
Cash flows from operating activities			
Profit before income tax expense from continuing operation		**118,366**	110,271
(Loss)/profit before income tax expense from a discontinued operation	11(b)	**(15,828)**	20,932
		102,538	131,203
Adjustments for:			
Depreciation of property, plant and equipment	16	**17,752**	15,099
Depreciation of right-of-use assets	16	**1,138**	–
Amortisation of land use rights	19	**–**	404
Amortisation of intangibles assets	20	**–**	1,969
Reversal of provision for impairment on trade receivables, net	25	**(2,053)**	(1,468)
Provision for impairment on contract assets, net	25	**–**	2,240
Provision for/(reversal of) provision for impairment on other receivables, net	25	**257**	(39)
Reversal of provision for impairment on loan receivables, net	25	**(2,821)**	–
Gain on disposal of property, plant and equipment	9	**(7)**	(55)
Finance income	10	**(988)**	(1,005)
Finance expenses	10	**3,245**	4,426
Share of results of an associate	22	**(4,327)**	(1,860)
Loss on forfeiture of non-refundable deposit	9	**–**	1,348
Loss on disposal of construction project	9	**13,617**	–
Guaranteed profit from Biofit Group's former shareholder	8	**–**	(24,679)
Interest income from loan receivables	8	**(3,379)**	(9,247)
Impairment loss on goodwill	18	**–**	9,396
Impairment loss on intangible assets	20	**–**	3,258
Operating profit before working capital changes		**124,972**	130,990
Increase in inventories		**(718)**	(1,882)
Decrease in trade and other receivables		**63,358**	41,704
Increase in trade and other payables		**75,809**	6,659
Cash generated from operating activities		**263,421**	177,471
Interest paid		**(3,245)**	(3,367)
Income tax paid		**(31,465)**	(27,391)
Net cash generated from operating activities		**228,711**	146,713

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019 RMB'000	2018 RMB'000 (Re-presented)
Cash flows from investing activities			
Interest received		**988**	1,005
Proceeds of disposal of/(investment) in financial asset at fair value through other comprehensive income	*23(a)*	**9,000**	(9,000)
Purchases of property, plant and equipment	*16*	**(52,502)**	(26,948)
Investment in financial assets at fair value through profit or loss	*23(b)*	**(110,000)**	–
Proceeds from disposal of property, plant and equipment		**14**	112
Repayment from third parties (loan receivables)	*25*	**40,000**	–
Loans to third parties (loan receivables)	*25*	**(10,000)**	(51,000)
Addition of short-term bank deposits	*27*	**(4,780)**	(42,160)
Deposit refunded for acquisition of a subsidiary	*25*	**–**	2,718
Deposit paid for acquisition of a property	*25*	**–**	(20,500)
Deposit received from disposal of subsidiaries	*29*	**11,000**	3,541
Net cash used in investing activities		**(116,280)**	(142,232)
Cash flows from financing activities	*41*		
Cash dividend paid	*12*	**(34,046)**	–
New Borrowing raised		**10,700**	62,528
Repayments of borrowings		**(42,225)**	(55,885)
Repayment to a non-controlling shareholder of a subsidiary		**–**	(3,995)
Repayment of principal portion of the lease liabilities		**(737)**	–
Net cash (used in)/generated from financing activities		**(66,308)**	2,648
Net increase in cash and cash equivalents		**46,123**	7,129
Cash and cash equivalents at beginning of the year		**35,726**	28,597
Cash and cash equivalents at end of the year		**81,849**	35,726
Represented by:			
Cash and bank balances		**81,826**	35,726
Cash and bank balances attributable to a discontinued operation	*11(b)*	**23**	–
		81,849	35,726

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

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

The Company is an investing holding company. The Company and its subsidiaries as mentioned in Note 21 are collectively referred to as the "Group". The Group is principally engaged in the production and sales of cement, and provision of sewage and sludge treatment operation and construction services. The principal place of the Group's business is Fenhu Economic Development Zone, Wujiang, Jiangsu Province, People's Republic of China (the "PRC").

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2019

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements, except for the adoption of the following new standards and interpretations as of 1 January 2019 and the policies stated in below:

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

The impacts of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any material impact on the Group's accounting policies.

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

(a) *Adoption of new/revised HKFRSs – first effective on 1 January 2019* *(Continued)*

Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets under property, plant and equipment ("right-of-use assets") and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The effect of adoption of HKFRS 16 is as follows:

(i) The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows (increase/(decrease)):

	RMB'000
Non-current assets	
Right-of-use assets presented in property, plant and equipment	16,093
Land use rights *(Note 19)*	(15,296)
Increase in total assets	797
Current liabilities	
Lease liabilities	806
Increase in total liabilities	806
Equity	
Retained earnings	(9)
Increase in equity	(9)

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

(a) *Adoption of new/revised HKFRSs – first effective on 1 January 2019* *(Continued)*

Impact of the adoption of HKFRS 16 *(Continued)*

(ii) The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	3,117
Less: Future interest expenses	(11)
Less: Short term leases with a remaining lease term ending on or before 31 December 2019	(2,300)
Lease liabilities as at 1 January 2019	806
Weighted average incremental borrowing rate as at 1 January 2019	2.38%

New definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate 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, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2019 *(Continued)*

Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use assets

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liabilities

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2019 *(Continued)*

Lease liabilities *(Continued)*

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; and (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application on 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

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

(a) *Adoption of new/revised HKFRSs – first effective on 1 January 2019* *(Continued)*

Transition *(Continued)*

The Group has also applied the follow practical expedients: (i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application on 1 January 2019 and accounted for those leases as short-term leases; and (ii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

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

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

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

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

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

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

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

Amendments to HKFRS 3 – Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

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

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

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

3. Basis of Preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared under 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.

(c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(d) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), and all values are rounded to the nearest thousand except when otherwise indicated. The consolidated financial statements are presented in Renminbi ("RMB") since majority of the Group's operation are carried out in RMB. The Company's functional currency is Hong Kong Dollars ("HKD") since majority of the activities of the Company are conducted in HKD.

4. Significant Accounting Policies

(a) Business combination and basis of consolidation

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

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

4. Significant Accounting Policies *(Continued)*

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

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

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

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) ***Subsidiary***

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

In the Company's statement of financial position (note 34), investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. Significant Accounting Policies *(Continued)*

(c) Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

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

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

In the Company's statement of financial position (note 34), investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

(d) Goodwill

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

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

4. Significant Accounting Policies *(Continued)*

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

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

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

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

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

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

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

Property and plant	20 years
Machinery	10 years
Motor vehicles	5 years
Furniture, fittings and equipment	3-5 years

4. Significant Accounting Policies *(Continued)*

(e) Property, plant and equipment (Continued)

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

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

(f) Intangible assets

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

Money lenders licence	indefinite

Method of amortisation are reviewed annually. Intangible assets are tested for impairment as described in Note 4(p).

(g) Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use assets

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

4. Significant Accounting Policies *(Continued)*

(g) Leasing (accounting policies applied from 1 January 2019) *(Continued)*

Right-of-use assets *(Continued)*

In addition to the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. The right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liabilities

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; and (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(h) Land use rights (accounting policies applied until 31 December 2018)

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

4. Significant Accounting Policies *(Continued)*

(i) Leasing (accounting policies applied until 31 December 2018)

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

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

(j) Financial instruments

(i) Financial assets

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

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

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

Debt instruments

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

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

4. Significant Accounting Policies *(Continued)*

(j) ***Financial instruments*** *(Continued)*

(i) Financial assets *(Continued)*

Debt instruments (Continued)

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

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

Equity instruments

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

4. Significant Accounting Policies *(Continued)*

(j) Financial instruments (Continued)

(ii) Impairment loss on financial assets

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

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

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

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

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

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

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

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

4. Significant Accounting Policies *(Continued)*

(j) Financial instruments (Continued)

(iii) Financial liabilities

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

Financial liabilities at amortised cost

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

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Derecognition

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

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

4. Significant Accounting Policies *(Continued)*

(j) Financial instruments (Continued)

(vi) Derecognition *(Continued)*

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

(k) Inventories

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

(l) Revenue recognition

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

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

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

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

4. Significant Accounting Policies *(Continued)*

(l) ***Revenue recognition*** *(Continued)*

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

(i) Sales of cement products

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

(ii) Sewage and sludge treatment construction services

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

4. Significant Accounting Policies *(Continued)*

(l) Revenue recognition *(Continued)*

(iii) Sewage and sludge treatment operation services

Revenue is recognised over time as those services are provided. Invoices for sewage and sludge treatment operation services are generally issued on a monthly basis and are usually payable within 90 days. If there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise a contract asset.

(iv) Solid waste processing income

Revenue is recognised over time as those services are provided. Invoices for solid waste processing income are generally issued on a monthly basis and are usually payable within 90 days.

(v) Other income

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

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

Contract assets and liabilities

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

(m) Income taxes

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

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

4. Significant Accounting Policies *(Continued)*

(m) ***Income taxes*** *(Continued)*

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

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

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

(n) ***Foreign currency***

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

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

4. Significant Accounting Policies *(Continued)*

(n) ***Foreign currency*** *(Continued)*

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

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

(o) ***Employee benefits***

(i) Pension schemes

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

(ii) Other benefits

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Significant Accounting Policies *(Continued)*

(p) Impairment of non-financial assets

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

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

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

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

(q) Provisions and contingent liabilities

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

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

4. Significant Accounting Policies *(Continued)*

(r) Government grants

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

(s) Segment reporting

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

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

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

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

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

4. Significant Accounting Policies *(Continued)*

(t) Related parties (Continued)

(b) *(Continued)*

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

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

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

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

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

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

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

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

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

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

(u) Non-current assets held for sale and disposal groups

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

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;

4. Significant Accounting Policies *(Continued)*

(u) ***Non-current assets held for sale and disposal groups*** *(Continued)*

- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and

- a sale is highly probable and expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and

- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

If the Group has classified an asset or disposal group as held for sale, but the criteria for classified as held for sale are no longer met, the Group shall cease to classify the asset or disposal group as held for sale and measure them at the lower of:

(a) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and

(b) its recoverable amount at the date of the subsequent decision not to sell.

If the Group ceases to classify a component of the Group as held for sale, the results of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

5. Critical Accounting Judgements and Key Sources of Estimates Uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

(a) Carrying value of property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and value-in-use of an asset or the CGU to which an asset relates. In estimating the recoverable amounts of assets or CGUs, various assumptions, including fair value of CGU, estimated costs of disposal, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group's results of operations or financial position.

(b) Useful lives of machinery

Management determines the estimated useful lives and related depreciation charges for its machinery. This estimate is based on the historical experience of the actual useful lives of machinery of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. Management will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Estimated impairment of trade, loan and other receivables

The Group maintains a provision for impairment of trade, loan and other receivables arising from the inability of its customers and debtors to make the required repayments. The Group makes its estimates mainly based on the ageing of its trade receivable balances, debtors' creditworthiness, historical default experience and other forward looking factors. If the financial condition of its debtors was to deteriorate so that actual impairment loss might be higher than expected, the Group would revise the basis of making the impairment. As at 31 December 2019, provision for impairment on trade receivables, loan receivables and other receivables amounted to RMB1,800,000 (2018: RMB3,853,000), RMB1,067,000 (2018: RMB3,888,000) and RMB263,000 (2018: RMB6,000) respectively.

5. Critical Accounting Judgements and Key Sources of Estimates Uncertainty *(Continued)*

(d) Estimated write-down of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the management's judgement and estimates. Where expectation is different from an original estimate, the difference will impact the carrying values of inventories and may result in write-downs of inventories in the period in which such estimates have been changed.

(e) Income taxes

The Group is mainly subject to income taxes in the PRC. Judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax charges based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

(f) Impairment of intangible assets with indefinite useful lives

The Group determines whether the intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the fair value less costs of disposal. Estimating the fair value less costs of disposal requires the Group to make an estimate of the fair value and costs of disposal. Further details are included in Note 20 to the consolidated financial statements.

(g) Fair value measurement

A number of assets included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

5. Critical Accounting Judgements and Key Sources of Estimates Uncertainty *(Continued)*

(g) ***Fair value measurement*** *(Continued)*

The Group measures a number of items at fair value:

- Financial assets at fair value through other comprehensive income (note 23); and
- Financial assets at fair value through profit or loss (note 23(b))

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

6. Segment Information

The chief operating decision-maker for application of HKFRS 8 is identified as the Board of Directors. The segments are managed separately as each business offers different products and services and requires different business strategies. The Group's product and service lines identified as reportable operating segments are as follows:

(i) Production and sale of cement;

(ii) Money lending and financial services; and

(iii) Provision of sewage and sludge treatment operation and construction services.

All of the revenue from external customers and most of the non-current assets of the Group are derived from activities located in the PRC. Accordingly, no geographical information is presented.

In the following table, revenue is disaggregated by major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment.

6. Segment Information *(Continued)*

Year ended 31 December 2019

	Continuing operation		Discontinued operation	
	Production and sale of cement	Money lending and financial services	Provision of sewage and sludge treatment operation and construction services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Time of revenue recognition				
At a point in time	569,144	–	–	569,144
Transferred over time	2,006	–	–	2,006
Segment revenue	571,150	–	–	571,150
Segment results	134,706	(20)	(15,828)	118,858
Unallocated expenses				(16,320)
Income tax (expense)/credit	(41,853)	–	17	(41,836)
Profit for the year				60,702
As at 31 December 2019				
Segment assets	737,687	445	63,256	801,388
Unallocated assets				2,525
Total assets				803,913
Segment liabilities	210,911	44	33,648	244,603
Unallocated liabilities				32,781
Total liabilities				277,384

6. Segment Information *(Continued)*

Year ended 31 December 2018

	Continuing operation		Discontinued operation	
	Production and sale of cement	Money lending and financial services	Provision of sewage and sludge treatment operation and construction services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Time of revenue recognition				
At a point in time	514,963	–	–	514,963
Transferred over time	1,074	–	3,366	4,440
Segment revenue	516,037	–	3,366	519,403
Segment results	124,261	(1,439)	20,932	143,754
Unallocated expenses				(12,551)
Income tax expense	(38,340)	–	(3,193)	(41,533)
Profit for the year				89,670
As at 31 December 2018				
Segment assets	627,311	428	78,727	706,466
Unallocated assets				2,599
Total assets				709,065
Segment liabilities	158,986	–	27,675	186,661
Unallocated liabilities				24,988
Total liabilities				211,649

Segment revenue reported above represents revenue generated from external customers and revenue from contracts with customer within the scope of HKFRS 15. There were no inter-segment sales for both years. Revenue derived from the single largest external independent customers amounted to 6.0% of the Group's revenue for the year ended 31 December 2019 (2018: 10.0%).

7. Revenue

An analysis of revenue is as follows:

	2019 *RMB'000*	2018 *RMB'000* (Re-presented)
Continuing operations		
Sale of Ordinary Portland cement strength class 42.5	**210,511**	310,846
Sale of Composite Portland cement strength class 32.5R	**358,633**	204,117
Solid waste processing income	**2,006**	1,074
	571,150	516,037
Discontinued operation		
Provision of sewage and sludge treatment operation and construction services	**–**	3,366
	–	3,366
	571,150	519,403

All of the Group's revenue is derived from contracts with customers.

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers.

	2019 *RMB'000*	2018 *RMB'000*
Continuing operations		
Receivables		
– Trade and bills receivables, net *(Note 25)*	**102,628**	125,391
Contract liabilities	**(16,597)**	(6,084)
Discontinued operation		
Receivables		
– Trade receivables, net	**2,243**	3,418
Contract assets, net *(Note 11(b))*	**27,692**	36,119
Contract liabilities *(Note 11(b))*	**(6,690)**	(6,690)

7. Revenue *(Continued)*

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the provisions of construction services. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

The contract liabilities mainly relate to the advance consideration received from customers. RMB6,084,000 (2018: RMB6,974,000) of the contract liabilities as of 1 January 2019 has been recognised as revenue for the year ended 31 December 2019 from performance obligations satisfied in current year. RMB6,690,000 have been classified as held-for-sale in 2019 financial statement.

The Group has applied the practical expedient to its sales contracts for sales of cement products and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of cement products that had an original expected duration of one year or less.

8. Other Income

	2019	2018
	RMB'000	*RMB'000*
		(Re-presented)
Continuing operations		
Tax refund *(Note (a))*	**10,105**	11,057
Government grants *(Note (b))*	**324**	–
Interest income from loan receivables *(Note 25)*	**3,379**	2,839
Interest income from loans to Dongtong *(Note 25)*	**–**	6,408
Exchange loss	**(1,553)**	(1,067)
Rental income	**–**	19
Others	**158**	108
	12,413	19,364

8. Other Income *(Continued)*

	2019 RMB'000	2018 RMB'000 (Re-presented)
Discontinued operation		
Government grants *(Note (b))*	–	706
Guaranteed profit from Biofit Group's former shareholder	–	24,679
Sales of construction material	**414**	–
Others	**121**	731
	535	26,116

Note:

(a) This is refund of value added tax ("VAT") received by the Group during the year. Pursuant to the notice regarding policies relating to VAT on Products Made through the List of Comprehensive Utilisation of Resources and Certain Other Services issued by the Ministry of Finance and the State Administration of Taxation（財政部、國家税務總局關於資源綜合利用產品和勞務增值税優惠目錄的通知）promulgated on 12 June 2015, the Group's PRC subsidiary, Dongwu Cement, is eligible for VAT refund for utilising recycled materials as raw materials for producing cement. VAT refund is recognised as other income upon the receipt of tax refund approval from the tax bureau.

(b) The amount represents government grants to the Group in respect of reduced air pollutant emissions and innovation.

9. Other Gain/(Loss) – Net

	2019 RMB'000	2018 RMB'000 (Re-presented)
Continuing operations		
Loss on forfeiture of non-refundable deposit *(Note (a))*	–	(1,348)
Gain on disposals of property, plant and equipment	**7**	62
	7	(1,286)
Discontinued operation		
Loss on disposal of construction project	**(13,617)**	–
Loss on disposals of property, plant and equipment	–	(4)
Others	–	(3)
	(13,617)	(7)
Total	**(13,624)**	(1,293)

9. Other Gain/(Loss) – Net *(Continued)*

Note (a)

On 2 August 2017, the Company entered into a conditional sale and purchase agreement for a proposed acquisition of the entire issued share capital of a company which is licensed to carry out Type 1 (Dealing in securities) regulated activity under the Securities and Futures Ordinance at a total cash consideration of HKD16,000,000 subject to consideration adjustments determined by the net asset value of the target company as at the date of completion of the sale and purchase agreement.

As at 31 December 2017, an amount of approximately RMB4,066,000 has been paid as a deposit.

The details of this acquisition are set out in the Company's announcement dated 2 August 2017. On 25 May 2018, as the requirements stipulated in the sales and purchase agreement could not be fulfilled upon the expiry of the long stop period, the sales and purchase agreement was terminated. As the result of termination of the sales and purchase agreement, the first deposit amounting to approximately RMB1,348,000 as defined in the sales and purchase agreement paid by the Company is non-refundable and the remaining deposits has been refunded to the Company.

10. Finance Expenses – Net

	2019 *RMB'000*	2018 *RMB'000* (Re-presented)
Finance expenses:		
Continuing operations		
– Borrowings wholly repayable within 5 years	**(3,212)**	(3,954)
– Lease liabilities	**(10)**	–
– Bill discount	**(23)**	(226)
	(3,245)	(4,180)
Finance income:		
Continuing operations		
– Bank deposits	**988**	1,004
Net finance expenses for continuing operations	**(2,257)**	(3,176)
Finance expenses:		
Discontinued operation		
– Borrowings wholly repayable within 5 years	**(233)**	(246)
	(233)	(246)
Finance income:		
Discontinued operation		
– Bank deposits	**5**	1
Net finance expenses for discontinued operation	**(228)**	(245)
Net finance expenses	**(2,485)**	(3,421)

11. Profit Before Income Tax Expense

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

	2019 *RMB'000*	2018 *RMB'000* (Re-presented)
Cost of inventories sold	**429,232**	374,801
Depreciation of property, plant and equipment	**17,752**	15,099
Depreciation of right-of-use assets	**1,138**	–
Amortisation of land use rights	**–**	404
Amortisation of intangible assets	**–**	1,969
Reversal of provision for impairment on trade receivables, net	**(2,053)**	(1,468)
Provision for impairment on contract assets, net	**–**	2,240
Reversal of provision for impairment on other receivables, net	**257**	(39)
Reversal of provision for impairment on loan receivables, net	**(2,821)**	–
Provision for impairment on goodwill	**–**	9,396
Provision for impairment on intangible assets	**–**	3,258
Minimum lease payments under operating leases for buildings	**–**	2,450
Short term lease expense	**1,739**	–
Research and development expenses	**–**	6
Employee expenses (including directors' remuneration)		
– wages and salaries	**24,304**	21,366
– pension scheme contribution	**3,818**	3,665
Auditors' remuneration		
– audit services	**1,080**	1,000
– non-audit services	**140**	130

11. Profit Before Income Tax Expense *(Continued)*

(b) Discontinued operation

On 16 December 2019, the Board resolved to dispose of Shanghai Biofit Environmental Technology Co.Ltd ("Shanghai Biofit") and its subsidiaries (together the "Biofit Group") by disposal of the investment holding company of the Biofit Group (together the "Disposal Group"). The Biofit Group is principally engaged in business of organic wastewater treatment, sludge treatment and disposal, comprehensive treatment of urban organic waste and other integrated environment services.

As at 31 December 2019, final negotiations for the disposal were in progress and the Disposal Group was classified as a discontinued operation. The comparative income has been represented.

The revenue, results, cash flows and net assets of the Disposal Group were as follows:

	2019	2018
	RMB'000	*RMB'000*
		(Re-presented)
Revenue	**–**	3,366
Cost of sales and services	**–**	(3,239)
Administrative expenses	**(2,518)**	(5,059)
Other income	**535**	26,116
Other loss	**(13,617)**	(7)
Finance cost – net	**(228)**	(245)
(Loss)/profit before income tax expenses	**(15,828)**	20,932
Income tax credit/(expense)	**17**	(3,193)
(Loss)/profit for the year from a discontinued operation	**(15,811)**	17,739
(Loss)/profit for the year from a discontinued operation attributable to:		
Owner of the company	**(9,844)**	18,403
Non-controlling interests	**(5,967)**	(664)
	(15,811)	17,739

11. Profit Before Income Tax Expense *(Continued)*

(b) ***Discontinued operation*** *(Continued)*

	2019	2018
	RMB'000	*RMB'000*
		(Re-presented)
Operating cash outflows	**1,083**	659
Investing cash inflows	**(6)**	–
Financing cash inflows	**(2,000)**	–
Total cash (outflows)/inflows	**(923)**	659

The carrying amount of the assets and liabilities of the Disposal Group as at 31 December 2019 are as follows.

	2019
	RMB'000
Property, plant and equipment	**30**
Contract assets, net	**27,692**
Trade receivables, net	**2,243**
Other receivables	**1,602**
Prepayment	**31,649**
Cash and cash equivalent	**23**
Deferred tax assets	**17**
	63,256
Borrowings	**3,000**
Contract liabilities	**6,690**
Trade and other payables	**19,623**
Income tax payable	**4,335**
	33,648

12. Dividends

A final dividend in respect of the year ended 31 December 2018 of HKD0.0725 per share (tax exclusive), which amounted for HKD37,700,000 (equivalent to approximately RMB34,046,000) was proposed pursuant to a resolution passed by the Board of Directors on 28 March 2019 and approved by the shareholders at the annual general meetings of the Company to be held on 15 May 2019. No dividends were declared by the board of the Company for the year ended 31 December 2019.

13. Earnings Per Share

From continuing and discontinued operations

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of RMB66,669,000 (2018: RMB90,334,000) by the weighted average number of ordinary shares in issue during the year of 552,000,000 (2018: 552,000,000).

As there were no dilutive options and other dilutive potential shares in issue for the years ended 31 December 2019 and 2018, diluted earnings per share is the same as basic earnings per share.

From a discontinued operation

Basic and diluted loss per share for the year from a discontinued operation is RMB0.018 loss per share (2018: RMB0.033 earnings per share), based on the loss for the year from a discontinued operation of RMB9,844,000 (2018: RMB18,403,000 gain) attributable to owners of the Company divided by the weighted average number of ordinary shares in issue during the year of 552,000,000 (2018: 552,000,000).

From continuing operations

Basic and diluted earnings per share for the year from continuing operations is RMB0.139 per share (2018: RMB0.130), based on the profit for the year from continuing operations of RMB76,513,000 (2018: RMB71,931,000) attributable to owners of the Company divided by the weighted average number of ordinary shares in issue during the year of 552,000,000 (2018: 552,000,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Directors' and Senior Management's Emoluments and Five Highest Paid Individuals

(a) Directors' emoluments

Directors' emolument for the year, disclosed pursuant to the Listing Rules and Section 383 of the Hong Kong Companies Ordinance, (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) is as follows:

Name	Fees	Salary, allowance and other benefits	Employer's contribution to pension scheme and discretionary bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019				
Executive directors				
Ms. Xie Yingxia	–	210	–	210
Mr. Ling Chao	–	210	–	210
Mr. Peng Cheng *(Note (i))*	–	841	11	852
Mr. Wang Jun	–	613	16	629
Mr. Chan Ka Wing	–	1,367	16	1,383
Mr. Liu Dong *(Note (ii))*	–	123	–	123
Non-executive director				
Mr. Tseung Hok Ming ("Mr. Tseung")	210	–	–	210
Independent non-executive directors				
Mr. Cao Guoqi	158	–	–	158
Mr. Cao Kuangyu	158	–	–	158
Mr. Lee Ho Yiu Thomas	158	–	–	158
	684	3,364	43	4,091

14. Directors' and Senior Management's Emoluments and Five Highest Paid Individuals *(Continued)*

(a) ***Directors' emoluments*** *(Continued)*

Name	Fees	Salary, allowance and other benefits	Employer's contribution to pension scheme and discretionary bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018				
Executive directors				
Ms. Xie Yingxia	–	202	–	202
Mr. Ling Chao	–	202	–	202
Mr. Peng Cheng	–	1,415	15	1,430
Mr. Wang Jun	–	590	15	605
Mr. Chan Ka Wing	–	1,314	15	1,329
Non-executive director				
Mr. Tseung	202	–	–	202
Independent non-executive directors				
Mr. Cao Guoqi	152	–	–	152
Mr. Cao Kuangyu	152	–	–	152
Mr. Lee Ho Yiu Thomas	152	–	–	152
	658	3,723	45	4,426

Notes:

(i): Resigned on 20 August 2019

(ii): Appointed on 20 August 2019

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2019 (2018: Nil).

14. Directors' and Senior Management's Emoluments and Five Highest Paid Individuals *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 included two of the directors of the Company (2018: three).

Emoluments paid and payable to the remaining three (2018: two) individual for the year ended 31 December 2019 are as follows:

	2019	2018
	RMB'000	*RMB'000*
Salaries and other benefits	**1,998**	708
Employer's contribution to pension scheme	**41**	30
	2,039	738

Emolument paid to the above non-director highest paid individuals two of them fell within the band of Nil – HKD1,000,000, and remaining one fee within the band of HKD1,000,001 to HKD1,500,000 (2018: all within Nil – HKD1,000,000).

During the year, no emolument was paid by the Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2018: Nil).

15. Income Tax Expense

Taxes on profits assessable in the PRC have been calculated at the applicable tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the relevant laws and regulations in the PRC, the PRC enterprise income tax rate of the PRC subsidiaries was 25% on their taxable profits for the years ended 31 December 2019 and 2018 except for Shanghai Biofit Environmental Technology Co. Ltd ("Shanghai Biofit") charged at 15% as it successfully obtained the "National High Technology Enterprise" status and the applicable PRC enterprise income tax rate was 15% for the year ended 31 December 2019 (2018: 15%).

15. Income Tax Expense *(Continued)*

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and the BVI during the year ended 31 December 2019 (2018: Nil). No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2018: Nil).

Income tax expense charged to the consolidated statement of profit or loss represents:

	2019 ***RMB'000***	2018 *RMB'000* (Re-presented)
Continuing operations		
Current tax		
– Current year	**32,312**	30,592
Deferred tax *(Note 31)*	**9,541**	7,748
	41,853	38,340
Discontinued operation		
Current tax	**–**	3,700
Deferred tax *(Note 31)*	**(17)**	(507)
	(17)	3,193
Income tax expense	**41,836**	41,533

15. Income Tax Expense *(Continued)*

Income tax expense for the year can be reconciled to the Group's profit before income tax expense in the consolidated statement of profit or loss as follows:

	2019	2018
	RMB'000	*RMB'000*
		(Re-presented)
Profit before income tax expense		
– Continuing operations	**118,366**	110,271
– Discontinued operation	**(15,828)**	20,932
	102,538	131,203
Tax calculated at the PRC profits tax rate of 25% (2018: 25%)	**25,635**	32,801
Effect of different tax rates in other jurisdictions	**1,328**	(1,463)
Tax effect of share of results of an associate	**–**	(465)
Tax effect of expenses not deductible for tax purposes	**1,774**	4,010
Utilisation of tax losses previously not recognised	**–**	(14)
Tax effect of tax loss not recognised	**6,358**	992
Tax effect of income not assessable for tax purposes	**(1,348)**	(2,764)
Income tax on concession rates	**–**	176
Deferred taxation on withholding tax	**8,089**	8,260
Income tax expense	**41,836**	41,533

No deferred tax asset has been recognised in respect of certain unused tax losses due to the unpredictability of future profit streams. The deductible temporary differences can be carried forward indefinitely. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable will be available against which the deductible temporary differences can be utilised.

16. Property, Plant and Equipment

	Properties and plant	Machinery	Motor vehicles	Furniture, fittings and equipment	Right-of use assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(note (a))*	*RMB'000*
Year ended 31 December 2018						
Opening net book amount	69,470	35,661	905	1,612	–	107,648
Additions	11,344	14,255	557	792	–	26,948
Disposals	–	–	(54)	(3)	–	(57)
Depreciation	(7,464)	(6,627)	(370)	(638)	–	(15,099)
Closing net book amount	73,350	43,289	1,038	1,763	–	119,440
At 31 December 2018						
Cost	168,061	214,249	3,204	12,052	–	397,566
Accumulated depreciation	(94,711)	(170,960)	(2,166)	(10,289)	–	(278,126)
Net book amount	73,350	43,289	1,038	1,763	–	119,440
Year ended 31 December 2019						
Opening net book amount originally presented	73,350	43,289	1,038	1,763	–	119,440
Initial application of HKFRS 16	–	–	–	–	16,093	16,093
Restated balance as at 1 January 2019	73,350	43,289	1,038	1,763	16,093	135,533
Additions	28,222	23,582	187	511	–	52,502
Disposals	–	–	(7)	–	–	(7)
Depreciation	(8,262)	(8,538)	(283)	(669)	(1,138)	(18,890)
Attributable to a discontinued operation *(Note 11(b))*	–	(5)	(8)	(17)	–	(30)
Exchange differences	–	–	–	–	(6)	(6)
Closing net book amount	93,310	58,328	927	1,588	14,949	169,102
At 31 December 2019						
Cost	196,283	237,825	3,105	11,072	21,640	469,925
Accumulated depreciation	(102,973)	(179,497)	(2,178)	(9,484)	(6,691)	(300,823)
Net book amount	93,310	58,328	927	1,588	14,949	169,102

16. Property, Plant and Equipment *(Continued)*

(a)

Right-of-use assets	Land use right	Land and buildings	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019	15,296	797	16,093
Depreciation	(408)	(730)	(1,138)
Exchange differences	–	(6)	(6)
At 31 December 2019	14,888	61	14,949

The Group's land use rights are located in the PRC on the lease of between 10 to 50 years.

17. Lease Liabilities

	Leasehold land and buildings
	HKD'000
At 1 January 2019	806
Interest expense	10
Lease payments	(747)
Exchange differences	(6)
At 31 December 2019	63

Future lease payments are due as follows:

	Minimum lease payments 31 December 2019	Interest 31 December 2019	Present value 31 December 2019
	HKD'000	*HKD'000*	*HKD'000*
Not later than one year	64	1	63

17. Lease Liabilities *(Continued)*

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases except short-term leases (see Note 2(a)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3.

18. Goodwill

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**–**	9,396
Impairment	**–**	(9,396)
At 31 December	**–**	–

Goodwill arose from a business combination during the year ended 31 December 2015 and it was solely allocated to the CGU, namely the Biofit Group (as defined in Note 11(b)).

As at 31 December 2018, the management has determined that an impairment loss of RMB9,396,000 in relation to goodwill allocated to the CGU of the Biofit Group as the business was not profitable during the year and the recoverable amount of the CGU is less than its carrying amount. The management does not expect Biofit Group to operate at a profit in the foreseeable future. The recoverable amount of the CGU was based on fair values less costs to disposal using cost approach by reference to the cost of producing the same or a substitute of assets with equal utility as the CGU. Other key estimation included the cost of disposal based on estimation by the management of the Group.

19. Land Use Rights

	2019	2018
	RMB'000	*RMB'000*
At 31 December originally presented	**15,296**	15,700
Initial application of HKFRS 16		
– Transferred to property, plant and equipment	**(15,296)**	–
Restated balance as at 1 January 2019	**–**	15,700
Amortisation	**–**	(404)
At 31 December	**–**	15,296

19. Land Use Rights *(Continued)*

The Group's land use rights represent prepaid operating lease payments in the PRC on the lease of between 10 to 50 years.

20. Intangible Assets

	Money lenders licence *RMB'000*
Cost and Net book value:	
At 1 January 2018, 31 December 2018 and 31 December 2019	403

Note: The money lenders licence is considered by the directors of the Company as having indefinite useful lives because it is expected that the money lenders licence can be renewed continuously at minimal cost and it will contribute net cash inflows for the Group in the foreseeable future. The money lenders licence will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purpose of impairment testing, the recoverable amount of the money lenders licence has been determined based on fair value less costs of disposal estimated by the management.

21. Particulars of Subsidiaries

The particulars of the Company's subsidiaries as at 31 December 2019 and 2018 are as follows:

Name	**Place and date of incorporation**	**Place of operation, principal activities and type of entity**	**Particulars of issued and paid-in capital/ registered capital**	**Equity interest held**	
				Direct	**Indirect**
Dongwu International Investment Limited ("Dongwu Investment")	British Virgin Islands ("BVI"), 29 November 2011	Investment holding in Hong Kong, a limited liability company	USD50,000	100% (2018:100%)	–
Asia Jumbo Limited ("Asia Jumbo")	British Virgin Islands ("BVI"), 6` January 2016	Investment holding in Hong Kong, a limited liability company	USD100	100% (2018:100%)	–
Times Premium International Limited ("Times Premium")	British Virgin Islands ("BVI"), 23 October 2017	Investment holding in Hong Kong, a limited liability company	USD1	100% (2018:100%)	–

21. Particulars of Subsidiaries *(Continued)*

Name	Place and date of incorporation	Place of operation, principal activities and type of entity	Particulars of issued and paid-in capital/ registered capital	Equity interest held Direct	Equity interest held Indirect
Dongwu Cement (Hong Kong) Limited ("Dongwu HK")	Hong Kong, 16 December 2011	Investment holding in Hong Kong, a limited liability company	HKD1	–	100% (2018: 100%)
Glory Metro Limited ("Glory Metro")	Hong Kong, 15 November 2016	Investment holding in Hong Kong, a limited liability company	HKD100	–	100% (2018: 100%)
Golden Stars Assets Management Limited ("Golden Stars")	Hong Kong, 8 June 2017	Money lending in Hong Kong, a limited liability company	HKD10,000	–	100% (2018: 100%)
蘇州東吳水泥有限公司 (Suzhou Cement Co., Ltd.*, "Dongwu Cement")	PRC, 5 June 2003	Production and sales of cement in the PRC, a limited liability company	USD29,000,000	–	100% (2018: 100%)
Dongwu Science & Technology Investment Company Limited ("Dongwu Technology")	Hong Kong, 2 October 2013	Science and technology investment in Hong Kong, a limited liability company	HKD1	–	100% (2018: 100%)
熙華(上海)投資管理有限公司 (Xihua Shanghai Investment Management Co., Ltd.*, "Xihua Investment")	PRC, 19 November 2014	Investment management and consultation in the PRC, a limited liability company	USD10,000,000	–	100% (2018: 100%)
上海百菲特環保科技有限公司 (Shanghai Biofit Environmental Technology Co., Ltd.*, "Shanghai Biofit") #	PRC, 5 July 2011	Provision of sewage treatment operation and construction services in the PRC, a limited liability company	RMB19,468,680	–	62.26% (2018: 62.26%)

21. Particulars of Subsidiaries *(Continued)*

Name	Place and date of incorporation	Place of operation, principal activities and type of entity	Particulars of issued and paid-in capital/ registered capital	Equity interest held Direct	Equity interest held Indirect
濟寧百菲特環保科技有限公司 (Jining Biofit Environmental Technology Co., Ltd.*, "Jining Biofit") #	PRC, 11 January 2013	Provision of sewage treatment operation and construction services in the PRC, a limited liability company	RMB10,000,000	–	62.26% (2018: 62.26%)
紹興祥禹環保科技有限公司 (Shao Xing Xiang Yu Environmental Technology Co., Ltd.*, "Shao Xing Xiang Yu") #	PRC, 30 April 2014	Provision of sewage treatment operation and construction services in the PRC, a limited liability company	RMB3,000,000	–	62.26% (2018: 62.26%)
蘇州熙華環保科技有限公司 (Suzhou Xihua Environmental Technology Co., Ltd.*, "Suzhou Xihua") #	PRC, 30 April 2014	Research and development on sewage treatment technology and construction services in the PRC, a limited liability company	RMB10,000,000	–	62.26% (2018: 62.26%)
上海桐瀚環保科技有限公司 (Shanghai Tonghan Environmental Technology Co., Ltd.*, "Shanghai Tonghan") #	PRC, 18 April 2019	Research and development on sewage treatment technology and construction services in the PRC, a limited liability company	RMB3,000,000	–	62.26% (2018: nil)

* The English translation of the entities names are for reference only. The official names of these entities are in Chinese.

\# As at 31 December 2019, the entities are classified as held for sale in accordance with the proposed disposal as mentioned in note 35.

22. Investment in an Associate

	2019	2018
	RMB'000	RMB'000
Unlisted equity investment:		
Cost of investment	24,000	24,000
Share of results of an associate	6,187	1,860
	30,187	25,860

The Group has a 43.2% (31 December 2018: 43.2%) interest in an associate, Suzhou Dongtong Environment and Technology Company Limited (蘇州東通環保科技有限公司, "Dongtong Environment and Technology"), which was incorporated in the PRC. The principal activity of Dongtong Environment and Technology is research and development on environmental technology and provision of related services.

23. Financial Assets

(a) Financial assets at fair value through other comprehensive income

On 4 April 2018, the Group entered into an equity transfer agreement with Orient Hengxin Capital Holdings Limited (the "Vendor") which was owned as to 70% by Mr. Tseung Hok Ming, the non-executive director and controlling shareholder of the Company, to acquire 18% equity interests in Suzhou Dongfang Kangtan New Energy Technology Company Limited ("Dongfang Kangtan") at a cash consideration of RMB9,000,000. Dongfang Kangtan, a limited liability company incorporated in the PRC, is principally engaged in the solar power and electric heating, and application of grapheme and carbon fiber for heating generation and transmission; the manufacture of floor, under-floor heating and far infrared products; technology transfer and cooperation on intellectual property as well as other operations.

The investment is classified as fair value through other comprehensive income. On 30 December 2019, the investment is sold to an independent third party for a cash consideration of RMB9,000,000. Fair value gain of this investment of approximately RMB2,466,000 for the year ended 31 December 2019 was recognised in other comprehensive income. (2018: loss of RMB2,466,000).

23. Financial Assets *(Continued)*

(b) Financial assets of fair value through profit or loss

On 23 December 2019, the Group entered into an investment agreement to subscribe a perpetual bond with the principal amount of RMB110,000,000 from an unlisted issuer, Chongqing International Construction Corporation. The perpetual bonds were purchased for broadening the Group's revenue stream and achieve better returns from the idle cash resources of the Group. Distributions on the perpetual bond are paid annually in arrears from 30 December 2019 and can be deferred at the discretion of the issuer. The perpetual bonds have no fixed maturity and are redeemable at issuer's option on or after 30 December 2019 at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the issuer cannot declare or, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank, which includes the ordinary shares of the issuer.

The investment is classified as fair value through profit or loss. With reference to a valuation performed by an independent professional valuer, Graval Consulting Limited, the fair value of the perpetual bond as at 31 December 2019 was equal to its principle amount and no fair value change being recognised in the year ended 31 December 2019.

24. Inventories

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**12,787**	14,010
Work-in-progress	**8,001**	7,093
Finished goods	**7,118**	6,085
	27,906	27,188

25. Trade and Other Receivables

	2019	2018
	RMB'000	*RMB'000*
Trade and bills receivables from third parties	**104,428**	132,662
Less: provision for impairment *(Note (vi))*	**(1,800)**	(3,853)
Trade and bills receivables, net *(Note (i))*	**102,628**	128,809
Contract assets	**–**	38,359
Less: provision for impairment *(Note (vi))*	**–**	(2,240)
Contract assets *(Note (i))*	**–**	36,119
Prepayments *(Note (ii))*	**23,490**	55,424
Loans to 蘇州東通建設發展有限公司 (Suzhou Dongtong Construction and Development Co., Ltd.*,"Dongtong") *(Note (iii))*	**66,400**	66,400
Loan receivables *(Note (iv))*	**61,000**	91,000
Advances to suppliers	**–**	2,000
Other receivables *(Note (v))*	**19,865**	37,860
Deposit paid for acquisition of a property *(Note (vi))*	**–**	20,500
Less: provision for impairment on other receivables *(Note (vi))*	**(263)**	(6)
Less: provision for impairment on loans receivables *(Note (vi))*	**(1,067)**	–
Less: provision for impairment on loans to Dongtong *(Note (vi))*	**–**	(3,888)
Prepayments, deposits and other receivables	**169,425**	269,290
Total trade and other receivables	**272,053**	434,218
Less: non-current portion		
– Contract assets	**–**	(5,470)
– Deposit paid for acquisition of a property *(Note (vii))*	**–**	(20,500)
– Loan receivables *(Note (iv))*	**–**	(51,000)
	–	(76,970)
Trade and other receivables – current portion	**272,053**	357,248

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Trade and Other Receivables *(Continued)*

As at 31 December 2019 and 2018, no trade and bills receivable were pledged for the borrowings. All non-current receivables are due within five years from the end of the reporting date.

(i) Trade and bills receivables

Credit terms given to its customers in cement segment and sewage and sludge treatment segment generally range from 30 to 90 days (2018: 30 to 90 days). For major customers, depending on their business relationships with the Group and their creditworthiness, the Group may grant them the following credit terms: (i) a revolving credit limit of between RMB1,000,000 and RMB50,000,000 with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days.

Bills receivable represent bills received from customers for settlement of trade receivables. Bills receivables are normally due within 180 days.

The trade and bills receivable are inclusive of value-added tax. Ageing analysis of trade and bills receivables (net of provision) by invoice date and issuance date of bills are as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 90 days	**55,195**	86,320
From 91 days to 180 days	**34,308**	16,874
From 181 days to 1 year	**10,789**	22,076
From 1 year to 2 years	**1,990**	2,206
Over 2 years	**346**	1,333
	102,628	128,809

As at 31 December 2019, trade receivables of RMB1,800,000 (2018: RMB3,853,000) had been impaired. The amount of reversal of provision for impaired trade receivables was RMB2,053,000 (2018: RMB1,468,000). The impaired receivables mainly related to the management's lifetime ECL measurement as described in Note 37(c).

25. Trade and Other Receivables *(Continued)*

(i) Trade and bills receivables *(Continued)*

Ageing analysis of the Group's trade and bills receivables (net of provision) that were past due but not impaired is as follows:

	2019	2018
	RMB'000	*RMB'000*
Neither past due nor impaired *(Note (a))*	**84,874**	95,072
1 to 90 days past due	**4,629**	27,947
91 to 180 days past due	**10,789**	2,260
181 to 1 year past due	**1,990**	2,292
More than 1 year past due	**346**	1,238
	102,628	128,809

Notes:

(a) The balances that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

(b) These are past due but not impaired and related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

(ii) Prepayments

As at 31 December 2019, included in the Group's prepayments were mainly represented by the prepayment amounted RMB14,394,000 (2018:902,000) paid to the suppliers for the raw material purchase.

(iii) Loans to Dongtong

On 22 December 2014, in order to stabilise the annual return to the Group, after approval by the board of directors of Dongtong, the Group agreed to receive a fixed annual payment for the period from 23 December 2014 up to 31 December 2017 under the guarantees of two other shareholders of Dongtong. The fixed annual income (which is interest income at a fixed rate of 10.68% per annum) is receivable on 31 December each year and the loan principal of RMB60,000,000 is to be repaid on 31 December 2017. In return, the Group agreed to terminate all its shareholder's rights associated to the investments and the assigned director from the Group to the board of Dongtong has resigned from the directorship. Loans and interest due from Dongtong amounting to RMB66,400,000 are thus initially recognised at fair value and subsequently carried at amortised cost using effective interest method.

Pursuant to an agreement with Dongtong entered into by the Group in December 2017, the maturity date of the loans were extended to 31 December 2018 with the annual interest rate and other terms unchanged.

25. Trade and Other Receivables *(Continued)*

(iii) Loans to Dongtong (Continued)

Pursuant to an agreement with Dongtong entered into by the Group in December 2018, the maturity date of the loans were further extended to 31 December 2019 with the annual interest rate and other terms unchanged.

During the year ended 31 December 2018, the management made bad debt provision of the loan and accrued interest receivable from Dongtong of RMB3,888,000 as at 31 December 2018 respectively as Dongtong has further extended the maturity date of the loan to 31 December 2019.

The loan was subsequently fully repaid in March 2020. The bad debt provision of the loan and accrued interest receivable from Dongtong of RMB3,888,000 was reversed for the year ended 31 December 2019.

(iv) Loans receivables

As at 31 December 2019, the Group's loan receivables represented (i) an unsecured loan of RMB19,000,000 (2018:RMB9,000,000) to an independent third party with interest at a fixed rate of 8% per annum, which has been repaid in March 2020. (ii) an unsecured loan of RMB20,000,000 (2018:RMB20,000,000) to another independent third party with interest at a fixed rate of 12% per annum, which has been repaid in March 2020. (iii) an unsecured loan of RMB22,000,000 (2018: RMB22,000,000) to another independent third party with interest at a fixed rate of 7% per annum repayable in August 2020.

During the year, the unsecured loan to another independent third party, with balance of RMB40,000,000 as at 31 December 2018 and carried interest at a fixed rate of 6% per annum, was fully repaid in November 2019.

(v) Other receivables

As at 31 Decemebr 2019, included in the Group's other receivables were mainly (i) interest receivables from Dongtong amounted RMB10,460,000; (ii) interest receivable from the loan receivables amounted RMB1,619,000; and (iii) current account with the raw material suppliers amounted RMB4,120,000.

(vi) Movements of the provision for impairment of trade and other receivables are as follows:

	2019	2018
	RMB'000	*RMB'000*
Trade receivables:		
Beginning of year	**3,853**	5,380
Provision for the year	**896**	241
Balance recovered for the year	**(2,949)**	(1,709)
Write off	**–**	(59)
End of year	**1,800**	3,853

25. Trade and Other Receivables *(Continued)*

(vi) Movements of the provision for impairment of trade and other receivables are as follows: *(Continued)*

	2019 RMB'000	2018 RMB'000
Contract assets:		
Beginning of year	**2,240**	–
Provision for the year	**–**	2,240
Write off	**(902)**	–
Attributable to held for sale	**(1,338)**	–
End of year	**–**	2,240

	2019 RMB'000	2018 RMB'000
Other receivables:		
Beginning of year	**6**	628
Provision for the year	**257**	92
Balance recovered for the year	**–**	(131)
Write off	**–**	(583)
End of year	**263**	6

	2019 RMB'000	2018 RMB'000
Loan receivables:		
Beginning of year	**3,888**	3,888
Provision for the year	**1,067**	–
Balance recovered for the year	**(3,888)**	–
End of year	**(1,067)**	3,888

The origination and release of provision for impairment of trade receivables, other receivables and loan receivables have been included in administrative expenses in the profit or loss. Amounts charged to impairment account are generally written off, when there is no expectation of recovering additional cash. The Group recognised impairment loss on individual assessment in accordance with the accounting policy stated in Note 5(c).

25. Trade and Other Receivables *(Continued)*

(vii) Deposit paid for acquisition of a property

On 29 June 2018, the Group, as purchaser, entered into a property sale and purchase agreement with Suzhou Tailong Real Estate Development Company Limited (the "Property Vendor"), pursuant to which the Group agreed to acquire a property in the PRC at a total consideration of RMB23,000,000. The Group had paid RMB20,500,000 in 2018 and the remaining RMB2,500,000 was payable upon the completion of the transfer of title of the property. Mr. Tseung, indirectly held 71% equity interests in Dongfang Hengxin Assets Holdings Company Limited which held 100% equity interests in the Property Vendor. During the year ended 31 December 2019, the Group have occupied the property as staff quarter for the directors and business visitors, and thus the deposit was transferred to property, plant and equipment under properties and plant.

26. Contract Assets

	2019	2018
	RMB'000	*RMB'000*
Contracts in progress at the end of year:		
Contract costs incurred	**65,521**	57,353
Recognised profits less recognised losses	**–**	17,497
	65,521	74,850
Progress billings	**(36,491)**	(36,491)
Provision for impairment	**(1,338)**	(2,240)
	27,692	36,119
Represented by:		
Due from customers included in current assets	**–**	36,119
Assets of a discontinued operation classified as held for sale	**27,692**	–

27. Short-Term Bank Deposits

The balances as at 31 December 2019 and 2018 are all short-term bank deposits with original maturities exceeding three months. These deposits are all denominated in RMB, with an interest rate from 1.21% to 3.45% (2018: 1.21% to 4.1%) per annum.

28. Cash and Cash Equivalents

RMB19,486,000 of the Group's cash and cash equivalents was denominated in RMB as at 31 December 2019 (2018: RMB33,946,000). RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2019, bank deposit of RMB13,000,000 are pledged as security for bill payables (Note 29).

29. Trade and Other Payables

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**72,311**	62,284
Bill payables	**40,000**	–
Advances from customers *(Note (c))*	**16,597**	12,774
Salary and bonus payables	**3,964**	4,190
VAT payables *(Note (a))*	**2,916**	7,441
Other payables *(Note (b))*	**14,251**	14,505
Deposit received for sale of Biofit Group	**11,000**	–
	161,039	101,194

The credit period granted by the Group's principal suppliers in cement segment is ranged from 30 to 90 days (2018: 30 to 90 days).

As at 31 December 2019, bank deposit of RMB13,000,000 (Note 28) are pledged as security for bill payables.

29. Trade and Other Payables *(Continued)*

Ageing analysis of trade payables by invoice date is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**47,293**	40,973
From 31 to 90 days	**18,362**	9,410
From 91 days to 180 days	**4,177**	3,487
From 181 days to 1 year	**1,170**	679
From 1 year to 2 years	**571**	7,343
Over 2 years	**738**	392
	72,311	62,284

Notes:

(a) Domestic sales of self-manufactured products made by the PRC subsidiary are subject to VAT at 17% (2018: 17%). Input VAT on purchases of raw materials, fuel, utilities, other production materials and certain purchased equipment can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

(b) As at 31 December 2019, other payables includes interest of approximately RMB124,000 payable to Mr. Tseung, accrued on borrowings drawn down under the facility granted Mr. Tseung as disclosed in Note 40. It also includes an amount due to Mr. Tseung of approximately RMB4,005,000 (2018: RMB4,005,000), which is unsecured, interest-free and repayable on demand as disclosed in Note 40.

(c)

	2019	2018
	RMB'000	*RMB'000*
Advance from customers arising from:		
– Sales of cement products	**16,597**	6,084
– Provision of sewage and sludge treatment operation and construction services	**–**	6,690
	16,597	12,774

29. Trade and Other Payables *(Continued)*

Notes: (Continued)

(c) (Continued)

Typical payment terms which impact on the amount of contract liabilities are as follows:

Sales of cement products

The Group required receipt in advance from some customers before delivery of cement products.

Provision of sewage and sludge treatment operation and construction services

Where discrepancies arise between the milestone payments and the Group's assessment of the stage of completion, contract liabilities can arise.

Movements in advance from customers

	Sales of cement products *RMB'000*	**Provision of sewage and sludge treatment operation and construction services** *RMB'000*	**2019** *RMB'000*
Balance as at 1 January	6,084	6,690	12,774
– Decrease as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(6,084)	–	(6,084)
– Increase as a result of receipt in advance	16,597	–	16,597
Attributable to a discontinued operation *(Note 11(b))*	–	(6,690)	(6,690)
	16,597	–	16,597

30. Borrowings

	2019 *RMB'000*	2018 *RMB'000*
Bank borrowings *(note (a),(b))*	**25,000**	55,000
Other loan *(note (c),(d))*	**13,700**	15,225
Other loan, unsecured *(note (e))*	**1,328**	1,328
Less: Attributable to held for sale *(note (b))*	**(3,000)**	–
Total bank loans	**37,028**	71,553
Carrying amount of borrowings repayable:		
On demand or within one year	**37,028**	71,553

30. Borrowings *(Continued)*

Notes:

(a) As at 31 December 2019, bank borrowing of approximately RMB22,000,000 (2018: RMB50,000,000) was secured by corporate guarantees from the Company.

(b) As at 31 December 2019, bank borrowings of approximately RMB3,000,000 (2018: RMB5,000,000) were secured by personal guarantees from a director of the Company, Mr. Ling Chao and his close family member with interest at a fixed rate of 5.65% per annum and repayable on June 2020. This borrowing has been transferred to liabilities of Discontinued operation classified as held for sale.

(c) As at 31 December 2019, the Group's other loan represented (i) an other loan of RMB1,769,000 (2018: RMB9,471,000) from one third party was secured by corporate guarantees from the Company; (ii) an other loan of RMB1,231,000 (2018: RMB3,098,000) from another third party was secured by corporate guarantees from the Company; and (iii) an other loan of RMB2,656,000 from another third party and the balance has been fully repaid during the year.

(d) As at 31 December 2019, unsecured other loan of approximately HKD11,000,000 (equivalent to approximately RMB10,700,000) (2018: nil) with a fixed interest rate of 8% per annum were secured by personal guarantees from Mr. Tseung.

(e) As at 31 December 2019, unsecured other loan of RMB1,328,000 with a fixed interest rate of 8% per annum (2018:RMB1,328,000) provided by Mr. Tseung (Note 40).

31. Deferred Tax Liabilities

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

Deferred tax assets	**Provisions**
	RMB'000
At 1 January 2018	2,320
Charged to profit or loss	(394)
At 31 December 2018 and 1 January 2019	1,926
Charged to profit or loss	(1,435)
Attributable to a discontinued operation *(Note 11(b))*	(17)
At 31 December 2019	474

31. Deferred Tax Liabilities *(Continued)*

Deferred tax liabilities	Withholding tax for attributable profit relating to equity holders	Revaluation of intangible assets	Assets in relation to BOT arrangement	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note (a))			
At 1 January 2018	10,684	1,058	355	12,097
Charged/(credited) to profit or loss	8,260	(1,058)	(355)	6,847
At 31 December 2018 and 1 January 2019	18,944	–	–	18,944
Charged to profit or loss	8,089	–	–	8,089
At 31 December 2019	27,033	–	–	27,033

(a) Pursuant to the PRC Corporate Income Tax Law, effective from 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% upon the PRC tax bureau's approval at the time of dividend claim. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in the PRC in respect of their earnings generated from 1 January 2008.

(b) Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets in respect of losses amounting to RMB49,411,000 (2018: RMB19,301,000).

For the purpose of presentation in consolidated statement of financial position, deferred tax assets and liabilities have been offset.

	2019	2018
	RMB'000	*RMB'000*
Deferred tax liabilities, net	**26,559**	17,018

31. Deferred Tax Liabilities *(Continued)*

Movements in deferred tax liabilities are as follows:

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**17,018**	9,777
Charged to profit or loss *(Note 15)*	**9,524**	7,241
Attributable to a discontinued operation *(Note 11(b))*	**17**	–
At 31 December	**26,559**	17,018

32. Share Capital

	Number of ordinary shares	**Nominal value of ordinary shares**	**Equivalent nominal value of ordinary shares**
		HKD'000	*RMB'000*
Authorised:			
Ordinary shares of HKD0.01 each as at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	10,000,000,000	100,000	81,520
Issued:			
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	552,000,000	5,520	4,490

33. Other Reserves

The Group	Share premium	Statutory reserves	Merger reserve	Total
		(Note (a))	*(Note (b))*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	108,090	27,373	192,011	327,474
Appropriation from retained earnings	–	9,497	–	9,497
At 31 December 2018 and 1 January 2019	108,090	36,870	192,011	336,971
Appropriation from retained earnings	–	9,532	–	9,532
At 31 December 2019	108,090	46,402	192,011	346,503

The Company	Share premium	Capital reserve	Total
		(Note (c))	
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	108,090	207,930	316,020

(a) Statutory reserves

The Company's subsidiaries in the PRC are required to appropriate 10% of their profit after income tax calculated in accordance with the PRC accounting standards to the statutory reserve until the balance reaches 50% of its registered capital, where further transfers will be at their directors' discretion. The statutory reserve can be used to offset prior years' losses, if any and may be converted into paid-in capital of the PRC subsidiaries in proportion to their existing shareholding after approval from the appropriate authorities, provided that the remaining balance of the statutory reserve after such issue is no less than 25% of paid-in capital for the PRC subsidiaries. For the year ended 31 December 2019, except one of the Company's subsidiaries in the PRC has appropriated RMB9,532,000 (2018: RMB9,497,000), others have reported loss and no appropriation to the statutory reserve (2018: Nil).

33. Other Reserves *(Continued)*

(b) Merger reserve

The Company was incorporated on 29 November 2011 and the Group's reorganisation was completed prior to 31 December 2011. This reserve as at 31 December 2018 and 2019 primarily represented the aggregate amount of share capital of the companies now comprising the Group, after elimination of investments in subsidiaries.

(c) Capital reserve

In 2011, Dongwu HK acquired the entire equity interest in Dongwu Cement from Far East International Investment Company Limited ("Far East International", a limited liability company incorporated on 29 September 2003 in Samoa, wholly-owned by the same ultimate shareholder), at a consideration of USD33,000,000 (equivalent to RMB207,930,000). The consideration payable to Far East International was regarded as a deemed distribution to equity holders of the Company. The consideration payable was novated to Goldview Development Limited ("Goldview", a limited liability company incorporated in the British Virgin Islands ("BVI") on 16 March 2004, wholly-owned by the same ultimate shareholder) and Concord Ocean Limited ("Concord", a limited liability company incorporated in the BVI on 25 October 2000, wholly-owned by the controlling shareholder) in proportion to their then respective shareholdings in the Company and subsequently Goldview and Concord gave written confirmations in relation to their unconditional and irrevocable waiver as to the Company's repayment obligation of USD33,000,000 (equivalent to RMB207,930,000). As such, the waived payable was regarded as deemed contribution from shareholders.

(d) FVOCI reserve

Balance represents fair value reserve comprises the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that are held at the end of the reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

34. Statement of Financial Position of the Company

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		**208,246**	208,246
		208,246	208,246
Current assets			
Amounts due from subsidiaries		**56,050**	60,724
Prepayment		**10**	10
Cash and cash equivalents		**431**	300
Total current assets		**56,491**	61,034
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		**9,850**	8,358
Other payables		**7,091**	3,494
Borrowings		**3,094**	3,098
Total current liabilities		**20,035**	14,950
Net current assets		**36,456**	46,084
Total assets less current liabilities		**244,702**	254,330
EQUITY			
Share capital	*32*	**4,490**	4,490
Other reserves	*33*	**316,020**	316,020
Accumulated losses		**(75,808)**	(66,180)
Total equity		**244,702**	254,330

On behalf of the Board

Xie Yingxia
Director

Ling Chao
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. Assets and Liabilities of a Discontinued Operation Classified as Held for Sale in 2019

In December 2019, the Board resolved to dispose of Shanghai Biofit Environmental Technology Co. Ltd and its subsidiaries (together the "Biofit Group") by disposal of the Group's entire 62.3% equity holding in the investment holding company of the Biofit Group and corresponding non-controlling interest of approximately RMB7,695,000. The Biofit Group is principally engaged in business of organic wastewater treatment, sludge treatment and disposal, comprehensive treatment of urban organic waste and other integrated environment services. As of 31 December 2019, the Board has received expression of interest and anticipated that the sale would complete within 2020. The major classes of assets and liabilities relating to the 2019 Disposal Group have been classified as held for sale in 2019 financial statements.

On 16 December 2019, a wholly-owned subsidiary of the Company (the "Vendor"), entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Mr. Huang Jihong, a third party independent of the Company and its connected persons, (the "Purchaser"), pursuant to which the Vendor agreed to sell, and the Purchaser agreed to purchase the entire issued share capital of Dongwu Science & Technology Investment Company Limited, being the holding company of the Biofit Group, at a total consideration of HKD22,000,000. As at 31 December 2019, the disposal were approved by the Group's shareholders. The directors of the Company are confident that the disposal will take place within 12 months from the date when the Disposal Group is clarified as held for sale. The Disposal Group was classified as a discontinued operation in 2019's financial statements. A deposit of RMB11,000,000 was received from the purchaser and classified as deposit received (Note 29). The details of this transaction are set out in the Company's announcement dated 16 December 2019.

36. Financial Instruments by Category

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

	2019	2018
	RMB'000	*RMB'000*
Financial assets:		
Financial assets at fair value through other comprehensive income		
– Unlisted equity investments	**–**	6,534
Financial assets at fair value through profit or loss		
– Investment in a perpetual bond	**110,000**	–
Financial assets at amortised cost/loan and receivables		
– Trade and other receivables excluding prepayments	**248,563**	378,794
– Short-term bank deposits	**49,180**	44,400
– Cash and cash equivalents	**81,826**	35,726
Total	**489,569**	465,454
Financial liabilities:		
Financial liabilities at amortised cost		
Borrowings	**37,028**	71,553
Trade and other payables excluding non-financial liabilities	**90,526**	80,979
Total	**127,554**	152,532

37. Financial Risk Management and Fair Value

The Group has various financial assets and liabilities such as cash and cash equivalents, short-term bank deposits, trade and other receivables, financial assets at FVOCI, financial assets at FVTPL, borrowings, trade and other payables and balances with related companies and directors.

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

(a) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk is limited to its financial instruments denominated in Hong Kong Dollars ("HKD") as majority of the Group's transactions, monetary assets and liabilities are denominated in RMB.

The carrying amounts of the Group's monetary assets and liabilities that are not denominated in RMB at the end of reporting periods are as follows:

	2019		2018	
	Original currency in HKD	**Original currency in USD**	Original currency in HKD	Original currency in USD
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Trade and other receivables	**841**	**–**	843	–
Cash and cash equivalents	**1,357**	**5**	1,412	368
Trade and other payables	**(26,927)**	**–**	(8,435)	–
Borrowings	**(5,835)**	**–**	(16,553)	–
Overall net exposure	**(30,564)**	**5**	(22,733)	368

37. Financial Risk Management and Fair Value *(Continued)*

(a) *Foreign currency risk (Continued)*

Sensitivity analysis

The following table indicates the approximate change in the Group's profit before income tax expense for the year in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. A positive number below indicates an increase in profit or decrease in loss.

	Effect on profit for the year	
	2019	2018
	RMB'000	*RMB'000*
HKD to RMB		
Appreciated by 3%	**(917)**	(682)
Depreciated by 3%	**917**	682
USD to RMB		
Appreciated by 3%	**–**	11
Depreciated by 3%	**–**	(11)

The sensitivity analysis has been determined assuming that the change in foreign exchange rate had occurred at the end of reporting period and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date.

(b) *Cash flow and fair value interest rate risk*

Other than deposits held in banks, the Group have significant interest-bearing assets. Fluctuation of deposit interest rates to financial assets does not have a significant impact to the Group's performance.

The Group's fair value interest rate risk arises primarily from short-term borrowings as disclosed in Note 30. Borrowings were issued at fixed rates which expose the Group to fair value interest rate risk. The Group has no cash flow interest rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

	2019		2018	
	Effective interest rate ***(% per annum)***	**Amount** ***RMB'000***	Effective interest rate *(% per annum)*	Amount *RMB'000*
Financial assets				
Fixed rate receivables				
– Short-term bank deposits	**1.21%-3.45%**	**49,180**	1.21%-4.1%	44,400
– Loan receivables	**7%-11.95%**	**127,400**	5.82%-10.45%	51,000
Financial liabilities				
Fixed rate borrowing				
– Bill payables	**0.61%**	**40,000**	–	–
– Borrowings	**5.77%**	**37,028**	6.73%	71,553

37. Financial Risk Management and Fair Value *(Continued)*

(c) Credit risk

The carrying amounts of the bank deposits and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2018 and 2019, the Group's bank deposits were placed in the commercial banks with high credit ratings.

The Group has adopted a policy of only dealing with creditworthy counterparties. The credit risk on trade receivable is low. Based on past experience, the customer payment default rate is low. The Group has a significant concentration of credit risk in trade and bills receivables as 14.2% (2018: 15.6%) of the total trade and bills receivables was due from the Group's largest trade debtor and the amounts due from the Group's top five customers is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Balance of trade receivables (net of provision) from top five customers	**43,795**	42,067
Balance of trade and bills receivables (net of provision) *(Note 25)*	**102,628**	128,809
Percentage	**42.67%**	32.70%

It is the Group's policy to receive settlement from customers in the form of cash, cheques or endorsed bank accepted bills. Credit sales are made generally to selected customers with long-term business trading history. The issuing banks of these bank acceptance bills are either state-owned banks with investment grade ratings or local banks with good reputation. The Group considered the default risk from these bank acceptance bills is low. Therefore, the directors consider the Group's bank acceptance bills and trade receivables have no significant exposure to credit risk.

Management reviews the recoverability of loans to Dongtong and the three other loan receivables at end of reporting period. In order to minimise the credit risk, the Group has a high concentration of credit risk as all loan receivables were due, from four parties as at 31 December 2019. In order to minimise the credit risk, the Group have recalled three of the four loans and have subsequently received the three loan receivables in March 2020. The directors consider that the last third party have sufficient financial capacity to repay the loan receivable.

37. Financial Risk Management and Fair Value *(Continued)*

(c) Credit risk (Continued)

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019:

As at 31 December 2019	**Expected loss rate** *(%)*	**Gross carrying amount** *(RMB'000)*	**Loss allowance** *(RMB'000)*
Current (not past due)	**0.00**	**84,874**	**–**
1-90 days past due	**0.28**	**4,642**	**13**
91-180 days past due	**5.47**	**11,413**	**624**
181 days –1 year past due	**11.38**	**2,245**	**255**
Over 1 year past due	**72.11**	**1,254**	**908**
		104,428	**1,800**

As at 31 December 2018	Expected loss rate *(%)*	Gross carrying amount *(RMB'000)*	Loss allowance *(RMB'000)*
Current (not past due)	0.00	95,072	–
1-90 days past due	0.00	27,947	–
91-180 days past due	0.04	2,261	1
181 days –1 year past due	2.55	2,352	60
Over 1 year past due	75.39	5,030	3,792
		132,662	3,853

37. Financial Risk Management and Fair Value *(Continued)*

(c) Credit risk (Continued)

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash flows from operations. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, was less than one year.

(e) Fair value

The fair value measurement of the Group's financial and non-financial assets and liabilities utilised market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "Fair Value Hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

37. Financial Risk Management and Fair Value *(Continued)*

(e) Fair value (Continued)

(i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, loan receivables, short-term bank deposits, trade and other payables and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, short-term bank deposits, trade and other receivables, trade and other payables and borrowings approximate fair value.

(ii) Financial instruments measured at fair value

Financial assets at FVOCI and financial assets at FVTPL included in the consolidated financial statements require measurement at, and disclosure of, fair value.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

Information about level 3 fair value measurements

For the financial assets at fair value through profit or loss

The fair value of the perpetual bonds was determined by the Directors with reference to the valuation performed by Graval Consulting Limited. The valuer used discounted cash flow in assessing the fair value of the bonds as at 31 December 2019 and concluded that the fair value of the perpetual bonds as at 31 December 2019 is approximately RMB110,000,000.

Significant unobservable input:

Discount for contractual cash flow of 6.38%

If the contractual cash flow discount rate was 5% higher/lower while all other variables were held constant, the fair value of the perpetual bonds would decrease/increase by approximately RMB5,339,000.

The perpetual bonds issued by an unlisted corporation is measured at level 3 recurring fair value hierarchy.

There was no transfer under the fair value hierarchy classification during the year ended 31 December 2019.

37. Financial Risk Management and Fair Value *(Continued)*

(e) ***Fair value*** *(Continued)*

(ii) Financial instruments measured at fair value *(Continued)*

For the financial assets at fair value through other comprehensive income

The fair value of the unlisted equity investment in Dongfang Kangtan was determined by the Directors with reference to the valuation performed by Jiangsu Guoheng Land, Real Estate Property and Asset Valuation Consulting Company Limited (江蘇國衡土地房地產資產評估咨詢有限公司). The valuer used market approach in assessing the fair value of Dongfang Kangtan's equity as at 31 December 2018 and concluded that the fair value of Dongfang Kangtan as at 31 December 2018 is approximately RMB6,534,000.

Significant unobservable input:

Discount for lack of marketability of 54.3%

If the lack of marketability discount rate was 5% higher/lower while all other variables were held constant, the fair value of Dongfang Kangtan would decrease/increase by approximately RMB172,000.

The unlisted equity investment in Dongfang Kangtan is measured at level 3 recurring fair value hierarchy.

There was no transfer under the fair value hierarchy classification during the year ended 31 December 2018.

There were no changes in valuation techniques during the year.

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

Unlisted equity investment	**Financial assets at FVTPL 2019** *RMB'000*	**Financial assets at FVOCI 2019** *RMB'000*
At 1 January	–	**6,534**
Purchase	**110,000**	–
Total gains or losses:		
– changes in fair value of financial assets	–	**2,466**
Dispose	–	**(9,000)**
At 31 December	**110,000**	–

37. Financial Risk Management and Fair Value *(Continued)*

(e) ***Fair value*** *(Continued)*

(ii) Financial instruments measured at fair value *(Continued)*

For the financial assets at fair value through other comprehensive income (Continued)

Unlisted equity investment	Financial assets at FVTPL 2018 *RMB'000*	Financial assets at FVOCI 2018 *RMB'000*
At 1 January	–	–
Purchase	–	9,000
Total gains or losses:		
– changes in fair value of financial assets	–	(2,466)
Dispose	–	
At 31 December	–	6,534

38. Capital Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the year.

Management regards total equity attributable to owners of the Company as capital. The amount of capital as at 31 December 2019 amounted to approximately RMB518,834,000 (2018: RMB483,745,000) which management considers as optimal having considered the projected capital expenditures and the strategic opportunities.

39. Capital Commitments

	2019 ***RMB'000***	2018 *RMB'000*
Commitments for the acquisition of property, plant and equipment	**1,464**	640
Commitments for the acquisition of property	**–**	2,500
	1,464	3,140

40. Related Party Transactions

(a) *Key management compensation*

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employees service is shown below:

	2019	2018
	RMB'000	*RMB'000*
Basic salaries and benefits in kind	**5,856**	4,426

There are three, one and one (2018: three, one and one) key management personnel of the Group with remuneration fell within the band of nil to HKD1,000,000, the band of HKD1,000,000 to HKD1,500,000, and the band of HKD1,500,000 to HKD2,000,000 in 2019 respectively.

As disclosed in Note 23(a), acquisition of 18% equity interest in Dongfang Kangtan by the Group in 2018 for a cash consideration of RMB9,000,000 was a related party transaction as the Vendor was owned as to 70% by Mr. Tseung, the non-executive director and controlling shareholder of the Company.

As disclosed in Note 25(v), acquisition of the property by the Group on 29 June 2018 for a consideration of RMB23,000,000 was a related party transaction as 100% equity interests in the Property Vendor was owned by Dongfang Hengxin Assets Holdings Company Limited of which 71% equity interests are indirectly held by Mr. Tseung.

As disclosed in Note 30, on 1 November 2018, Mr. Tseung (as the lender) has entered into a loan facility agreement with the Group (as borrower) to grant a loan facility up to HKD1,500,000 to a subsidiary of the Group at an interest rate of 8% per annum and repayable within one year together with accrued interest and subject to the lender's overriding right of repayment on demand. As at 31 December 2019, borrowing of approximately RMB1,328,000 (2018:1,328,000) and interest payable of RMB124,000 (2018: 18,000) was due to Mr. Tseung and interest expense of approximately RMB106,000 (2018: RMB18,000) was recognised.

40. Related Party Transactions *(Continued)*

(a) Key management compensation *(Continued)*

As disclosed in Note 29, other payables included an amount due to Mr. Tseung of approximately RMB4,005,000 (2018: RMB4,005,000), which is unsecured, interest-free and repayable on demand.

Guaranteed profit in relation to Biofit Group's profit from the years ended 31 December 2014 to 2017 of RMB24,679,000 from Biofit Group's former shareholder, Shanghai Dongxi Investment Development Company ("Shanghai Dongxi"), was a related party transaction as Mr. Ling Chao, the executive director of the Company, is also a director and controlling shareholder of Shanghai Dongxi. The amount represented the finalised guaranteed profit compensation from Biofit Group's former shareholder, recognised in the year ended 31 December 2018. No such transaction is recognised in the year ended 31 December 2019.

Other than the above disclosed, there are no transactions among the Group and its related parties for the year ended 31 December 2019 (2018: Nil).

(b) Significant related party transactions

Summary of the significant related party transactions carried out by the Group during the year are follows:

	Note	**2019** ***RMB'000***	2018 *RMB'000*
Revenue received from			
– an associate	*(i)*	**2,006**	1,074

Note:

(i) Revenue received in respect of solid waste processing income were mutually agreed by both parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

41. Note Supporting Consolidated Statement of Cash Flows

Reconciliation of liabilities arising from financing activities:

	Borrowings	Advance from a non-controlling shareholder of a subsidiary	Lease liabilities	Total
	(Note 30)	*(Note 29)*	*(Note 17)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	64,910	8,000	–	72,910
Changes from cash flows:				
Proceeds from new loans	62,528	–	–	62,528
Repayment of loans	(55,885)	–	–	(55,885)
Advance from a non-controlling shareholder of a subsidiary	–	(3,995)	–	(3,995)
Total changes from financing cash flows:	6,643	(3,995)	–	2,648
At 31 December 2018	71,553	4,005	–	75,558
At 1 January 2019	71,553	4,005	806	76,364
Changes from cash flows:				
Proceeds from new loans	10,700	–	–	10,700
Repayment of loans	(42,225)	–	–	(42,225)
Repayment of principal portion of the lease liabilities	–	–	(737)	(737)
Total changes from financing cash flows:	(31,525)	–	(737)	(32,262)
Attributable to discontinued operation *(note 11(b))*	(3,000)	–	–	(3,000)
Foreign exchange adjustments	–	–	(6)	(6)
Total changes	(34,525)	–	(743)	(35,268)
At 31 December 2019	27,835	4,005	63	41,096

42. Events after the Reporting Date

The emergence and spread of novel coronavirus in January 2020 has affected business and economic activity in the PRC and beyond. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future but the estimate of its financial effect cannot be made at this stage.

43. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2019.