



DONGGUANG CHEMICAL LIMITED
東光化工有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 1702

2019 ANNUAL REPORT



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CORPORATE PROFILE

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

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

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

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

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

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

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

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Ms. Chen Jimin

Independent non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Corporate Governance Committee

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Wang Zhihe
Mr. Cheng Shing Hay

COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners

AUDITOR

BDO Limited
Certified Public Accountants

REGISTERED OFFICE

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

HEADQUARTERS IN THE PRC

Chengdong Industrial Zone
Dongguang County
Hebei Province
The PRC

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office in the Cayman Islands

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

Hong Kong Branch Share Registrar and Transfer Office

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

PRINCIPAL BANKERS

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

STOCK CODE

1702

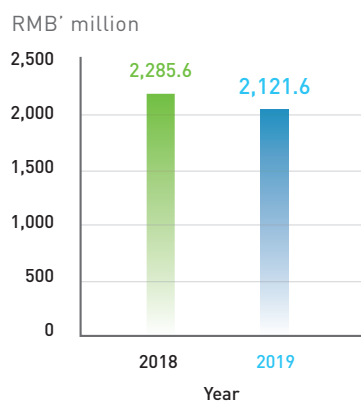
COMPANY WEBSITE

www.dg-chemical.com

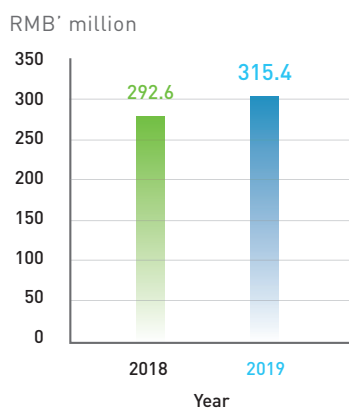
FINANCIAL HIGHLIGHTS

	FY2019	FY2018
Revenue (RMB' million)	2,121.6	2,285.6
Gross Profit (RMB' million)	315.4	292.6
Profit for the Year (RMB' million)	161.6	99.7
Earnings per Share – Basic (RMB cents)	26.0	16.1
Net Asset Value per Share – Basic (RMB)	1.8	1.6

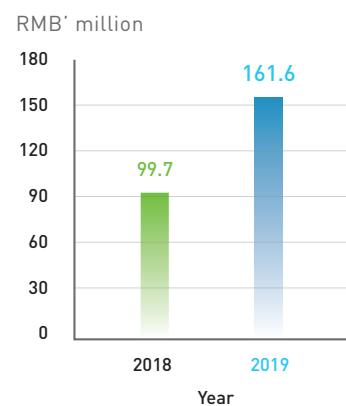
REVENUE DECREASE: 7%



GROSS PROFIT INCREASE: 8%

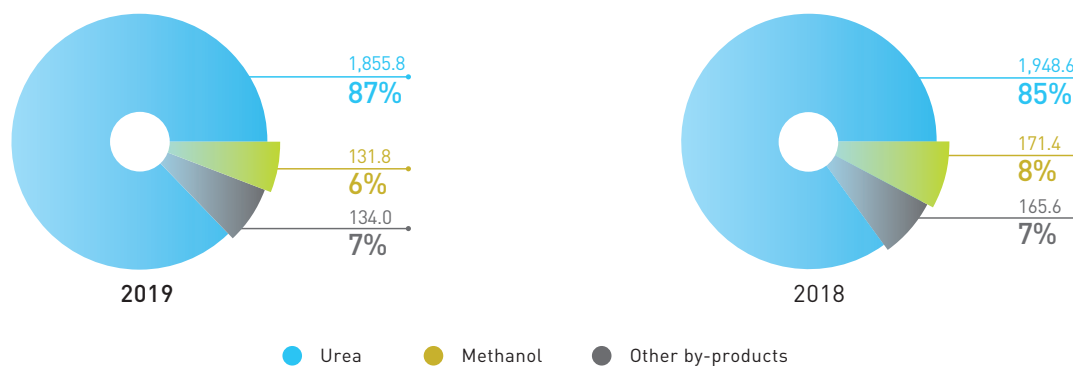


PROFIT FOR THE YEAR INCREASE: 62%



REVENUE BY PRODUCTS

RMB' million



CHAIRMAN'S STATEMENT



Wang Zhihe

Chairman

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the audited annual results of the Group for the year ended 31 December 2019 (the "Reporting Period").

BUSINESS REVIEW

In 2019, despite the complex and volatile global economic environment, the Group's results continued to show notable growth with its significantly higher profit compared to previous year. During the Reporting Period, we recorded an increase in profit by approximately RMB61.9 million, or 62.1%, from approximately RMB99.7 million for the year ended 31 December 2018 to approximately RMB161.6 million for the Reporting Period, the Group's urea and methanol products continued to contribute the main revenue for the Group which accounted for approximately 87% and 6% respectively of our total revenue during the Reporting Period. Although our revenue decreased by approximately RMB164.0 million, or 7.2%, from approximately RMB2,285.6 million for the year ended 31 December 2018 to approximately RMB2,121.6 million for the Reporting Period, mainly due to the decrease in the average selling price of urea and methanol products, the sales volume of our products remained strong and stable, and we were able to achieve a higher net profit by effectively controlling our cost of sales, tightening our administrative expenses and reducing our finance costs.

With the strengthening of vehicle emission controls and corresponding environmental protection regulations introduced in China, vehicle urea has become a necessary consumable for environmental protection. The Group as one of China's major urea manufacturers has the advantages of vehicle urea raw materials and solutions production and therefore, we have actively sought cooperation and seized the opportunities in the vehicle urea market. In September 2019, we have established a joint venture to produce vehicle urea, in order to further expand the Group's business and diversify our product. In August 2019, Hebei Dongguang Chemical Co., Ltd. ("Hebei Dongguang"), the subsidiary of the Group, has been authorised by Zhengzhou Commodity Exchange as the designed warehouse for urea futures. We also intended to commence futures hedging business for the Group's urea products when necessary, in order to minimise the risk of fluctuation in the market price of the Group's urea products.

In addition, we are pleased to report that, Hebei Dongguang has been awarded as one of the "2019 Top 100 Private Manufacturing Enterprise in Hebei" (2019河北省民營企業製造業100強) issued by the Hebei people's government, "2018 Top 20 Urea Production of National Nitrogen Fertilizer Enterprise" (2018年全國氮肥企業尿素產量20強) and "2018 Advanced Unit of Energy Saving and Emission Reduction in Nitrogen Fertilizer and Methanol Industry" (2018年度氮肥, 甲醇行業節能減排先進單位), granted by the China Nitrogen Fertilizer Industry Association (中國氮肥工業協會) in 2019. Furthermore, Hebei Dongguang has also been included in the "List of Green Manufacturers" (綠色工廠公示名單) and selected as the "National Green Factory" (國家級綠色工廠) in 2019 released by the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部).

These awards are not only a recognition of the Group's outstanding performance in production and operation as well as of its remarkable achievement in the industry, and also further demonstrated the social recognition of our determination and effort in environmental protection and enhance our development of green industry in order to drive economic development. Green industry is one of the important activities that can drive the economic growth of China. Over the recent years, China has actively implemented various plans to foster the development of green industry. In this regard, the Group has actively increased the investment in energy-efficient, environmentally-friendly treatment facilities and used new technology, equipment and materials. In 2019, the Group has successfully upgraded and installed a new energy saving power generating facility which is another milestone of promoting green development for our Group.

OUTLOOK

Recently, although the COVID-19 epidemic has resulted in a slowdown of PRC domestic productivity and economic activities, the Group's subsidiary in the PRC has maintained a normal production during the period and has not been affected by the epidemic. In respect of operation, product transportation has sustained a considerable delay due to the Chinese New Year Holidays and the shutdown of freight and some downstream companies under the COVID-19 epidemic. However, since mid-February this year, as freight has gradually recovered and the fertilizer companies have a demand for fertilizers to secure springtime agriculture, shipments have increased, and product price has quickly recovered.

In addition, in order to encourage fertilizer companies to secure springtime agricultural production, the PRC government has introduced favourable policies accordingly, and has given important instructions in respect of domestic springtime agricultural production. It attaches great importance to "Sannong" (three issues relating to rural development) work and arranges for springtime agricultural production so as to maintain a stable grain production. After the introduction of the springtime agriculture securing policy, the agricultural fertilizer market has gradually recovered. These aforementioned factors have very positive and favourable effects on the Group's production and operation.

Looking into 2020, the urea market in general is keeping a balance between supply and demand. It is believed that the urea market in this spring will draw more attention within the industry. With the continuous optimization of production capacity, the overall urea industry will continue to advance in a healthy and orderly direction. In order to have greater economic and social benefits, the Group will continue its research on energy-conserving and environmental friendly technologies, and effectively reduce production costs by introducing new technologies and using new equipment. We will also keep optimizing our growth strategies, including effectively increasing production capacity, actively boosting production quality and efficiency, and expanding value chains to urea-related products such as automotive urea products. Furthermore, we will strengthen our strategic relationship with major customers and diversify our clientele, as well as identifying opportunities for strategic acquisitions.

Lastly, I would like to take this opportunity to extend my sincere gratitude to each shareholder, the management of the Company, all our employees and clients, and those who show care and support to our Group. Over the past year, all the employees of the Group worked relentlessly to improve the business and management of the Group amid complicated market conditions. The Group will adhere to the development philosophy of "Developing Companies, Creating Values, Enriching Employees, Serving Society", and commit itself to generating greater values to the society. Looking ahead, despite the global market and economic uncertainties, we believe that, with the firm support from our shareholders and a solid management base as well as the new green technologies, the Group, by putting forth a united effort, are well capable of meeting new challenges, adapting to market adjustments, creating considerable values for shareholders, and making greater achievements.

Wang Zhihe
Chairman of the Board

24 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, we experienced a decrease in revenue by approximately RMB164.0 million, or 7.2%, from approximately RMB2,285.6 million for the year ended 31 December 2018 to approximately RMB2,121.6 million for the Reporting Period, mainly due to the decreases in the average retail prices of urea, methanol and other by-products such as liquid ammonia and liquefied natural gas for the Reporting Period. The average selling price of our urea products was approximately RMB1,648 per tonne during the Reporting Period, representing a decrease of approximately 5.0% from RMB1,734 per tonne during the year ended 31 December 2018. The average selling price of our methanol products was approximately RMB1,561 per tonne during the Reporting Period, representing a decrease of approximately 22.7% from RMB2,020 per tonne during the year ended 31 December 2018. Our gross profit increased by approximately RMB22.8 million, or 7.8%, from approximately RMB292.6 million for the year ended 31 December 2018 to approximately RMB315.4 million for the Reporting Period. As a result, our gross profit margin also increased as the percentage decrease of cost of sales was greater than the percentage decrease of revenue during the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000	% Change +/{-}
Urea	1,855,794	1,948,553	-4.8%
Methanol	131,785	171,377	-23.1%
Other by-products	134,013	165,689	-19.1%
Total	2,121,592	2,285,619	-7.2%

Urea

Revenue from urea decreased by approximately RMB92.8 million, or 4.8%, from approximately RMB1,948.6 million for the year ended 31 December 2018 to approximately RMB1,855.8 million during the Reporting Period, as the average selling price of our urea decreased by approximately RMB86 per tonne, or 5.0%, from approximately RMB1,734 per tonne for the year ended 31 December 2018 to approximately RMB1,648 per tonne for the Reporting Period.

Methanol

Revenue from methanol decreased by approximately RMB39.6 million, or 23.1%, from approximately RMB171.4 million for the year ended 31 December 2018 to approximately RMB131.8 million during the Reporting Period, as the average selling price of our methanol decreased by approximately RMB459 per tonne, or 22.7%, from approximately RMB2,020 per tonne for the year ended 31 December 2018 to approximately RMB1,561 per tonne for the Reporting Period.

Cost of sales

Our cost of sales decreased by approximately RMB186.8 million, or 9.4%, from approximately RMB1,993.0 million for the year ended 31 December 2018 to approximately RMB1,806.2 million for the Reporting Period, primarily due to (i) the decrease in raw materials costs as no provision for prepaid value added tax was required to charge for the Reporting Period while such provision of approximately RMB54 million was made for the year ended 31 December 2018; and (ii) the decrease in electricity cost because of the upgrade of new energy saving power generating facility during the Reporting Period.

Gross Profit and Gross Profit Margin

	Year ended 31 December 2019		Year ended 31 December 2018		Gross Profit Change	
	Gross Profit RMB'000	Margin %	Gross Profit RMB'000	Margin %	RMB'000	%
Urea	273,225	14.7	226,298	11.6	46,927	20.7
Methanol	(15,458)	(11.7)	6,954	4.1	(22,412)	(322.3)
Other by-products	57,646	43.0	59,384	35.8	(1,738)	(2.9)
Total	315,413	14.9	292,636	12.8	22,777	7.8

Our gross profit increased by approximately RMB22.8 million, or 7.8%, from approximately RMB292.6 million for the year ended 31 December 2018 to approximately RMB315.4 million for the Reporting Period, primarily due to the percentage decrease of cost of sales being greater than the percentage decrease of revenue. As a result, our gross profit margin increased from approximately 12.8% for the year ended 31 December 2018 to approximately 14.9% for the Reporting Period.

Other income

Other income decreased by approximately RMB0.5 million, or 4.5%, from approximately RMB11.4 million for the year ended 31 December 2018 to approximately RMB10.9 million for the Reporting Period, primarily due to the decrease in our interest income generated in the Reporting Period of approximately RMB5.0 million which was partially offset by the increase in government grant income of approximately RMB2.9 million.

Other losses, net

Other losses (net) of approximately RMB8.5 million (2018: RMB3.8 million) recorded during the Reporting Period was mainly due to RMB depreciated against HKD, and thus more HKD loan was repaid in monetary terms of RMB.

Administrative expenses

Administrative expenses decreased by approximately RMB16.9 million, or 21.6%, from approximately RMB78.3 million for the year ended 31 December 2018 to approximately RMB61.4 million for the Reporting Period, primarily due to the decrease in directors remuneration, consultancy fee and impairment loss of prepayments and other receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution expenses

Distribution expenses increased by approximately RMB0.5 million, or 19.4%, from approximately RMB2.3 million for the year ended 31 December 2018 to approximately RMB2.8 million for the Reporting Period, primarily due to the increase in staff costs.

Finance costs

Finance costs decreased by approximately RMB20.4 million, or 37.8%, from approximately RMB53.8 million for the year ended 31 December 2018 to approximately RMB33.4 million for the Reporting Period, primarily due to general decrease in the level of borrowings.

Taxation

Income tax expenses decreased by approximately RMB7.5 million, or 11.4%, from approximately RMB66.1 million for the year ended 31 December 2018 to approximately RMB58.6 million for the Reporting Period, primarily due to decrease in tax non-deductible expenses mainly from the provision for prepaid value added tax and impairment loss of prepayments and other receivables.

Profit for the year

Profit for the year increased by approximately RMB61.9 million or 62.1% from approximately RMB99.7 million for the year ended 31 December 2018 to approximately RMB161.6 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB22.8 million, decrease in administrative expenses of approximately RMB16.9 million, decrease in finance costs of approximately RMB20.4 million and decrease in income tax expenses of approximately RMB7.5 million during the Reporting Period. The increase in profit for the Reporting Period was partially offset by the decrease in other income of approximately RMB0.5 million, increase in other losses (net) of approximately RMB4.7 million and increase in distribution expenses of approximately RMB0.5 million.

CAPITAL STRUCTURE

As at 31 December 2019, the Group had net assets of approximately RMB1,145.4 million (as at 31 December 2018: approximately RMB998.2 million), comprising of non-current assets of approximately RMB1,234.4 million (as at 31 December 2018: approximately RMB1,319.1 million), and current assets of approximately RMB590.2 million (as at 31 December 2018: approximately RMB508.6 million), which primarily consist of cash and bank balances amounted to approximately RMB431.8 million (as at 31 December 2018: approximately RMB215.5 million). Moreover, inventories amounted to approximately RMB80.9 million (as at 31 December 2018: approximately RMB93.0 million) and prepayments, deposit and other receivables amounted to approximately RMB72.3 million (as at 31 December 2018: approximately RMB106.9 million) are also major current assets. The Group recorded a net current liability position of approximately RMB50.0 million as at 31 December 2019 (as at 31 December 2018: approximately RMB193.3 million). Major current liabilities include trade payables amounted to approximately RMB77.4 million (as at 31 December 2018: approximately RMB56.5 million), other payables and accruals amounted to approximately RMB65.2 million (as at 31 December 2018: approximately RMB62.8 million), contract liabilities amounted to approximately RMB44.7 million (as at 31 December 2018: approximately RMB30.5 million) and interest-bearing bank and other borrowings amounted to approximately RMB442.1 million (as at 31 December 2018: approximately RMB532.9 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had cash and bank balances of approximately RMB431.8 million (as at 31 December 2018: approximately RMB215.5 million) and had total interest-bearing bank borrowings of approximately RMB442.1 million (as at 31 December 2018: approximately RMB601.7 million). The Group's interest-bearing bank borrowings bear interests ranging from 4.39% to 5.53% (as at 31 December 2018: 3.30% to 9.00%) per annum.

As at 31 December 2019, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB442.1 million and nil respectively (as at 31 December 2018: approximately RMB532.9 million and RMB68.8 million respectively).

As at 31 December 2019, the gearing ratio for the Group was 0.01 (as at 31 December 2018: 0.43), based on net debt of approximately RMB10.3 million (as at 31 December 2018: approximately RMB431.0 million) and equity attributable to owners of approximately RMB1,145.4 million (as at 31 December 2018: approximately RMB998.2 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The management is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

PROSPECTS

Recently, although the COVID-19 epidemic has resulted in a slowdown of PRC domestic productivity and economic activities, the Group's subsidiary in the PRC has maintained a normal production during the period and has not been affected by the epidemic. In respect of operation, product transportation has sustained a considerable delay due to the Chinese New Year Holidays and the shutdown of freight and some downstream companies under the COVID-19 epidemic. However, since mid-February this year, as freight has gradually recovered and the fertilizer companies have a demand on fertilizers to secure springtime agriculture, shipments have increased, and product price has quickly recovered.

In addition, in order to encourage fertilizer companies to secure springtime agricultural production, the PRC government has introduced favourable policies accordingly, and has given important instructions in respect of domestic springtime agricultural production. It attaches great importance to "Sannong" (three issues relating to rural development) work and arranges for springtime agricultural production so as to maintain a stable grain production. After the introduction of the springtime agriculture securing policy, the agricultural fertilizer market has gradually recovered. These aforementioned factors have very positive and favourable effects on the Group's production and operation.

Looking into 2020, the urea market in general is keeping a balance between supply and demand. It is believed that the urea market in this spring will draw more attention within the industry. With the continuous optimization of production capacity, the overall urea industry will continue to advance in a healthy and orderly direction. In order to have greater economic and social benefits, the Group will continue its research on energy-conserving and environmental-friendly technologies, and effectively reduce production costs by introducing new technologies and using new equipment. We will also keep optimizing our growth strategies, including effectively increasing production capacity, actively boosting production quality and efficiency, and expanding value chains to urea-related products such as automotive urea products. Furthermore, we will strengthen our strategic relationship with major customers and diversify our clientele, as well as identifying opportunities for strategic acquisitions.

Lastly, the Company would like to take this opportunity to extend our sincere gratitude to each shareholder, the management of the Company, all our employees and clients, and those who show care and support to our Group. Over the past year, all the employees of the Group worked relentlessly to improve the business and management of the Group amid complicated market conditions. The Group will adhere to the development philosophy of "Developing Companies, Creating Values, Enriching Employees, Serving Society", and commit itself to generating greater values to the society. Looking ahead, despite the global market and economic uncertainties, we believe that, with the firm support from our shareholders and a solid management base as well as the new green technologies, the Group, by putting forth a united effort, are well capable of meeting new challenges, adapting to market adjustments, creating considerable values for shareholders, and making greater achievements.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN CURRENCY EXPOSURE

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

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

CAPITAL COMMITMENTS

As at 31 December 2019, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB23.0 million (as at 31 December 2018: approximately RMB22.0 million).

CHARGE ON ASSETS

As at 31 December 2019, the Group's secured short-term bank loans, short-term other loan and long-term bank loan were secured by certain of the Group's property, plant and equipment and leasehold land. As at 31 December 2018, the Group's secured short-term bank loans, short-term other loan and long-term bank loans were secured by certain of the Group's property, plant and equipment, leasehold land, inventories and bank deposits. Short-term secured other loans were granted from financial leasing companies in the PRC.

CONTINGENT LIABILITIES

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

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2019, the Group employed a total of 1,295 employees (as at 31 December 2018: 1,269 employees). The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the Reporting Period, the total staff costs (including directors' emoluments) amounted to approximately RMB102.0 million (year ended 31 December 2018: RMB101.4 million). The Company has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, for their contribution to the Group.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

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

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

UPDATE ON THE USE OF PROCEEDS

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

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

	Actual Net proceeds HK\$'million	Amount utilized as at 31 December 2019 HK\$'million	Unutilized net proceeds as at 31 December 2019 HK\$'million
Purchase of new equipment and the construction of new energy saving power generating facility	69.3	69.3	-
Purchase, construct and install new environmental protection facility	52.7	52.7	-
Repay part of two outstanding term loans to two independent third parties	14.8	14.8	-
Working capital and general corporate purposes	10.9	10.9	-
	147.7	147.7	-

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK6 cents (2018: HK4 cents) per ordinary share, absorbing a total amount of about HK\$37.3 million (2018: HK\$24.8 million), in respect of the year ended 31 December 2019 (the "Proposed Final Dividend"), which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Friday, 29 May 2020 (the "2020 AGM"). The proposed final dividend is expected to be paid on Friday, 19 June 2020 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 8 June 2020.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Wang Zhihe (王治河), aged 62

Executive Director and chairman of the Board

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

Mr. Sun Yi (孫毅), aged 65

Executive Director and vice chairman of the Board

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

Mr. Sun Zushan (孫祖善), aged 67

Executive Director and chief operating officer of our Group

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

Mr. Xu Xijiang (徐希江), aged 58

Executive Director and chief technology officer of the Group

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

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Ms. Chen Jimin (陳繼敏), aged 45

Non-executive Director

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Lin Xiuxiang (林秀香), aged 57

Independent non-executive Director

Ms. Lin is an independent non-executive Director. She was appointed as an independent non-executive Director on 20 June 2017. Ms. Lin has over 30 years of experience in the education field in financial management and accounting. She has been the director of the department of financial management of the school of accountancy of the Central University of Finance and Economics (中央財經大學) ("CUFE") since October 2003 and a professor in the faculty of accounting and financial management of the school of accountancy of CUFE since September 2006. She has also been an independent director and a director of the audit committee of Minsheng Securities (民生證券股份有限公司) since August 2012 to August 2018. She has also been an associate professor in the faculty of financial management of the school of accountancy of CUFE from October 2003 to August 2006, an associate professor in the faculty of finance of CUFE from September 1999 to September 2003, a lecturer in financial management of the faculty of finance of CUFE from May 1996 to August 1999, a lecturer in finance and accounting of the faculty of finance of Central School of Finance* (中央財政金融學院) (currently known as CUFE) from November 1992 to April 1996 and a teaching assistant in finance and accounting of the faculty of finance of Central School of Finance from August 1988 to October 1992. Ms. Lin obtained a doctoral degree in economics from CUFE in June 2006. She also obtained a master's degree in economics from the Central School of Finance in July 1988.

Mr. Liu Jincheng (劉金成), aged 55*Independent non-executive Director*

Mr. Liu is an independent non-executive Director. He was appointed as an independent non-executive Director on 20 June 2017. Mr. Liu has over 25 years of experience in operation and management in chemical industry. He has been the Head of Technical Committee of Hebei Yangmei Zhengyuan Chemical Group Co., Ltd* (河北陽煤正元化工集團有限公司), which principally engages in the manufacture of fertiliser and the research and development of equipment for the production of fertiliser, since September 2019, the vice chairman of the board of Hebei Yangmei Zhengyuan Chemical Group Co., Ltd* (河北陽煤正元化工集團有限公司) from January 2010 to September 2019 and the general manager of Cangzhou Zhengyuan Fertiliser Co., Ltd* (滄州正元化肥有限公司), which is principally engaged in the manufacture of fertiliser, from October 2013 to September 2017. He has also been the president of Hebei Zhengyuan Chemical Group Joint Stock Co., Ltd* (河北正元化工集團股份有限公司) (formerly known as Hebei Zhengyuan Chemical Group Co., Ltd* (河北正元化工集團有限公司)), which principally engages in the manufacture of fertiliser and the research and development of equipment for the production of chemical, from April 2006 to January 2010, the president of Hebei Zhengyuan Investment Co., Ltd* (河北正元投資有限責任公司), which principally engages in the operation and investment in fertiliser businesses, from April 2005 to April 2006, and the technology manager of Shijiazhuang Zhengyuan Gaoxiao Tower Development Company* (石家莊正元高效塔器開發公司), which principally engages in the manufacture of equipment for the production of chemical, from October 1992 to April 2005. Mr. Liu obtained a master's degree in chemical engineering from the Hebei Faculty of Technology* (河北工學院) (currently known as Hebei University of Technology (河北工業大學)) in July 1988.

Mr. Ng Sai Leung (吳世良), aged 47*Independent non-executive Director*

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

Mr. Ng has been the Managing Director and Head of Corporate Finance of Shanxi Securities International Capital Limited, a licensed corporation under the SFO which principally engages in the provision of investment banking services, since August 2019. He has been appointed as an independent non-executive director of MEIGU Technology Holding Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8349) with effect on 16 December 2016. He was also the managing director of Baron Global Financial Services Limited (currently known as VBG Capital Limited), a licensed corporation under the SFO which principally engages in the provision of investment banking services, from January 2015 to August 2019, a director of the investment banking department of CMB International Capital Corporation Limited, which principally engages in the provision of investment banking services to global, local institutional and corporate clients as well as individual investors, from August 2010 to January 2015, a vice president and senior vice president of the corporate finance division of CIMB Securities (HK) Ltd., a company which principally engages in the provision of a full range of services from cash equities, equity sales and research and debt capital markets through to financial/corporate advisory and merger and acquisitions, from June 2006 to August 2010, a senior manager and an associate director of MasterLink Securities (HK) Corp., Ltd., a company which principally engages in the provision of corporate finance advisory services, from May 2004 to May 2006, an assistant manager, manager and senior manager of the corporate finance department of Tai Fook Capital Limited (currently known as Haitong International Capital Limited), a company which principally engages in the provision of corporate finance advisory services, from September 1999 to April 2004, an officer of the compliance department of Hong Kong Futures Exchange Limited from March 1998 to September 1999, and a junior internal officer of the private banking division of Swiss Bank Corporation, an investment bank which then principally engaged in the provision of financial services, from March 1997 to February 1998. He also worked as an accountant of Ernst & Young from August 1995 to March 1997. Mr. Ng was certified as a certified public accountant from the Board of Public Accountants of the State of Montana, the US in September 1997. He is also a member of the Chartered Financial Analyst Institute. Mr. Ng obtained a bachelor's degree in business administration from The University of Hong Kong in November 1995. He also obtained a master's degree in business administration from The Chinese University of Hong Kong in December 2002.

SENIOR MANAGEMENT

Mr. Guo Jianming (郭建明), aged 46

General manager of the Group

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

Mr. Cheng Shing Hay (鄭承熙), aged 41

Chief financial officer and company secretary of the Company

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

(I) STATEMENT OF COMPLIANCE

It is the policy of the Company to manage the affairs of the Group in accordance with the appropriate standards for good corporate governance. Summarised below is a statement on how the Company during the year ended 31 December 2019 has applied the principles and complied with the code provisions as set out in the Corporate Governance Code in effect during the year ended 31 December 2019 (the "CG Code") as contained in Appendix 14 of the Listing Rules.

A. Directors

A.1 *The Board*

Principle

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

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

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

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.1 The Board *(Continued)*

Principle *(Continued)*

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

(I) STATEMENT OF COMPLIANCE (CONTINUED)**A. Directors (Continued)***A.2 Chairman and Chief Executive*

Principle

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

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

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.2 Chairman and Chief Executive *(Continued)*

Principle *(Continued)*

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.2.6 The Chairman should encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the issuer.	No	All Directors are encouraged to make a full and active contribution to the Board's affairs and to voice their concerns if they have different views. Directors are given sufficient time for discussion at Board meetings. All Directors endeavour to act in the best interests of the Company.
A.2.7 The Chairman should at least annually hold meetings with the independent non-executive Directors ("INED(s)") without the presence of other Directors.	No	During the year ended 31 December 2019, the Chairman of the Board had held a meeting with the INEDs of the Company.
A.2.8 The Chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.	No	Shareholders' Communication Policy has been established by the Board to ensure that an effective system of communication with shareholders is in place. Shareholders are encouraged to participate in general meetings whereat members of the Board and Board Committees are available to answer their questions.
A.2.9 The Chairman should promote a culture of openness and debate by facilitating the effective contribution of non-executive Directors and ensuring constructive relations between executive and non-executive Directors.	No	All Directors are encouraged to openly share their views on the Company's affairs and issues and they are entitled to have access to the management who will respond to queries raised by the Directors as promptly and fully as possible. The Board has agreed on a procedure to enable the Directors to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to perform their duties.

(I) STATEMENT OF COMPLIANCE (CONTINUED)

A. Directors (Continued)

A.3 Board composition

Principle

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

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

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE (CONTINUED)

A. Directors (Continued)

A.4 Appointments, re-election and removal

Principle

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

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

(I) STATEMENT OF COMPLIANCE (CONTINUED)**A. Directors (Continued)***A.5 Nomination Committee*

Principle

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

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

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.5 Nomination Committee *(Continued)*

Principle *(Continued)*

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

(I) STATEMENT OF COMPLIANCE (CONTINUED)**A. Directors (Continued)***A.6 Responsibilities of Directors*

Principle

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

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.6.1 Every newly appointed Director should receive a comprehensive, formal and tailored induction on appointment. Subsequently, he should receive such briefing and professional development as is necessary.	No	Every newly appointed Directors are given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. The Directors are updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to Directors will be arranged whenever necessary.
A.6.2 Functions of non-executive Directors should include the following: <ul style="list-style-type: none"> (a) participating in Board meetings to bring an independent judgement; (b) taking the lead where potential conflicts of interest arise; (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting. 	No	All INEDs and the non-executive Director of the Company in office during the year ended 31 December 2019 have duly performed these functions.

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.6 Responsibilities of Directors *(Continued)*

Principle *(Continued)*

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.6.3 Every Director should give sufficient time and attention to the issuer's affairs.	No	The Directors continue to give appropriate time and attention to the affairs of the Company.
A.6.4 Written guidelines should be established for relevant employees' dealings in the securities of the issuer, which shall be on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. "Relevant Employee" includes any employee or a Director or employee of a subsidiary or holding company who is likely to be in possession of unpublished price sensitive information in relation to the issuer or its securities.	No	The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules in force during the year ended 31 December 2019 as its code of conduct regarding securities transactions by its Directors. The Model Code has been extended and has become equally applicable to dealings in the securities of the Company by members of senior management as included in the Company's latest annual report or as otherwise resolved by the Board from time to time.
A.6.5 All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.	No	All Directors are provided with continuous updates and briefings on the latest changes or material developments in statutes, the Listing Rules, corporate governance practices, etc. and are encouraged to participate in continuous professional development programmes, at the Company's expenses, to update and enhance their knowledge and skills for performing Directors' roles and responsibilities.

(I) STATEMENT OF COMPLIANCE (CONTINUED)

A. Directors (Continued)

A.6 Responsibilities of Directors (Continued)

Principle (Continued)

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.6.6 Each Director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. The identity of the public companies or organisations and an indication of the time involved should also be disclosed.	No	Each Director is required, on appointment, to disclose to the Board his directorships in public companies or organisations and other significant commitments, and provides continuous updates, on a regular basis, for any change therein, with an indication of the time involved.
A.6.7 INEDs and other non-executive Directors, as equal Board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. Generally they should also attend general meetings to gain and develop a balanced understanding of the views of shareholders.	No	<p>During the year ended 31 December 2019, all INEDs and, where relevant, the non-executive Director of the Company have given the Board and any Board Committees on which they served the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation at meetings of the Board and relevant Board Committees (as the case may be).</p> <p>Most of the INEDs and the non-executive Director of the Company had attended the annual general meeting of the Company held on 24 May 2019.</p>
A.6.8 INEDs and other non-executive Directors, should make a positive contribution to the development of the issuer's strategy policies through independent, constructive and informed comments.	No	Please refer to the section headed "Board of Directors" of this Annual Report for the skills and experience of each Director. Adequate business documents and information about the Group were provided to all Directors in a timely manner. The INEDs in office during the year ended 31 December 2019 were able to provide independent, constructive and informed comments and decisions on the development of the Company's strategy and policies.

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

A. Directors *(Continued)*

A.7 *Supply of and access to information*

Principle

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

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

(I) STATEMENT OF COMPLIANCE (CONTINUED)**B. Remuneration of Directors and Senior Management and Board Evaluation***B.1 The level and make-up of remuneration and disclosure*

Principle

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

Summary of Code Provisions	Any deviations?	Governance practices of the Company
B.1.1 The Remuneration Committee should consult the Chairman and/or Chief Executive about their remuneration proposals for other executive Directors and have access to independent professional advice if necessary.	No	The Remuneration Committee members will consult the Chairman when formulating proposals on the remuneration of other executive Directors, if any, prior to their due consideration by the Remuneration Committee. During the year ended 31 December 2019, the Remuneration Committee did not require the service of an independent professional advice.
B.1.2 The terms of reference of the Remuneration Committee should include, as a minimum, the prescribed specific duties.	No	Terms of reference of the Remuneration Committee contain all the specific duties as prescribed by the CG Code. Please refer to section (III)(B)(2) of this Corporate Governance Report for the principal duties of the Remuneration Committee.
B.1.3 The Remuneration Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	Terms of reference of the Remuneration Committee (including its role and functions) are available on the websites of the Exchange and the Company.
B.1.4 The Remuneration Committee should be provided with sufficient resources to perform its duties.	No	The Remuneration Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
B.1.5 Issuers should disclose details of any remuneration payable to members of the senior management by band in their annual reports.	No	Remuneration paid to members of the senior management has been disclosed by band in this Annual Report. Please refer to section (III)(B)(5) of this Corporate Governance Report for details of remuneration payable to members of the senior management by band.

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit

C.1 Financial reporting

Principle

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

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.1.1 Management should provide sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval.	No	The Directors are regularly provided with relevant reports and updates on the Company's business and financial information.
C.1.2 Management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the Board and each Director to discharge their duties.	No	All Directors are provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects, where applicable, in sufficient details to keep the Directors abreast of the Group's affairs in order to perform their duties.
C.1.3 The Directors should acknowledge in this Corporate Governance Report their responsibility for preparing the accounts. There should be a statement by the auditor about their reporting responsibilities in the Auditor's Report on the financial statements.	No	<p>The Directors are responsible for preparing accounts for each financial year which give a true and fair view of the financial position of the Group and of the financial performance and cash flows of the Group for the year then ended. In preparing accounts for the year ended 31 December 2019, the Directors have:</p> <ul style="list-style-type: none"> (i) selected suitable accounting policies and applied them consistently; (ii) made judgements and estimates that are prudent and reasonable; and (iii) prepared accounts on the going concern basis. <p>The Independent Auditor's Report states the auditor's reporting responsibilities.</p>

(I) STATEMENT OF COMPLIANCE *(CONTINUED)***C. Accountability and Audit** *(Continued)**C.1 Financial reporting (Continued)**Principle (Continued)*

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

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit *(Continued)*

C.2 Internal control

Principle

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

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

(I) STATEMENT OF COMPLIANCE (CONTINUED)

C. Accountability and Audit (Continued)

C.2 Internal control (Continued)

Principle (Continued)

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

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. Accountability and Audit *(Continued)*

C.3 Audit Committee

Principle

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

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.3.1 Minutes of Audit Committee meetings should be kept a duly appointed secretary of the meeting. Draft and final versions of minutes of the meetings should be sent to all committee members for their comments and records within a reasonable time after the meeting.	No	Minutes of the Audit Committee meetings are kept by the Company Secretary as Secretary of the Audit Committee. Draft and final versions of minutes of Audit Committee meetings are sent to all committee members for their comments and records within a reasonable time.
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of its Audit Committee for a period of two years from the date of the person ceasing: (a) to be partner of the firm; or (b) to have any financial interest in the firm, whichever is later.	No	None of the Directors who served on the Audit Committee during the year ended 31 December 2019 were former partners of the external auditor.
C.3.3 The Audit Committee's terms of reference should include at least the prescribed specific duties.	No	The terms of reference of the Audit Committee contain at least the specific duties as prescribed by the CG Code in force during the year ended 31 December 2019. Please refer to section (III)(D)(2) of this Corporate Governance Report for the principal duties of the Audit Committee.

(I) STATEMENT OF COMPLIANCE (CONTINUED)**C. Accountability and Audit (Continued)***C.3 Audit Committee (Continued)**Principle (Continued)*

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.3.4 The Audit Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	The terms of reference of the Audit Committee (including its role and functions) are available on the websites of the Exchange and the Company.
C.3.5 Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer shall include in this Corporate Governance Report a statement from the Audit Committee explaining its recommendation and the reasons why the Board has taken a different view.	No	The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, BDO Limited be re-appointed as the external auditor. The Board endorsed the Audit Committee's recommendation on the re-appointment of the external auditor.
C.3.6 The Audit Committee should be provided with sufficient resources to perform its duties.	No	The Audit Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
C.3.7 The terms of reference of the Audit Committee should also require it to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and to act as the key representative body for overseeing the issuer's relations with the external auditor.	No	The terms of reference of the Audit Committee contain at least the specific duties as prescribed by the CG Code in force during the year ended 31 December 2019. Please refer to section (III)(D)(2) of this Corporate Governance Report for the principal duties of the Audit Committee.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. Delegation by the Board

D.1 Management functions

Principle

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

Summary of Code Provisions	Any deviations?	Governance practices of the Company
D.1.1 When the Board delegates aspects of its management and administration functions to the management, it must also give clear directions as to the management's powers.	No	The Board delegates management and administration functions to the management as it considers appropriate from time to time, with clear directions as to the management's powers including circumstances where the management shall report back and obtain prior Board approval.
D.1.2 The issuer should formalise the functions reserved to the Board and those delegated to senior management and review those arrangements periodically.	No	There is a formal schedule of matters reserved for the Board's decision, including: <ul style="list-style-type: none"> (i) Mergers and acquisitions; (ii) Investments and divestments; (iii) Acquisitions and disposals of assets; (iv) Major corporate policies on key area of operations; (v) Acceptances of bank facilities; (vi) Annual budget; (vii) Release of Group's interim and full year results; and (viii) Those matters which are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business.

(I) STATEMENT OF COMPLIANCE (CONTINUED)**D. Delegation by the Board (Continued)***D.1 Management functions (Continued)**Principle (Continued)*

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

*D.2 Board Committees**Principle*

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

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

CORPORATE GOVERNANCE REPORT

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. Delegation by the Board *(Continued)*

D.3 Corporate Governance Functions

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

E. Communication with Shareholders

E.1 Effective communication

Principle

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

Summary of Code Provisions	Any deviations?	Governance practices of the Company
E.1.1 A separate resolution on each substantially separate issue should be proposed by the Chairman of a general meeting to avoid "bundling" resolutions unless they are interdependent and linked and in such case, the reasons and material implications should be explained in the notice of meeting.	No	A separate resolution had been proposed on each substantially separate issue at the annual general meeting of the Company held on 24 May 2019.

(I) STATEMENT OF COMPLIANCE (CONTINUED)

E. Communication with Shareholders (Continued)

E.1 Effective communication (Continued)

Principle (Continued)

Summary of Code Provisions	Any deviations?	Governance practices of the Company
<p>E.1.2 Chairman of the Board should attend the annual general meeting and invite the Chairmen of the Audit, Remuneration, Nomination and any other Committees (as appropriate) to attend and in their absence, invite another member of the committee or failing this, his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.</p> <p>Management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.</p>	No	The Chairman had attended the Company's annual general meeting held on 24 May 2019. The Chairman and/or other members of the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee and the external auditor of the Company were available to answer questions at the general meeting.
E.1.3 The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	No	At least 20 clear business days' notice period had been given for the Company's annual general meeting held on 24 May 2019.
E.1.4 The Board should establish a shareholders' communication policy and review it regularly to ensure its effectiveness.	No	Shareholders' Communication Policy has been established by the Board and will be reviewed regularly to ensure its effectiveness.
E.1.5 The issuer should have a policy on payment of dividends and should disclose it in the annual report.	No	The Company has adopted a dividend policy. A summary of the dividend policy is disclosed in section headed "Dividend Policy" in the Directors' Report.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

E. Communication with Shareholders *(Continued)*

E.2 Voting by poll

Principle

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

Summary of Code Provisions	Any deviations?	Governance practices of the Company
E.2.1 The Chairman of a meeting should provide an explanation on the detailed procedures for conducting a poll and answer questions from shareholders on voting by poll.	No	Procedures for conducting a poll had been properly explained during the Company's annual general meeting held on 24 May 2019.

F. Company Secretary

Principle

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

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

(III) STATE OF INTERNAL CONTROL

(A) Board responsibilities

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

(B) Internal controls

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

The Company does not have a risk management committee. However, the management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and highlights all significant matters to the Board and Audit Committee. During the year ended 31 December 2019, an external professional firm was engaged to review the Group's business and operational activities and identify the significant risk areas and to recommend the appropriate measures to mitigate these risks.

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

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

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

Based on the internal controls established and maintained by the Group, reviews conducted by the external professional firm, the Board, with the concurrence of the Audit Committee, is of the opinion that the internal controls and risk management system addressing the Group's financial, operational, and compliance risks are sound and effective as at 31 December 2019. The management will continue to focus on improving the standard of internal controls and corporate governance.

The Group's financial risk management is disclosed under Note 38 of the Notes to the Consolidated Financial Statements on pages 135 to 139 of this Annual Report.

(III) OTHER INFORMATION

In addition to the information disclosed above, set out below is other information required to be disclosed pursuant to the rules on Corporate Governance Report contained in Appendix 14 to the Listing Rules in force during the year ended 31 December 2019.

(A) Board of Directors

- (1) The Board is responsible for the overall performance of the Group. It provides effective leadership, sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.
- (2) The Board delegates management and administration functions to the management as it considers appropriate from time to time, with clear directions as to the management's powers including circumstances where the management shall report back and obtain prior Board approval. There is a formal schedule of matters reserved for the Board's decision, including:
 - (a) Mergers and acquisitions;
 - (b) Investments and divestments;
 - (c) Acquisitions and disposals of assets;
 - (d) Major corporate policies on key area of operations;
 - (e) Acceptances of bank facilities;
 - (f) Annual budget;
 - (g) Release of Group's interim and full year results; and
 - (h) Those matters which are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business.
- (3) The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules in force during the year ended 31 December 2019 as its code of conduct regarding securities transactions by its Directors. Each of the Directors has confirmed, following specific enquiry by the Company, that during the year ended 31 December 2019, he has complied with the required standard set out in the Model Code as contained in Appendix 10 of the Listing Rules in force during the said period.

(III) OTHER INFORMATION (CONTINUED)

(A) Board of Directors (Continued)

- (4) Details of Directors' attendance at the Board, Board Committees and the annual general meeting, held for the year ended 31 December 2019 are set out in the table below:

Meetings of	Board	AC	NC	RC	CGC	Annual General Meeting
Total held in 2019	4	3	1	1	1	1
Attendance Record						
Executive Directors						
Mr. Wang Zhihe	3	N/A	1	N/A	N/A	1
Mr. Sun Yi	–	N/A	N/A	1	1	1
Mr. Sun Zushan	3	N/A	N/A	N/A	N/A	1
Mr. Xu Xijiang	3	N/A	N/A	N/A	N/A	1
Non-executive Director						
Ms. Chen Jimin	4	N/A	N/A	N/A	N/A	1
Independent Non-executive Directors						
Mr. Ng Sai Leung	4	3	N/A	N/A	1	1
Ms. Lin Xiuxiang	4	3	1	1	1	1
Mr. Liu Jincheng	4	3	1	1	N/A	–

- (5) During the year ended 31 December 2019, in accordance with the CG Code, the Board has, inter alia:
- (a) considered and adopted the risk management framework and program, policy and manual; and
 - (b) considered and reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report, taking into account the related reports and views of the Board Committees in their respective areas.
- (6) All Directors are committed to participate in continuous professional development programmes to update and enhance their knowledge and skills for performing Directors' roles and responsibilities, and would update the Company on the training received by them.

(III) OTHER INFORMATION *(CONTINUED)*

(A) Board of Directors *(Continued)*

- (7) New Directors, on appointment, will be given a comprehensive formal induction covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. All Directors are also furnished with continuous updates and briefings on the latest changes or material developments in statutes, the Listing Rules, and corporate governance practices, etc. The updates and briefings covered a broad range of topics including, inter alia, directors' duties, dealing in securities by directors, disclosure obligation of inside information, financial information and general information, and rules and regulations relating to notifiable transactions, connected transactions and corporate governance. During the year ended 31 December 2019, all Directors are provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects, where applicable, in sufficient details to keep the Directors abreast of the Group's affairs in order to perform their duties.
- (8) Pursuant to the code provision A.6.5 of the Code for the year ended 31 December 2019, the Directors had participated in continuous professional development in relation to regulatory update, corporate governance and/or professional skills update by attending seminars or briefing and reading materials.

(III) OTHER INFORMATION *(CONTINUED)***(B) Remuneration Committee**

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

Independent non-executive Directors

Ms. Lin Xiuxiang *(Chairlady)*

Mr. Liu Jincheng

Executive Director

Mr. Sun Yi

- (2) The principal duties of the Remuneration Committee include the following:
- (a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
 - (b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
 - (c) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management, this should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
 - (d) to make recommendations to the Board on the remuneration of non-executive Directors;
 - (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
 - (f) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
 - (g) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
 - (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

(III) OTHER INFORMATION *(CONTINUED)*

(B) Remuneration Committee *(Continued)*

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

The annual review of the remuneration packages of all Directors and key management personnel was carried out by the Remuneration Committee to ensure that their remuneration commensurate with their duties and responsibilities, performance, qualifications and experience as well as the Company's performance. For the year ended 31 December 2019, the Remuneration Committee is satisfied with the remuneration packages of the Directors and key management personnel and recommended the same for Board's approval. The Board had approved the Remuneration Committee's recommendation accordingly.

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

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

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

(III) OTHER INFORMATION (CONTINUED)

(B) Remuneration Committee (Continued)

- (5) The breakdown of each individual Director's remuneration, showing the level and mix for the year ended 31 December 2019, is as follows:

Name of Director	Directors' fees RMB'000	Salaries, allowances and benefit in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Mr. Wang Zhihe	670	459	-	-	1,129
Mr. Sun Yi	1,914	71	-	-	1,985
Mr. Sun Zushan	319	298	-	-	617
Mr. Xu Xijiang	319	109	-	-	428
Ms. Chen Jimin	-	-	-	-	-
Mr. Ng Sai Leung	159	-	-	-	159
Ms. Lin Xiuxiang	159	-	-	-	159
Mr. Liu Jincheng	159	-	-	-	159

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

	2019 No. of individuals
Nil to HK\$1,000,000	1
HK\$1,000,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$3,000,000	-

(III) OTHER INFORMATION *(CONTINUED)*

(C) Nomination Committee

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

The members of the Nomination Committee are as follows:

Executive Director

Mr. Wang Zhihe *(Chairman)*

Independent non-executive Directors

Ms. Lin Xiuxiang

Mr. Liu Jincheng

- (2) The principal duties of the Nomination Committee include the following:
- (a) to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the board to complement the Company's corporate strategy;
 - (b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
 - (c) to assess the independence of the independent non-executive Directors;
 - (d) to make recommendations to the Board on:
 - (i) the role, responsibilities, capabilities, skills, knowledge, experience and diversity of perspectives required from members of the Board;
 - (ii) the policy on the terms of employment of non-executive Directors;
 - (iii) the composition of the audit committee, remuneration committee, corporate governance committee and other board committees of the Company;
 - (iv) proposed changes to the structure, size and composition of the Board;
 - (v) candidates suitably qualified to become members of the Board;
 - (vi) the selection of individuals nominated for directorship;
 - (vii) the re-election by shareholders of the Company of any Directors who are to retire by rotation having regard to their performance and ability to continue to contribute to the Board;
 - (viii) the continuation (or not) in service of any independent non-executive Director serving more than nine years and to provide recommendation to the shareholders of the Company as to how to vote in the resolution approving the re-election of such independent non-executive Director;
 - (ix) the appointment or re-appointment of Directors;
 - (x) succession planning for Directors in particular the chairman and the chief executive; and
 - (xi) the policy concerning diversity of Board members and the measurable objectives for implementing such policy;

(III) OTHER INFORMATION *(CONTINUED)***(C) Nomination Committee** *(Continued)*

- (2) The principal duties of the Nomination Committee include the following: *(Continued)*
- (e) to give adequate consideration to the following in the discharge of its duties as mentioned in its terms of reference:
 - (i) planning for orderly succession of appointment of Directors;
 - (ii) leadership needs of the Group with a view of maintaining or fostering the competitive edge of the Group over others;
 - (iii) changes in market environment and commercial needs of the market in which the Group operates;
 - (iv) the balance of the skills, expertise and experience required from members of the Board for the requirement of the Group's business;
 - (v) the impact on the Group arising from any change of composition of the Board;
 - (vi) the balance composition of executive and non-executive Directors (including independent non-executive Directors) to ensure a strong independent element on the Board which can effectively exercise independent judgement;
 - (vii) non-executive Directors should be of sufficient calibre and number for their views to carry weight;
 - (viii) there should be a formal, considered and transparent procedure for the appointment of new Directors;
 - (ix) all Directors should be subject to re-election at regular intervals;
 - (x) the reasons for the resignation or removal of any Director;
 - (xi) the Board's policy concerning diversity of Board members adopted from time to time; and
 - (xii) the relevant requirements of the Listing Rules with regard to directors of a listed issuer;
 - (f) in respect of any proposed service contracts to be entered into by any members of the Group with its director or proposed director, which require the prior approval of the shareholders of the Company at general meeting under rule 13.68 of the Listing Rules, to review and provide recommendations to the shareholders of the Company (other than shareholders who are directors with a material interest in the relevant service contracts and their respective associates) as to whether the terms of the service contracts are fair and reasonable and whether such service contracts are in the interests of the Company and the shareholders as a whole, and to advise shareholders on how to vote;
 - (g) to ensure that on appointment to the Board, non-executive Directors receive a formal letter of appointment setting out what is expected of them in terms of time commitment, committee service and involvement outside meetings of the Board;
 - (h) to conduct exit interviews with any Director upon their resignation in order to ascertain the reasons for his departure;
 - (i) to review the policy on Board diversity and the measurable objectives for implementing such policy from time to time adopted by the Board, and to review the progress on achieving these objectives; and
 - (j) to consider other matters, as defined or assigned by the Board from time to time.

(III) OTHER INFORMATION *(CONTINUED)*

(C) Nomination Committee *(Continued)*

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

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

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

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

For the year ended 31 December 2019, the Nomination Committee had conducted a Board review. The results of the Board review were collated and presented to the Nomination Committee for discussion. The Nomination Committee was generally satisfied with the results of the Board review for the year ended 31 December 2019, which no significant issues were identified. The Nomination Committee had presented the results to Board members.

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

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

(III) OTHER INFORMATION *(CONTINUED)***(C) Nomination Committee** *(Continued)*

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

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

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

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

- (a) Appointment of new Director
- (i) Upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, the Nomination Committee should, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
 - (ii) If the process yields one or more desirable candidates, the Nomination Committee should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).
 - (iii) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.
 - (iv) For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

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

(III) OTHER INFORMATION *(CONTINUED)*

(C) Nomination Committee *(Continued)*

(5) *(Continued)*

(b) Re-election of Director at General Meeting

- (i) The Nomination Committee should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board.
- (ii) The Nomination Committee should also review and determine whether the retiring Director continues to meet the criteria as set out above.
- (iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

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

(D) Audit Committee

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

Independent non-executive Directors

Mr. Ng Sai Leung *(Chairman)*

Ms. Lin Xiuxiang

Mr. Liu Jincheng

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

The principal functions and duties of the Audit Committee include:

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) to discuss with the auditors the nature and scope of the audit and reporting obligations and ensure co-ordination where more than one audit firm is engaged before the audit commences;
- (d) to develop and implement policy on engaging an external auditor to supply non-audit services;
- (e) to monitor the integrity of the Company's financial statements and annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

(III) OTHER INFORMATION *(CONTINUED)***(D) Audit Committee** *(Continued)***(2)** *(Continued)*

- (f) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- (g) to review the Company's financial controls, and unless expressly addressed by a separate risk committee of the Board, or by the Board itself, to review the Company's risk management and internal control systems;
- (h) to discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective systems;
- (i) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (j) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (k) to review the Group's financial and accounting policies and practices; and
- (l) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response.

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

During the year ended 31 December 2019, three meetings of the Audit Committee were held. The Audit Committee shall meet at least two times a year and when deemed appropriate to carry out its functions as sets out under its terms of reference. The Audit Committee has full access to and the co-operation of the management, has full discretion to invite any Directors to attend its meetings, and has reasonable adequate resources to enable it to discharge its functions.

(3) Three Audit Committee meetings were held in the year ended 31 December 2019 to:

- (a) discuss and review the interim and annual financial statements of the Company before submission to the Board for adoption;
- (b) discuss and review the audit plans and audit reports with the external professional firm for reviewing the internal controls and external auditors;
- (c) discuss and review the adequacy and effectiveness of the internal controls system and made recommendations to the Board for improvement of internal controls and risk management;
- (d) discuss and review the nomination and appointment or re-appointment of external professional firm for reviewing the internal controls and external auditors;
- (e) discuss and review with the external professional firm for reviewing the internal controls and external auditors to discuss the results of their audit findings and their evaluation of the Group's system of accounting and internal controls, set out in their respective reports;

(III) OTHER INFORMATION *(CONTINUED)*

(D) Audit Committee *(Continued)*

(3) *(Continued)*

- (f) ascertained that both the external professional firm for reviewing the internal controls and external auditors have had the full co-operation of the management in carrying out their work. No non-audit services were rendered by the external auditors in the year ended 31 December 2019;
- (g) keep abreast of accounting standards and discuss and review issues that could potentially impact financial reporting through quarterly updates and advice from the external auditors;

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

The Board concurred with the Audit Committee's recommendation.

(E) Corporate Governance Committee

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

Independent non-executive Directors

Mr. Ng Sai Leung *(Chairman)*

Ms. Lin Xiuxiang

Executive Director

Mr. Sun Yi

- (2) The Corporate Governance Committee is responsible for performing the corporate governance duties, including, inter alia, developing, reviewing and monitoring compliance with the Company's policies and practices on corporate governance to ensure that they accord with the appropriate standards for good corporate governance. The principal functions and duties of the Corporate Governance Committee include the following:
- (a) to develop and review the Group's policies and practices on corporate governance and to make recommendations to the Board;
 - (b) to review and approve the annual corporate governance report and related disclosures in the annual and interim reports of the Group and ensuring compliance with relevant requirements under the Listing Rules or the rules of any other stock exchange in respect of which the securities of the Company are listed or quoted, or other laws, regulations, rules and codes as may be applicable to the Group (the "Applicable Laws");
 - (c) to make sure that appropriate monitoring systems are in place to ensure compliance against the relevant internal controls systems, processes and policies, and in particular to monitor the implementation of the Group's plans to maintain high compliance with its own risk management standards;
 - (d) to monitor each of the Remuneration Committee and Nomination Committee has duly discharged their respective duties and obligations in accordance with their respective terms of reference, the Listing Rules and any Applicable Laws;

(III) OTHER INFORMATION *(CONTINUED)***(E) Corporate Governance Committee** *(Continued)***(2)** *(Continued)*

- (e) to monitor proper segregation of duties between the chairman and the chief executive officer of the Group;
 - (f) to develop and formalise the functions reserved to the Board and those to be delegated by the Board to the management of the Group, and to review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group;
 - (g) to review and monitor the Group's process of disclosure, including assessing and verifying the accuracy and materiality of price-sensitive information and determine the form and content of any required disclosure;
 - (h) to review and monitor the Group's communication policy with its shareholders to ensure a high degree of transparency and that the shareholders are informed of relevant information on a regular basis thus allowing them to evaluate the Group's performance and prospects;
 - (i) to review and monitor the Group's policies and practices on compliance with any requirement, direction and regulation that may be prescribed by the Board or contained in any constitutional documents of the Group or imposed by the Listing Rules, the Applicable Laws and other applicable organisational governance standards;
 - (j) to review and monitor the training and continuous professional development of Directors and senior management of the Group;
 - (k) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group;
 - (l) to review the Group's compliance with the corporate governance code from time to time adopted by the Group and the disclosure in the corporate governance report to be contained in the Company's annual reports; and
 - (m) to review from time to time as appropriate these terms of reference and the effectiveness of the Committee and recommend to the Board any necessary changes.
- (3)** During the year ended 31 December 2019, the Corporate Governance Committee reviewed the policies and practices on corporate governance of the Company, the training and continuous professional development of the Directors, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

(III) OTHER INFORMATION *(CONTINUED)*

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

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

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

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

(G) Auditor's Remuneration

The auditor of the Company, BDO Limited, have affirmed their independence in this respect. Audit services rendered by the external auditor amounted to RMB1,233,000.

(H) Shareholders' Rights

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

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

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

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

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

(III) OTHER INFORMATION *(CONTINUED)***(H) Shareholders' Rights** *(Continued)**Procedures for raising enquiries*

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

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

(I) Changes in Constitutional Documents

The Group has no change in constitutional documents during the year ended 31 December 2019.

(J) Risk Management and Internal Control

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

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

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

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

(III) OTHER INFORMATION *(CONTINUED)*

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

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

- Risk retention and reduction: accept the impact of risk or undertake actions by the Group to reduce the impact of the risks;
- Risk avoidance: change business process or objective so as to avoid the risk;
- Risk sharing and diversification: diversify the effect of the risk or allocate to different location or product or market;
- Risk transfer: transfer ownership and liability to a third party.

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

During the year ended 31 December 2019, the Group has engaged an external professional firm to perform the internal control review to ensure the effectiveness and efficiency of the risk management and internal control system of the Group. There is no significant deficiency and weakness on the internal control system has been identified by the external professional firm for the year ended 31 December 2019.

The Board considered that, for the year ended 31 December 2019, the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance controls and risk management functions were reasonably effective and adequate.

(K) Deed of Non-competition

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

(L) Investor Relations

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

The Directors present their report and audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 July 2013 under the Companies Law of the Cayman Islands. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 34 to the consolidated financial statements.

There was no significant change in the nature of the principal activities of the Group during the year ended 31 December 2019.

SHARE CAPITAL

As of 31 December 2019, the total issued share capital of the Company was approximately US\$62,094, divided into 620,944,000 ordinary shares of nominal value of US\$0.0001 each. Details of movements during the year ended 31 December 2019 in the share capital of the Company are set out in note 30 to the consolidated financial statements. Same as disclosed in the section headed "Equity-Linked Agreement", the Company has not issued any Shares during the year ended 31 December 2019.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2019.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" on page 5, pages 6 to 7 and pages 8 to 13 respectively of this Annual Report. The financial risk management of the Group are set out in note 38 to the consolidated financial statements. In addition, an analysis of the Group's performance during the year ended 31 December 2019 using key financial performance indicators is set out in the "Financial Highlights" of this Annual Report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

ENVIRONMENTAL POLICIES

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

DIRECTORS' REPORT

COMPLIANCE WITH LAWS AND REGULATIONS

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

ACCOUNT OF THE GROUP'S KEY RELATIONSHIPS

(i) Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year ended 31 December 2019, the Group considered the relationship with employees was well and the turnover rate was acceptable.

(ii) Suppliers

The Group's suppliers mainly include raw material suppliers. During the year ended 31 December 2019, the Group considered the relationship with its suppliers was well and stable.

(iii) Customers

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

RESULTS AND APPROPRIATION

The financial performance of the Group for the year ended 31 December 2019 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 79 to 81.

DIVIDEND POLICY

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

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

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

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

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK6 cents per ordinary share, absorbing a total amount of approximately HK\$37.3 million in respect of the year ended 31 December 2019 (2018: HK4 cents), which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Friday, 29 May 2020, the proposed final dividend is expected to be paid on Friday, 19 June 2020 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 8 June 2020.

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

PROPERTY, PLANT AND EQUIPMENT

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

INTEREST-BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2019 are set out in note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Shares during the year ended 31 December 2019.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2019 are set out in the Consolidated Statement of Changes in Equity on page 82 of this Annual Report and note 31 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provision of laws of Cayman Islands, amounted to approximately RMB599 million (2018: approximately RMB633 million).

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

During the year ended 31 December 2019, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENT

Pursuant to the letter of employment entered into between the Company and Mr. Cheng Shing Hay ("Mr. Cheng"), the Chief Financial Officer and Company Secretary of the Company, Mr. Cheng will be entitled to the contingent allotment and issue, credited as fully paid by the Company 944,000 Shares ("Remuneration Shares") in two equal installments. The first installment shall be 50% of the Remuneration Shares which shall be allotted and issued to Mr. Cheng on the first business day ("First Installment Date") after anniversary of the 12th month following the Listing Date; and the final installment shall be the balance of the Remuneration Shares and the same shall be allotted and issued to Mr. Cheng on the first business day after anniversary of the 12th month following the First Installment Date. The allotment and issue of the Remuneration Shares is conditional upon the continuance of his employment with the Company on the date of allotment of Shares. Further details of the Remuneration Shares are set out in the section headed "Directors and Senior Management – Senior Management" of the prospectus of the Company (the "Prospectus") and note 32 to the consolidated financial statements. The first installment of 472,000 Remuneration Shares was allotted and issued on 12 July 2018. The remaining 472,000 Remuneration Shares, being the final installment of the Remuneration Shares, had been allotted and issued on 15 July 2019.

Save as disclosed above and under the paragraph headed "Share Option Scheme" in this Director's Report, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year ended 31 December 2019.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2019, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

In the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for approximately 60% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 33%. None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers.

DIRECTORS

The Directors of the Company during the year end 31 December 2019 and up to the date of this Directors' Report are as follows:

Executive Directors:

Mr. Wang Zhihe (*Chairman*)

Mr. Sun Yi

Mr. Sun Zushan

Mr. Xu Xijiang

Non-executive Director:

Ms. Chen Jimin

Independent non-executive Directors:

Mr. Ng Sai Leung

Ms. Lin Xiuxiang

Mr. Liu Jincheng

DIRECTORS' REPORT

By virtue of Articles 105(A) and 105(B) of the Articles of Association of the Company, Mr. Sun Yi, Mr. Sun Zushan and Ms. Lin Xiuxiang will retire as Directors at the forthcoming annual general meeting, and they, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 18 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 20 June 2017 which may be terminated by either party by giving not less than three months' written notice. Each of Mr. Wang Zhihe, Mr. Sun Zushan and Mr. Xu Xijiang has also entered into a supplemental service contract with the Company on 25 January 2019. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

During the term of the service contract, each of these executive Directors is entitled to their respective basic salary (subject to an annual adjustment at the discretion of the Directors).

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

Non-executive Director

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

Independent non-executive Directors

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as those disclosed in the sections headed "Directors' Service Contracts" above and "Related Party Transactions" below, and note 36 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2019 or at any time during the year ended 31 December 2019.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Directors' Service Contracts" and note 36 to the consolidated financial statements, no controlling shareholder of the Company or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2019.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During and at the end of the year ended 31 December 2019, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year ended 31 December 2019.

DIRECTORS' REPORT

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

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

Name of Director	The company in which the interest is held	Capacity/nature of interest	Number of shares involved (Note 1)	Approximate percentage* of shareholding
Mr. Wang Zhihe	The Company	Interest of controlled corporation	460,000,000 Shares (L) (Note 2)	74.08%
Mr. Sun Yi	The Company	Interest of controlled corporation	180,320,000 Shares (L) (Note 3)	29.04%

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

Notes:

1. The letter "L" denotes the Director's long position in the shares of the Company.
2. Among these 460,000,000 Shares, 279,680,000 Shares are held by Sino-Coal Holding (which is owned as to approximately 33.059% by Timely Moon Limited ("Timely Moon")); and 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang Zhihe. By virtue of the SFO, each of Timely Moon and Mr. Wang Zhihe is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.
3. These 180,320,000 Shares are held by Bloom Ocean, the entire issued shares of which are owned as to approximately 44.01% by Plenty Sun Limited ("Plenty Sun"). Plenty Sun is wholly owned by Mr. Sun Yi. By virtue of the SFO, each of Plenty Sun and Mr. Sun Yi is taken to be interested in the Shares held by Bloom Ocean.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS UNDER THE SFO

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

Name of shareholders	Capacity/ nature of interest	Number of shares involved (Note 1)	Approximate percentage* of shareholding
Timely Moon	Interest of controlled corporation	460,000,000 Shares (L) (Note 2)	74.08%
Ms. Sun Yukun	Interest of spouse	460,000,000 Shares (L) (Note 3)	74.08%
Sino-Coal Holding	Beneficial owner	279,680,000 Shares (L)	45.04%
Bloom Ocean	Beneficial owner	180,320,000 Shares (L)	29.04%
Plenty Sun	Interest of controlled corporation	180,320,000 Shares (L) (Note 4)	29.04%
Ms. Yao Juan	Interest of spouse	180,320,000 Shares (L) (Note 5)	29.04%
Guofu (Hong Kong) Holdings Limited	Beneficial owner	31,132,000 Shares (L) (Note 6)	5.01%
Hebei Guofu Agricultural Investment Group Co., Ltd** (河北省國富農業投資集團有限公司)	Interest of controlled corporation	31,132,000 Shares (L) (Note 6 & 7)	5.01%

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

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

Notes:

- The letter "L" denotes the shareholder's long position in the Shares.
- Among these 460,000,000 Shares, 279,680,000 Shares are held by Sino-Coal Holding (which is owned as to approximately 33.059% by Timely Moon); and 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang Zhihe. By virtue of the SFO, each of Timely Moon and Mr. Wang Zhihe is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.
- Ms. Sun Yukun is the spouse of Mr. Wang Zhihe. Under the SFO, Ms. Sun Yukun is taken to be interested in the same number of Shares in which Mr. Wang Zhihe is interested.

DIRECTORS' REPORT

4. These 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.01% by Plenty Sun). Plenty Sun is wholly owned by Mr. Sun Yi. By virtue of the SFO, each of Plenty Sun and Mr. Sun Yi is taken to be interested in the Shares held by Bloom Ocean.
5. Ms. Yao Juan is the spouse of Mr. Sun. Under the SFO, Ms. Yao Juan is taken to be interested in the same number of Shares in which Mr. Sun Yi is interested.
6. The information disclosed is based on the disclosure of interests forms submitted by these substantial shareholders respectively.
7. Hebei Guofu Agricultural Investment Group Co., Ltd** (河北省國富農業投資集團有限公司) is deemed to be interested in these Shares through its controlled corporation, namely, Guofu (Hong Kong) Holdings Limited.

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

CORPORATE GOVERNANCE

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

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group are set out in note 36 to the consolidated financial statements. None of the related party transactions disclosed in note 36 in the notes to the consolidated financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for the year ended 31 December 2019. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2019 and up to the date of this Directors' Report, none of the Directors are considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Bloom Ocean, Sino-Coal Holding, Fair Noble Limited, Fair Tycoon Limited, Power Moon Limited, Decent Magic Limited, Wide Axis Limited, Elite Captain Limited, Honest Nature Limited, Timely Moon, Plenty Sun, Mr. Wang Zhihe, Mr. Sun Yi, Mr. Sun Zushan, Mr. Xu Xijiang, Mr. Song Jianning, Mr. Liu Yingdong, Mr. Li Hongliang, Ms. Li Guie, Mr. Guo Jianming and Mr. Yip Kean Mun (the "Covenantors") in respect of the compliance with the provisions of the deed of non-competition (the "Deed of Non-competition"), entered into between the Covenantors and the Company as set out in the section headed "Relationship with our Controlling Shareholders – Deed of Non-competition" of the Prospectus for the year ended 31 December 2019. Each of the Covenantors has confirmed and declared that, for the year ended 31 December 2019, he/she/it had strictly complied with the Deed of Non-competition without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Deed of Non-competition and consider that the terms of the Deed of Non-competition have been complied with by each of the Covenantors during the year ended 31 December 2019.

MANAGEMENT CONTRACT

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

RETIREMENT BENEFIT PLAN

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

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Change in Director's biographical details during the year ended 31 December 2019, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of change
Mr. Ng Sai Leung	Mr. Ng Sai Leung ceased to be the Managing Director of VBG Capital Limited in August 2019 and was appointed as the Managing Director and Head of Corporate Finance of Shanxi Securities International Capital in August 2019.
Mr. Liu Jincheng	Mr. Liu Jincheng ceased to be the vice chairman of the board of Hebei Yangmei Zhengyuan Chemical Group Co., Ltd* (河北陽煤正元化工集團有限公司), in September 2019 and was appointed as Head of Technical Committee in September 2019.

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

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

Under the Articles of Association of the Company, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors since the Listing Date and as at the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 December 2019, no claims were made against the Directors.

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 25 May 2020 to Friday, 29 May 2020 (both days inclusive) for the purpose of determining the right to attend and vote at the 2020 AGM. In order to be qualified for attending and voting at the 2020 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 22 May 2020.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2020 AGM, the register of members of the Company will also be closed from Friday, 5 June 2020 to Monday, 8 June 2020 (both days inclusive) for the purpose of determining the entitlement to the Proposed Final Dividend. In order to be qualified for the Proposed Final Dividend (subject to the approval of the shareholders at the 2020 AGM), unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. on Thursday, 4 June 2020.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of significant events to cause material impact on the Group from the end of the year ended 31 December 2019 to the date of this Directors' Report are set out in note 41 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years are set out on page 142 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee has discussed with the management of the Group and reviewed this Annual Report and the audited annual financial results of the Group for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group, and discussed financial related matters.

AUDITORS

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

On behalf of the Board

Wang Zhihe

Executive Director and Chairman

Sun Zushan

Executive Director

24 March 2020

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF DONGGUANG CHEMICAL LIMITED

(東光化工有限公司)

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Dongguang Chemical Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 79 to 141, 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 present fairly, in all material respects, of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)**Impairment assessment of value-added tax recoverable**

Refer to note 21 in the Group's consolidated financial statements.

Included in prepayments, deposits and other receivables there was other tax recoverable of approximately RMB54.4 million, which comprised approximately RMB35.4 million relating to the prepayments of value-added tax to Hebei Dongguang State Administration of Tax (河北省東光縣國家稅務局) but yet to be utilised as at balance sheet date. There is a risk that the carrying amount of such value-added tax recoverable may be impaired.

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

How our audit addressed the Key Audit Matter

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

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

Preparation of the consolidated financial statements on a going concern basis

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

As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB50.0 million.

To support the going concern basis in preparing the consolidated financial statements, management has prepared a cash flow forecast of the Group covering the next eighteen months from 31 December 2019 and concluded that there will be sufficient funds from the Group's existing cash resources, available facilities from banks and cash flows to be generated from its operations to finance its future operations and enable it to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2019. The cash flow forecast involved key assumptions such as revenue, gross profit margin, planned capital expenditures, and availability of banking facilities to the Group. We focused on this assessment as it involves consideration of future events and application of significant judgements and estimates and accordingly, this was an area of audit focus.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(CONTINUED)*

How our audit addressed the Key Audit Matter

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

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

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

BDO Limited

Certified Public Accountants

Chow Tak Sing, Peter

Practising Certificate Number: P04659

Hong Kong, 24 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	6	2,121,592	2,285,619
Cost of sales		(1,806,179)	(1,992,983)
Gross profit		315,413	292,636
Other income	6	10,907	11,418
Other losses, net	7	(8,489)	(3,794)
Administrative expenses		(61,440)	(78,331)
Distribution expenses		(2,794)	(2,339)
Finance costs	10	(33,432)	(53,784)
Profit before income tax	9	220,165	165,806
Income tax expenses	11	(58,612)	(66,142)
Profit for the year		161,553	99,664
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		4,614	(2,026)
Total comprehensive income for the year attributable to owners of the Company		166,167	97,638
Profit attributable to:			
– Owners of the Company		161,553	99,664
– Non-controlling interest		–*	–
		161,553	99,664
Total comprehensive income attributable to:			
– Owners of the Company		166,167	97,638
– Non-controlling interest		–*	–
		166,167	97,638
		RMB cents	RMB cents
Earnings per share for profit attributable to the owners of the Company			
– Basic	14	26.0	16.1
– Diluted	14	26.0	16.1

* Represents amount less than RMB1,000

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	15	1,115,260	1,172,713
Investment property	16	6,182	6,446
Prepaid land lease payments	17	-	83,582
Right-of-use assets	18	111,393	-
Prepayments for equipment	21	1,556	5,365
Restricted bank deposits	24	-	51,032
Total non-current assets		1,234,391	1,319,138
Current assets			
Inventories	20	80,903	92,952
Prepaid land lease payments	17	-	3,172
Prepayments, deposits and other receivables	21	72,283	106,913
Loan receivable	22	-	90,108
Notes receivables	23	188	-
Restricted bank deposits	24	5,000	-
Cash and bank balances	24	431,825	215,493
Total current assets		590,199	508,638
Current liabilities			
Trade payables	25	77,362	56,471
Deferred revenue	26	3,253	3,253
Contract liabilities	27	44,654	30,450
Other payables and accruals	28	65,163	62,770
Lease liabilities	18	110	-
Short-term bank and other borrowings	29	418,058	532,900
Long-term bank borrowings – current portion	29	24,000	-
Income tax payable		7,511	16,100
Amount due to a non-controlling shareholder of a subsidiary	36(c)	40	-
Total current liabilities		640,151	701,944
Net current liabilities		(49,952)	(193,306)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Long-term bank and other borrowings	29	-	68,820
Amount due to a shareholder	36(b)	-	44,786
Lease liabilities	18	28,213	-
Deferred revenue	26	7,266	10,518
Deferred tax liabilities	19	3,578	3,480
Total non-current liabilities		39,057	127,604
Net assets		1,145,382	998,228
Capital and reserves attributable to owners of the Company			
Share capital	30	392	392
Reserves		1,143,030	997,836
Equity attributable to owners of the Company		1,143,422	998,228
Non-controlling interests	35	1,960	-
Total equity		1,145,382	998,228

On behalf of directors

WANG Zhihe 王治河

SUN Zushan 孫祖善

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital RMB'000	Share premium RMB'000 (note 31(b))	Specific reserve RMB'000 (note 31(e))	Merger reserve RMB'000 (note 31(c))	Statutory reserve RMB'000 (note 31(a))	Foreign currency translation reserve RMB'000 (note 31(d))	Share-based payment reserve RMB'000 (note 32)	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2018	392	737,363	49,557	(559,842)	96,161	(4,848)	1,085	590,899	910,767
Profit for the year	-	-	-	-	-	-	-	99,664	99,664
Other comprehensive income									
- Exchange difference arising on translation of foreign operations	-	-	-	-	-	(2,026)	-	-	(2,026)
Total comprehensive income	-	-	-	-	-	(2,026)	-	99,664	97,638
Issue of shares	-	787	-	-	-	-	(787)	-	-
Appropriation of reserve	-	-	8,429	-	-	-	-	(8,429)	-
Equity-settled share-based transactions	-	-	-	-	-	-	303	-	303
Dividend approved and paid in respect of the previous year	-	-	-	-	-	-	-	(10,480)	(10,480)
Utilisation of specific reserve for the year	-	-	(5,973)	-	-	-	-	5,973	-
At 31 December 2018	392	738,150	52,013	(559,842)	96,161	(6,874)	601	677,627	998,228

	Share capital RMB'000	Share premium RMB'000 (note 31(b))	Specific reserve RMB'000 (note 31(e))	Merger reserve RMB'000 (note 31(c))	Statutory reserve RMB'000 (note 31(a))	Foreign currency translation reserve RMB'000 (note 31(d))	Share-based payment reserve RMB'000 (note 32)	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interest RMB'000 (note 35)	Total equity RMB'000
At 1 January 2019	392	738,150	52,013	(559,842)	96,161	(6,874)	601	677,627	998,228	-	998,228
Profit for the year	-	-	-	-	-	-	-	161,553	161,553	-*	161,553
Other comprehensive income											
- Exchange difference arising on translation of foreign operations	-	-	-	-	-	4,614	-	-	4,614	-	4,614
Total comprehensive income	-	-	-	-	-	4,614	-	161,553	166,167	-*	166,167
Issue of shares	-	698	-	-	-	-	(698)	-	-	-	-
Incorporation of a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	1,960	1,960
Appropriation of reserve	-	-	9,293	-	-	-	-	(9,293)	-	-	-
Equity-settled share-based transactions	-	-	-	-	-	-	97	-	97	-	97
Dividend approved and paid in respect of the previous year	-	-	-	-	-	-	-	(21,070)	(21,070)	-	(21,070)
Utilisation of specific reserve for the year	-	-	(6,307)	-	-	-	-	6,307	-	-	-
At 31 December 2019	392	738,848	54,999	(559,842)	96,161	(2,260)	-	815,124	1,143,422	1,960	1,145,382

* Represents amount less than RMB1,000

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
Profit before income tax	220,165	165,806
Adjustments for:		
Amortisation of prepaid land lease payments	-	5,130
Amortisation of right-of-use assets	2,728	-
Depreciation of investment property	264	264
Depreciation of property, plant and equipment	151,588	145,887
Government grant income	(6,143)	(3,254)
Exchange difference on other borrowings and amount due to shareholder	-	3,171
Impairment of prepayments and other receivables	466	10,717
Interest income	(2,118)	(7,181)
Interest expense	33,432	53,784
Share-based payment expenses	97	303
Operating profit before working capital changes	400,479	374,627
Decrease/(Increase) in inventories	12,049	(16,343)
Decrease in prepayments, deposits and other receivables	37,973	127,303
Increase in notes receivables	(188)	-
Increase in restricted bank deposits	(5,000)	-
Increase in trade payables	20,891	15,968
Increase in contract liabilities	14,204	30,450
Increase in deferred revenue	2,890	-
Increase/(Decrease) in other payables and accruals	2,393	(13,559)
Cash generated from operations	485,691	518,446
Income tax paid	(67,103)	(54,330)
Net cash generated from operating activities	418,588	464,116

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(89,538)	(101,851)
Increase in prepaid land lease payments	-	(4,121)
Decrease in loan receivable	90,108	-
Interest received	2,118	7,067
Decrease in restricted bank deposits	51,032	11,307
Net cash generated from/(used in) investing activities	53,720	(87,598)
Cash flows from financing activities		
Drawdown of bank and other borrowings	418,058	535,100
Repayment of bank and other borrowings	(577,720)	(848,823)
(Repayment to)/Advance from a shareholder	(44,786)	41,832
Investment from a non-controlling interest to a non-wholly owned subsidiary	1,960	-
Advance from a non-controlling interest	40	-
Dividend paid	(21,070)	(10,480)
Interest paid	(36,935)	(53,784)
Repayment of principal portion of the lease liabilities	(137)	-
Net cash used in financing activities	(260,590)	(336,155)
Net increase in cash and cash equivalents	211,718	40,363
Cash and cash equivalents at beginning of year	215,493	177,156
Effect on foreign exchange rate changes	4,614	(2,026)
Cash and cash equivalents at end of year	431,825	215,493
Analysis of cash and cash equivalents:		
Cash and bank balances	431,825	215,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. The Company and its subsidiaries (referred to as the "Group") is principally engaged in manufacturing and selling urea in the People's Republic of China (the "PRC"). Details of the Company and its subsidiaries are presented in note 34 of the consolidated financial statements.

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

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

The International Accounting Standard Board ("IASB") has issued a number of new or amended IFRSs, which comprise all standards and interpretations approved by the IASB, and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, that are first effective for the current accounting period of the Group:

- IFRS 16, Leases
- IFRIC-Int 23, Uncertainty over Income Tax Treatments
- Amendments to IFRS 9, Prepayment Features with Negative Compensation
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 included in Annual Improvements to IFRSs 2015-2017 Cycle

The impact of the adoption of IFRS 16 "Leases" has been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 "Leases" ("IAS 17"), IFRIC-Int 4 "Determining whether an Arrangement Contains a Lease", SIC-Int 15 "Operating Leases-Incentives" and 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 consolidated statement of financial position as right-of-use assets and 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 IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (v) of this note.

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

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

(a) Adoption of new/revised IFRSs – effective on 1 January 2019 (Continued)

(i) Impact of the adoption of IFRS 16 (Continued)

The Group has applied IFRS 16 using the modified retrospective approach and recognised right-of-use assets and lease liabilities at the date of initial application for leases previously classified as operating leases applying IAS 17. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following tables summarised the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/ (decrease)):

	RMB'000
Consolidated statement of financial position as at 1 January 2019	
Non-current assets	
Right-of-use assets	114,121
Prepaid land lease payments – non-current portion	(83,582)
	30,539
Current assets	
Prepaid land lease payments – current portion	(3,172)
Current liabilities	
Accruals	(1,093)
Lease liabilities – current portion	137
	(956)
Non-current liabilities	
Lease liabilities – non-current portion	28,323

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

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

(a) Adoption of new/revised IFRSs – effective on 1 January 2019 (Continued)

(i) Impact of the adoption of IFRS 16 (Continued)

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
<i>Reconciliation of operating lease commitment to lease liabilities</i>	
Operating lease commitment as of 31 December 2018	103,916
Less: short term leases for which lease terms end within 31 December 2019	(70)
Less: discounting impact of future lease payments	(66,373)
Less: value-added tax included in operating lease commitments	(9,013)
Total lease liabilities as of 1 January 2019	28,460

The weighted average lessee’s incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is at the range of 6.56% to 7.04%.

(ii) The new definition of a lease

Under IFRS 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.

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

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

(a) Adoption of new/revised IFRSs – effective on 1 January 2019 (Continued)

(iii) Accounting as a lessee

Under IAS 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 IFRS 16, 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 IFRS 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 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.

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

Right-of-use asset

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.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under IAS 40 and would be carried at cost, less any accumulated depreciation and any impairment losses. For leasehold land which is held for own use would continue to be accounted for under IAS 16 and would be stated at cost and are amortised over the period of the lease. The adoption of IFRS 16 therefore does not have any significant impact on the measurement of these right-of-use assets, except for the reclassification from “prepaid land lease payments” to “right-of-use assets”. Other than the above right-of-use assets, the Group also has leased plant and machineries under a lease agreement which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land which is held for own use. As a result, the right-of-use asset arising from the plant and machineries under a lease agreement is carried at depreciated cost.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

(a) Adoption of new/revised IFRSs – effective on 1 January 2019 (Continued)

(iii) Accounting as a lessee (Continued)

Lease liability

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.

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; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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, for example, 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.

(iv) Accounting as a lessor

As the accounting under IFRS 16 for a lessor is substantially unchanged from the requirement under IAS 17, the adoption of IFRS 16 does not have significant impact on these consolidated financial statements.

(v) Transition

As mentioned above, the Group has applied IFRS 16 using the modified retrospective approach and recognised right-of-use assets at the date of initial application for leases previously classified as operating leases applying IAS 17. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 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 IAS 17 as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. For all these right-of-use assets, the Group has applied IAS 36 “Impairment of Assets” at 1 January 2019 to assess if there was any impairment as on that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

(a) Adoption of new/revised IFRSs – effective on 1 January 2019 (Continued)

(v) Transition (Continued)

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) 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 at 1 January 2019 and accounted for those leases as short-term leases; and (iii) 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) IFRS 16 is applied to all of the Group’s lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.

IFRIC-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of IAS 12, “Income Taxes”, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

Amendments to IAS 19 – Plan Amendments, Curtailment or Settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

(a) Adoption of new/revised IFRSs – effective on 1 January 2019 (Continued)

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9 applies to long-term interests (“LTI”) in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that IFRS 9 is applied to these LTI before the impairment losses guidance within IAS 28.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

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

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

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

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

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

Amendments to IFRS 3	Definition of a Business ¹
Amendments to IAS 1 and IAS 8	Definition of Material ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ¹
IFRS 17	Insurance Contracts ²
Amendments to IFRS 10 and IAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ³

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

² Effective for annual periods beginning on or after 1 January 2021

³ 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 continue to be permitted.

Amendments to IFRS 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 IAS 1 and IAS 8 – Definition of Material

The amendments clarify the definition and explanation of “material”, aligning the definition across all IFRS Standards and the Conceptual Framework, and incorporating supporting requirements in IAS 1 into the definition.

Amendments to IFRS 9, IAS 39 and IFRS 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

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

IFRS 17 – Insurance Contracts

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

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

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

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 the accounting policies set out in note 4, which comply with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement and going concern assumption

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

As at 31 December 2019, the Group’s current liabilities exceeded its current assets by RMB49,952,000 (2018: RMB193,306,000). The Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors of the Company have considered the following factors when preparing the consolidated financial statements of the Group.

The Group meets its day-to-day working capital requirements through its bank borrowings. The Group has good credit history and relationship with banks, and will be able to refinance or to consider alternative sources of financing, or to defer dividend payment and uncommitted capital expenditure, where applicable. As at 31 December 2019, the Group had obtained letters of intent from several reputable banks in the PRC in an aggregate amount of RMB293.4 million. As such, the Group has the ability to refinance the existing bank borrowings and no immediate cash flow requirement for settling such outstanding borrowings included in the statement of consolidated financial position. In addition, the directors of the Company have carried out a detailed review of the working capital forecast of the Group. Based on the review, in the opinion of the directors, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. BASIS OF PREPARATION *(CONTINUED)*

(b) Basis of measurement and going concern assumption *(Continued)*

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

(c) Functional and presentation currency

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

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

(b) Subsidiaries

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

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

(c) Property, plant and equipment

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

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (Continued)

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

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

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

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

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

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

(d) Investment property

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

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

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

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

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

(f) 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 asset

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. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, 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. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leasing (accounting policies applied from 1 January 2019) (Continued)

Right-of-use asset (Continued)

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under IAS 40 and are carried at cost, less any accumulated depreciation and any impairment losses. The Group accounts for leasehold land which is held for own use under IAS 16 and are stated at cost and are amortised over the period of the lease. Other than the above right-of-use assets, the Group also has leased plant and machineries under lease agreement which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land which is held for own use. As a result, the right-of-use asset arising from the plant and machineries under a lease agreement is carried at depreciated cost.

Lease liability

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; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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, for example, 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.

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

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

The Group as lessee

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) 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 entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies all its debt instruments in the category as below.

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 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.

(ii) Impairment loss on financial assets

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

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

The Group has elected to measure loss allowances on financial assets measured at amortised cost based on the 12 months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, 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.

(iii) Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, other payables and accruals, bank and other borrowings, lease liabilities and amounts due to a shareholder and a non-controlling shareholder of a subsidiary are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

Borrowings

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (Continued)

(iv) *Effective interest method*

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

(v) *Equity instruments*

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

(vi) *Derecognition*

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

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

(i) Inventories

Inventories are initially recognised at cost, and subsequently stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

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

(j) Cash and cash equivalents

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

At 31 December 2019 and 2018, all of the Group's amounts consisted of cash held in bank and cash on hand.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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.

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

Revenue is recognised on the following basis:

- (i) revenue from sales of goods is recognised when control of goods is transferred to the customers, which reflects the consideration to which the Group expects to be entitled in exchange for those goods. This is usually taken as the time when the goods are delivered and the customers accepted the goods;
- (ii) interest income is recognised on a time-proportion basis using the effective interest method; and
- (iii) rental income under operating leases is recognised by the Group as the lessor on a straight-line basis over the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income tax

Income tax comprises current tax and deferred tax.

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

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

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

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

(m) Foreign currency

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Foreign currency (Continued)

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

(n) Employee benefits

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

Defined contribution plans

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

Short-term employee benefits

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

Termination benefits

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

Share-based payments

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Government grants

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

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

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

(r) Related parties

- (1) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (2) An entity is related to the Group if any of the following conditions apply:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

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

(r) Related parties *(Continued)*

(2) *(Continued)*

- (vi) The entity is controlled or jointly controlled by a person identified in (1).
- (vii) A person identified in (1)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Net realisable value of inventory

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

(c) Impairment of receivables

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

(d) Impairment of non-financial assets

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

(e) Income tax and deferred tax

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

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

6. REVENUE AND OTHER INCOME

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

	2019 RMB'000	2018 RMB'000
Revenue		
Primary geographical market		
– PRC	2,121,592	2,285,619
Major products		
– Sales of urea	1,855,794	1,948,553
– Sales of methanol	131,785	171,377
– Sales of liquid ammonia	64,349	103,119
– Sales of carbon dioxide	47,431	39,839
– Sales of LNG	19,261	22,731
– Sales of compound fertiliser	2,972	–
Total revenue from contracts with customers	2,121,592	2,285,619
Timing of revenue recognition		
– At a point in time	2,121,592	2,285,619
Other income is presented as follows:		
Sales of scrap materials	110	81
Government grants (note)	6,143	3,254
Bank interest income	1,792	3,469
Other interest income	326	3,712
Rental income	333	–
Others	2,203	902
	10,907	11,418

Note:

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

Government grants were received from the PRC government for construction of property, plant and equipment in prior financial years. These subsidies are recognised in the consolidated statement of profit or loss and other comprehensive income over the expected useful life of the property, plant and equipment. During the year ended 31 December 2019, RMB3,253,000 (2018: RMB3,254,000) was recognised as other income.

In addition, the Group obtained government grants of RMB2,890,000 for the year ended 31 December 2019 (2018: Nil) from the PRC government and recognised directly under other income as subsidies for operations of production plants.

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

6. REVENUE AND OTHER INCOME (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Contract liabilities from sales of goods	44,654	30,450

Contract liabilities mainly relate to the advance consideration received from customers. During the year ended 31 December 2019, RMB30,450,000 (2018: RMB25,339,000) of the contract liabilities has been recognised as revenue from performance obligation satisfied during the year when the goods were sold.

7. OTHER LOSSES, NET

	2019 RMB'000	2018 RMB'000
Foreign exchange loss	(8,489)	(3,794)

8. SEGMENT INFORMATION

(a) Operating segment information

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

(b) Geographical segment information

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

(c) Information about major customers

For both years ended 31 December 2019 and 2018, none of the customers have transactions exceeding 10% of the Group's revenue.

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

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2019 RMB'000	2018 RMB'000
Auditors' remuneration	1,233	1,271
Cost of inventories sold recognised as expense	1,806,179	1,992,983
Depreciation of property, plant and equipment	151,588	145,887
Amortisation of prepaid land lease payments	–	5,130
Amortisation of right-of-use assets	2,728	–
Short-term lease payments	293	–
Impairment of prepayments and other receivables	466	10,717
Depreciation of investment property	264	264
Employee benefit expenses (including directors' remuneration) (note 12)		
– Wages and salaries	51,597	48,854
– Discretionary bonuses	21,463	21,594
– Retirement benefit scheme contributions	11,231	9,617
– Staff welfare and other benefits	17,649	21,070
– Share-based payment expenses	97	303
	102,037	101,438

10. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	34,163	54,485
Loan from a shareholder of the Company	826	3,751
Lease liabilities	1,946	–
	36,935	58,236
Less: Amount capitalised (note)	(3,503)	(4,452)
	33,432	53,784

Note: Borrowing costs of RMB2,963,000 (2018: RMB2,913,000) capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6% (2018: 9%) to expenditure on qualifying assets. The remaining borrowing cost of RMB540,000 (2018: RMB1,539,000) capitalised during the year arose on the specific borrowing granted for acquisition of property, plant and equipment on 29 December 2017.

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

11. INCOME TAX EXPENSES

	2019 RMB'000	2018 RMB'000
Current tax – PRC		
Current tax	55,014	62,450
Withholding tax on dividends	3,500	4,131
Deferred tax (note 19)		
– Charged/(Credited) for the year	98	(439)
	58,612	66,142

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

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

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

	2019 RMB'000	2018 RMB'000
Profit before income tax	220,165	165,806
Tax calculated at a taxation rate of 25%	55,041	41,451
Effect of different tax rates operating in other jurisdictions	2,576	5,422
Tax effect of non-deductible expenses	1,138	19,107
Tax effect of non-taxable income	(1,040)	(1,310)
Under-provision in prior year	–	1,282
Others	897	190
	58,612	66,142

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

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

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

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2019					
<i>Executive Directors</i>					
Mr. Wang Zhihe (王治河)	670	459	-	-	1,129
Mr. Sun Yi (孫毅)	1,914	71	-	-	1,985
Mr. Sun Zushan (孫祖善)	319	298	-	-	617
Mr. Xu Xijiang (徐希江)	319	109	-	-	428
Total	3,222	937	-	-	4,159
<i>Non-Executive Director</i>					
Ms. Chen Jimin (陳繼敏)	-	-	-	-	-
<i>Independent Non-Executive Directors</i>					
Mr. Liu Jincheng (劉金成)	159	-	-	-	159
Mr. Ng Sai Leung (吳世良)	159	-	-	-	159
Ms. Lin Xiuxiang (林秀香)	159	-	-	-	159
Total	477	-	-	-	477
Year ended 31 December 2018					
<i>Executive Directors</i>					
Mr. Wang Zhihe (王治河)	2,173	263	-	-	2,436
Mr. Sun Yi (孫毅)	1,863	71	-	-	1,934
Mr. Sun Zushan (孫祖善)	1,035	211	-	-	1,246
Mr. Xu Xijiang (徐希江)	1,035	88	-	-	1,123
Total	6,106	633	-	-	6,739
<i>Non-Executive Director</i>					
Ms. Chen Jimin (陳繼敏)	-	-	-	-	-
<i>Independent Non-Executive Directors</i>					
Mr. Liu Jincheng (劉金成)	155	-	-	-	155
Mr. Ng Sai Leung (吳世良)	155	-	-	-	155
Ms. Lin Xiuxiang (林秀香)	155	-	-	-	155
Total	465	-	-	-	465

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

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

(b) Five highest paid individuals

The five highest paid individuals of the Group included 4 directors for the year ended 31 December 2019 (2018: 4), whose emoluments are reflected in note 12(a).

The analysis of the emolument of the remaining highest paid individual for the year ended 31 December 2019 (2018: 1) are set out below:

	2019 RMB'000	2018 RMB'000
Salaries and allowances	1,081	1,046
Discretionary bonuses	–	–
Retirement benefit scheme contributions	15	15
Share-based payment expenses	99	303
	1,195	1,364

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

Number of individuals

	2019	2018
HK\$1,000,001 to HK\$2,000,000	1	1

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

(d) Senior management emolument band

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

Number of individuals

	2019	2018
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$2,000,000	1	1

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

13. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Final, proposed – HK\$6 cents (2018: HK\$4 cents) per share	33,374	21,746

The Board recommended a final dividend of HK\$6 cents (2018: HK\$4 cents) per ordinary share, absorbing a total amount of about HK\$37.3 million (2018: HK\$24.8 million) in respect of the year ended 31 December 2019, which is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting of the Company. The proposed dividends are not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2020. The final dividends are converted from Hong Kong dollars to Renminbi at the rate at the end of reporting period.

14. EARNINGS PER SHARE

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

	2019 RMB'000	2018 RMB'000
Earnings for the purposes of basic earnings per share	161,553	99,664
Effect of dilutive potential ordinary shares:		
Remuneration shares (note 32)	–	–
Earnings for the purposes of diluted earnings per share	161,553	99,664
Weighted average number of ordinary shares for the purposes of basic earnings per share	620,691,836	620,222,422
Effect of dilutive potential ordinary shares:		
Remuneration shares (note 32)	–	433,659
Weighted average number of ordinary shares for the purposes of diluted earnings per share	620,691,836	620,656,081

In calculating the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2018, there was an adding back of bonus element of remuneration shares (note 32). Therefore, the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2018 is based on the earnings attributable to the owners of the Company of approximately RMB99,664,000 and on the weighted average number of 620,656,081 ordinary shares during the year ended 31 December 2018. The remaining remuneration shares were granted to a senior management on 15 July 2019, therefore no dilution impact of calculating the diluted earnings per share attributable to the owners of the Company was applied for the year ended 31 December 2019.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2019						
Opening net carrying amount	239,359	1,258	774,834	112,795	44,467	1,172,713
Additions	4,644	-	11,964	3,006	74,521	94,135
Transfer in/(out)	8,720	-	66,614	10,309	(85,643)	-
Depreciation	(15,869)	(751)	(118,660)	(16,308)	-	(151,588)
Closing net carrying amount	236,854	507	734,752	109,802	33,345	1,115,260
As at 31 December 2019						
Cost	340,596	12,412	1,555,472	221,504	33,345	2,163,329
Accumulated depreciation and impairment	(103,742)	(11,905)	(820,720)	(111,702)	-	(1,048,069)
Net carrying amount	236,854	507	734,752	109,802	33,345	1,115,260
Year ended 31 December 2018						
Opening net carrying amount	244,961	2,647	810,794	127,221	32,983	1,218,606
Additions	9,475	-	10,947	1,268	78,306	99,996
Disposals	-	(2)	-	-	-	(2)
Transfer in/(out)	417	-	65,765	640	(66,822)	-
Depreciation	(15,494)	(1,387)	(112,672)	(16,334)	-	(145,887)
Closing net carrying amount	239,359	1,258	774,834	112,795	44,467	1,172,713
As at 31 December 2018						
Cost	327,232	12,412	1,476,894	208,189	44,467	2,069,194
Accumulated depreciation and impairment	(87,873)	(11,154)	(702,060)	(95,394)	-	(896,481)
Net carrying amount	239,359	1,258	774,834	112,795	44,467	1,172,713

As at 31 December 2019, the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB293,359,000 (2018: RMB344,108,000) were pledged to secure general banking facilities granted to the Group (note 29).

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

16. INVESTMENT PROPERTY

	2019 RMB'000	2018 RMB'000
Carrying amount at beginning of the year	6,446	6,710
Depreciation during the year	(264)	(264)
Carrying amount at end of the year	6,182	6,446

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

The fair value of the investment property as at 31 December 2019 was approximately RMB21,300,000 (2018: RMB21,260,000). The fair value was determined by independent professional qualified valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, with reference to recent market prices of similar properties as observable inputs.

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

The fair values of the investment property are determined based on the market observable comparable prices of similar properties ranging from RMB263 to RMB270 per sq. m., and adjusted taking into account locations and size. The higher the price, the higher the fair value. The fair values are not based on observable inputs and are therefore within level 3 hierarchy.

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

17. PREPAID LAND LEASE PAYMENTS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. LEASE

Disclosures under IFRS 16

IFRS 16 was adopted from 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 4(f).

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. The periodic rent of property leases is fixed over the lease term.

(i) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000	
Leasehold land	109,282	111,930	
Plant and machinery leased for own use carried at depreciated cost	2,111	2,191	
	111,393	114,121	
	Leasehold land RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2019	111,930	2,191	114,121
Amortisation	(2,648)	(80)	(2,728)
As at 31 December 2019	109,282	2,111	111,393

The Group's leasehold land is held under medium term leases ranged from 30 years to 50 years and situated in the PRC where the Group's manufacturing and storage facilities reside. The Group's plant and machinery leased for own use carried at depreciated cost is held under a medium term lease of 30 years.

As at 31 December 2019, the Group's leasehold land with an aggregate carrying amount of approximately RMB24,969,000 (2018: RMB25,290,000) were pledged to secure general banking facilities granted to the Group.

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

18. LEASE (CONTINUED)

Disclosures under IFRS 16 (Continued)

Nature of leasing activities (in the capacity as lessee) (Continued)

(ii) Lease liabilities

	Leasehold land RMB'000	Plant and machinery RMB'000	Total RMB'000
At 1 January 2019 (initial application of IFRS 16)	26,269	2,191	28,460
Interest expense	1,808	138	1,946
Lease payments during the year	(1,873)	(210)	(2,083)
At 31 December 2019	26,204	2,119	28,323
Future lease payments are due as follows:			
31 December 2019	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	2,038	(1,928)	110
Later than one year and not later than two years	2,038	(1,917)	121
Later than two years and not later than five years	6,114	(5,703)	411
Later than five years	81,297	(53,616)	27,681
	91,487	(63,164)	28,323
1 January 2019	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	2,083	(1,946)	137
Later than one year and not later than two years	2,038	(1,928)	110
Later than two years and not later than five years	6,114	(5,727)	387
Later than five years	83,335	(55,509)	27,826
	93,570	(65,110)	28,460

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 has not been restated. See Note 2(a) for further details about transition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. LEASE (CONTINUED)

Disclosures under IFRS 16 (Continued)

Nature of leasing activities (in the capacity as lessee) (Continued)

(ii) Lease liabilities (Continued)

The present value of future lease payments are analysed as:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Current liabilities	110	137
Non-current liabilities	28,213	28,323
	28,323	28,460
		2019 RMB'000
Short term lease expense		293

Disclosures under IAS 17

The Group leases properties as leasehold land and buildings. The terms of leases are ranged from 30 years to 50 years. The total future minimum lease payments under non-cancellable operating leases are due as follows:

The lease payments recognised as an expenses are as follows:

	2018 RMB'000
Minimum leases payments	5,130

Operating lease commitments in 2018 represented the total future minimum lease payments, which are due as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. DEFERRED TAX LIABILITIES

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

	Withholding tax on unremitted earnings RMB'000	Deferred revenue on government grants RMB'000	Accelerated/ (decelerated) depreciation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	(12,105)	4,756	(3,216)	6,646	(3,919)
Credited/(charged) to profit or loss	4,131	(813)	(1,579)	(1,300)	439
At 31 December 2018	(7,974)	3,943	(4,795)	5,346	(3,480)
Credited/(charged) to profit or loss	3,500	(813)	(621)	(2,164)	(98)
At 31 December 2019	(4,474)	3,130	(5,416)	3,182	(3,578)

PRC dividend withholding income tax

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

Deferred tax liabilities have been recognised for withholding taxes that would be payable on the planned unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in the PRC. In the opinion of the directors, based on the Group's future expansion plan in the PRC, it is not possible that the subsidiary will distribute the entire earnings in the foreseeable future at the end of the reporting period, and the deferred tax liabilities provided is considered sufficient to future cash flow requirement. During the year ended 31 December 2019, special dividends in total of RMB35,000,000 was declared on 17 June 2019 for working capital of the offshore companies. No temporary differences associated with investment in a subsidiary in the PRC for which deferred tax liabilities have not been recognised during each of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	71,183	84,403
Finished goods	6,615	7,072
Parts and spares	3,105	1,477
	80,903	92,952

As at 31 December 2019, none of the Group's raw materials (2018: RMB20,000,000) were pledged to secure general banking facilities granted to the Group (note 29).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Other tax recoverable	54,366	91,370
Prepayments for utilities	12,000	-
Prepayments for consultancy fee	-	6,684
Prepayments for equipment	1,556	5,386
Prepayments to coal suppliers	1,093	4,411
Prepayments to employees	920	1,484
Other prepayments, deposits and other receivables	3,904	2,943
	73,839	112,278
Less: non-current portion	(1,556)	(5,365)
	72,283	106,913

22. LOAN RECEIVABLE

Loan receivable as at 31 December 2018 represented a sum of RMB90 million lent to Min-Silver-Gold Investment Management (Beijing) Co. Ltd. for entrustment loan agreements in relation to the borrowings granted from an independent third party in December 2016 and March 2017 respectively. Loan receivable of RMB60 million was received on 9 January 2019 and RMB30 million was received on 18 March 2019 as the respective entrustment loan was repaid on 27 December 2018.

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

23. NOTES RECEIVABLES

All notes receivables were due within 6 months from the end of each reporting period and with recourse. Most of the notes receivables were issued by the reputable commercial banks in the PRC. None of the notes receivables were either discounted to the banks in exchange for cash and cash equivalents, or derecognised upon surrender to the banks. No impairment provision for notes receivables has been made during the reporting period as there is no history of default.

At 31 December 2019, the Group endorsed notes receivables accepted by banks in Mainland China (the "Endorsed Bills") with aggregate carrying amount of RMB449,000 (2018: nil), with maturity ranging from one to six months at the end of the reporting period, to certain of its suppliers for settlement of the trade payables due to these suppliers (the "Endorsement"). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, all risks and rewards relating to the Endorsed Bills have been substantially transferred upon the Endorsement. Accordingly, the Group has derecognised the full carrying amounts of the Endorsed Bills and the associated trade payables. The maximum exposure arising from the Group's Continuing Involvement in the Endorsed Bills and the undiscounted cash flows to repurchase these Endorsed Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvements in the Endorsed Bills are not significant.

During the year ended 31 December 2019, the Group has not recognised any gain or loss on the date of transfer of the Endorsed Bills (2018: nil). No gain or loss were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

24. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

	2019 RMB'000	2018 RMB'000
Non-current		
Restricted bank deposits	-	51,032
Current		
Cash and bank balances	431,825	215,493
Restricted bank deposits	5,000	-
	436,825	215,493
	436,825	266,525

As at 31 December 2019, the Group has cash and bank balances denominated in RMB amounted to approximately RMB419,595,000 (2018: RMB200,304,000) which are deposited with banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks in the PRC that is authorised to conduct foreign exchange business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS (CONTINUED)

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

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

As at 31 December 2019, the restricted bank deposits are to secure urea transactions in Zhengzhou Commodity Exchange (“鄭州商品交易所”).

As at 31 December 2018, non-current restricted bank deposits were to secure long-term bank borrowings of RMB44,820,000 (note 29). The restricted bank deposits had been released upon settlement of long-term bank borrowings.

25. TRADE PAYABLES

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

	2019 RMB'000	2018 RMB'000
Trade payable	77,362	56,471

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

	2019 RMB'000	2018 RMB'000
0 to 90 days	42,601	42,047
91 to 180 days	4,932	3,410
181 to 365 days	18,425	1,700
Over 365 days	11,404	9,314
	77,362	56,471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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26. DEFERRED REVENUE

	2019 RMB'000	2018 RMB'000
Cost:		
At beginning and end of the year	33,410	33,410
Accumulated amortisation:		
At beginning of the year	19,638	16,385
Amortised during the year	3,253	3,254
At end of the year	22,891	19,639
Net carrying amount:		
Current	3,253	3,253
Non-current	7,266	10,518
	10,519	13,771

Deferred revenue related to government grants given to the Group for installation and building of machinery with the aim to implement energy-saving production methods and reduce production cost. The grants are subject to final approval, which means the local government would monitor the usage of the government grant during the construction period.

27. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities from sale of goods	44,654	30,450

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

Sale of goods

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. CONTRACT LIABILITIES (CONTINUED)

Movements in contract liabilities

	2019 RMB'000	2018 RMB'000
At 1 January	30,450	25,339
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(2,121,592)	(2,285,619)
Increase in contract liabilities as a result of deposits received in advance from customers	2,135,796	2,290,730
At 31 December	44,654	30,450

28. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Accruals	16,544	16,574
Other payables (note)	48,619	46,196
	65,163	62,770

Note: Other payables mainly represented payables with construction and manufacturing equipment companies for the purpose of plant improvements, equipment replacements and repairs and maintenance.

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

29. BANK AND OTHER BORROWINGS

	2019 RMB'000	2018 RMB'000
Current		
Interest bearing		
Secured		
– Short-term bank loans (note (i))	308,400	283,400
– Short-term other loan (note (i))	49,658	48,800
– Current portion of long-term bank loans (note (i))	24,000	–
Unsecured		
– Short-term bank loans	60,000	130,000
– Short-term other loans (notes (iii) and (iv))	–	70,700
	442,058	532,900
Non-current		
Interest bearing		
Secured		
– Long-term bank loans (Note (i))	–	68,820
	442,058	601,720
At end of reporting period, total current and non-current bank and other borrowings were scheduled to repay as follows:		
	2019 RMB'000	2018 RMB'000
Within one year	442,058	532,900
More than one year, but not exceeding two years	–	68,820
	442,058	601,720

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

29. BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

- (i) As at 31 December 2019, the Group's secured short-term bank loans, short-term other loan and long-term bank loan were secured by certain of the Group's property, plant and equipment (note 15) and leasehold land (note 18). As at 31 December 2018, the Group's secured short-term bank loans, short-term other loan and long-term bank loans were secured by certain of the Group's property, plant and equipment (note 15), leasehold land (note 17), inventories (note 20) and bank deposits (note 24). Short-term secured other loan as at 31 December 2019 and 31 December 2018 were granted from a financial leasing company in the PRC.
- (ii) All of the banking facilities are subject to the fulfilment of covenants relating to certain of the financial position ratios of an indirect wholly-owned subsidiary of the Company, Hebei Dongguang, as are commonly found in lending arrangements with financial institutions. If Hebei Dongguang was to breach the covenants, the drawn down facilities would become repayable on demand. No breach of covenants is noted as at 31 December 2019.
- (iii) Short-term unsecured other loans as at 31 December 2018 represented borrowings granted from two independent third parties in total of RMB70.7 million, which carried fixed interest rate of 9% per annum, where repayable within one year. Personal guarantee by a director and ultimate shareholder of the Company has been provided to the respective loans. These loans were fully repaid on 18 July 2019.
- (iv) At 31 December 2019, unsecured borrowings amounted to nil (2018: RMB70,700,000) were guaranteed by a director and ultimate shareholder of the Company.

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

	2019 RMB'000	2018 RMB'000
Fixed-rate borrowings	4.39%-5.53%	3.30%-9.00%

30. SHARE CAPITAL

	Number of shares '000	Amount US\$	Amount RMB'000
Authorised share capital:			
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019			
Ordinary share at US\$0.0001 each	500,000,000	50,000,000	340,499
Issued share capital:			
As at 1 January 2018	620,000	62,000	392
Issue of shares (note)	472	47	-
As at 31 December 2018 and 1 January 2019	620,472	62,047	392
Issue of shares (note)	472	47	-
As at 31 December 2019	620,944	62,094	392

Note: On 12 July 2018 and 15 July 2019, 2 tranche of 472,000 remuneration shares each granted to a senior management were issued in accordance to the agreed terms at the subscription price of HK\$1.06 per share (note 32).

31. RESERVES

Group

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

(a) *Statutory reserve*

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

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

(b) *Share premium*

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

(c) *Merger reserve*

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

(d) *Foreign currency translation reserve*

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

(e) *Specific reserve*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. RESERVES (CONTINUED)

Company

	Share premium RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total reserves RMB'000
As at 1 January 2018	737,363	(3,901)	1,085	(76,456)	658,091
Issue of shares	787	-	(787)	-	-
Loss for the year	-	-	-	(13,466)	(13,466)
Equity-settled share-based transaction	-	-	303	-	303
Dividends approved in respect of the previous year	-	-	-	(10,480)	(10,480)
Other comprehensive income	-	(1,493)	-	-	(1,493)
As at 31 December 2018	738,150	(5,394)	601	(100,402)	632,955
Issue of shares	698	-	(698)	-	-
Loss for the year	-	-	-	(18,513)	(18,513)
Equity-settled share-based transaction	-	-	97	-	97
Dividends approved in respect of the previous year	-	-	-	(21,070)	(21,070)
Other comprehensive income	-	5,394	-	-	5,394
As at 31 December 2019	738,848	-	-	(139,985)	598,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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32. SHARE-BASED PAYMENTS

The Company has adopted a share award scheme to a senior management since 2015. The share award represented the remuneration shares which the prerequisite to obtain the share award is the completion of the Listing and the continuing service to the Company over a certain period of time after the Listing as agreed in the employment contract. As the Company has been listed on the Main Board of the Stock Exchange of Hong Kong Limited on 11 July 2017, the Board of the Company considered that the share award scheme was ascertained and recognised the share-based payments over the vesting period after the Listing. The vesting period of the awarded shares is determined by the Board.

Movement in the number of awarded shares is as follows:

	Number of awarded shares
At 1 January 2018	944,000
Exercised	(472,000)
At 31 December 2018 and 1 January 2019	472,000
Exercised	(472,000)
At 31 December 2019	-
Vested but not transferred as at 31 December 2019	-

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

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

Note:

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

The share price at the date of exercising the remuneration from awarded shares to a senior management was HK\$1.94 (2018: HK\$3.72).

The first tranche was exercised and remuneration shares were issued on 12 July 2018, and the second tranche was exercised and remuneration shares were issued on 15 July 2019 (note 30). All remuneration shares agreed to be issued under the share award had been issued to the senior management as at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Interest in a subsidiary	34	750,816	750,816
Restricted bank deposit	24	-	51,032
Total non-current assets		750,816	801,848
Current assets			
Prepayments and other receivables		214	186
Cash and bank balances		16,763	3,140
Total current assets		16,977	3,326
Current liabilities			
Accruals		4,466	3,328
Amounts due to subsidiaries	36(c)	164,072	123,713
Total current liabilities		168,538	127,041
Net current liabilities		(151,561)	(123,715)
Non-current liability			
Amount due to a shareholder		-	44,786
Net assets		599,255	633,347
Capital and reserves			
Share capital	30	392	392
Reserves	31	598,863	632,955
Total equity		599,255	633,347

On behalf of directors

WANG Zhihe 王治河

SUN Zushan 孫祖善

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Company name	Date and place of incorporation/ establishment and kind of legal entity	Particulars of issued and fully paid up share capital/ registered capital	Effective interest held by the Company		Principal activity and place of operation
			Directly	Indirectly	
Sino-Coal Chemical Limited ("Sino-Coal Samoa")	Samoa/ 27 February 2014/ International company	Fully paid up share capital US\$1,000,000	100%	-	Investment holding
Sino Nitrogen Industries Limited ("Sino Nitrogen")	British Virgin Islands/ 13 June 2014/ Limited liability company	Fully paid up share capital US\$1	-	100%	Investment holding
Sino Emirates Chemicals Limited ("Sino Emirates")	Hong Kong/ 4 October 2007/ Limited liability company	Fully paid up share capital HK\$1	-	100%	Investment holding
Hebei Dongguang Chemical Co., Ltd.* (河北省東光化工有限責任公司) ("Dongguang Chemical")	The PRC/ 1 July 1998/ Limited liability company	Registered and fully paid up capital RMB90,000,000	-	100%	Manufacturing and selling urea
Sino-Coal Chemical Limited	Hong Kong/ 6 March 2014/ Limited liability company	Issued share capital HK\$10,000	-	100%	Not yet commenced business
Cangzhou Dongqing Technology Co., Ltd.* ("滄州東清科技有限公司") ("Cangzhou Dongqing")	The PRC/ 26 August 2019/ Limited liability company	Registered capital RMB50,000,000/ Paid up capital RMB7,000,000	-	100%	Manufacturing vehicles urea solution
Dongguang Dongyue Environment Protection Technology Co., Ltd.* ("東光縣東悅環保科技有限公司") ("Dongguang Dongyue")	The PRC/ 1 September 2019/ Limited liability company	Registered capital RMB10,000,000/ Paid up capital RMB4,000,000	-	51%	Selling vehicles urea solution

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

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35. NON-CONTROLLING INTEREST

As at and for the year ended 31 December 2019, the non-controlling interest ("NCI") was attributable to 51% of Dongguang Dongyue. The NCI is recorded at its proportionate share of the subsidiaries' identifiable net assets.

Summarised financial information in relation to the NCI of Dongguang Dongyue, before intra-group eliminations, is presented below:

	RMB'000
For the period from 1 September 2019 (date of incorporation) to 31 December 2019	
Revenue	–
Profit for the period	1
Total comprehensive income for the period	1
Profit and total comprehensive income allocated to NCI	–*
For the period from 1 September 2019 (date of incorporation) to 31 December 2019	
Cash flows generated from operating activities	860
Cash flows generated from investing activities	–
Cash flows generated from financing activities	4,000
Net cash inflows	4,860
As at 31 December 2019	
Current assets	4,860
Non-current assets	–
Current liabilities	(859)
Net assets	4,001
Accumulated non-controlling interest	1,960

* Represents amount less than RMB1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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36. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

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

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

(c) Amounts due to subsidiaries and a non-controlling shareholder of a subsidiary are unsecured, non-interest bearing and repayable on demand.

(d) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	1,422	1,319
Retirement benefit scheme contributions	16	23
Share-based payment expenses	97	303
Total compensation paid to key management personnel	1,535	1,645

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

37. CAPITAL COMMITMENTS

	2019 RMB'000	2018 RMB'000
Commitments for the acquisition of property, plant and equipment: – contracted for but not provided	22,989	22,031

38. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

The most significant financial risks to which the Group is exposed are described below. A summary of the Group's financial assets and liabilities by category is shown in note 38(b).

(i) Foreign currency risk

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

As at 31 December 2019 and 2018, the Group's assets and liabilities denominated in Hong Kong dollars and United States dollars, of which the financial currency of group entities is Renminbi, were as follows:

Hong Kong dollars ("HK\$")

	2019 HK\$'000	2018 HK\$'000
Bank and other borrowings	-	54,000
Amount due to a shareholder	-	51,114
Cash and bank balances	(9,077)	(11,456)
Overall net exposure	(9,077)	93,658

United States dollars ("US\$")

	2019 US'000	2018 US'000
Cash and bank balances	(80)	(345)
Overall net exposure	(80)	(345)

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38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(i) Foreign currency risk (Continued)

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

		31 December 2019	
	Increase in foreign exchange rate	Effect on profit for the year and retained earnings RMB'000	Effect on other components of consolidated equity RMB'000
HK\$	1%	80	-
US\$	1%	6	-
		31 December 2018	
	Increase in foreign exchange rate	Effect on profit for the year and retained earnings RMB'000	Effect on other components of consolidated equity RMB'000
HK\$	1%	(723)	-
US\$	1%	20	-

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

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(ii) Credit risk

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

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

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

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

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

(iii) Interest rate risk

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

Other than cash and bank balances (note 24) and bank and other borrowings (note 29), the Group does not have any other significant interest-bearing financial assets and liabilities. All financial liabilities bear fixed rate. As a result, any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

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

Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained earnings by approximately RMB3.2 million (2018: RMB3.3 million).

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

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38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

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

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

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

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	On demand RMB'000	Within 1 year RMB'000	More than 1 year RMB'000
As at 31 December 2019					
Trade payables	77,362	77,362	77,362	-	-
Other payables and accruals	65,163	65,163	65,163	-	-
Lease liabilities	28,323	91,487	-	2,038	89,449
Bank and other borrowings	442,058	453,599	-	453,599	-
Amount due to a non- controlling shareholder of a subsidiary	40	40	40	-	-
	612,946	687,651	142,565	455,637	89,449
As at 31 December 2018					
Trade payables	56,471	56,471	56,471	-	-
Other payables and accruals	62,770	62,770	62,770	-	-
Bank and other borrowings	601,720	623,130	-	553,719	69,411
	720,961	742,371	119,241	553,719	69,411

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

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38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Summary of financial assets and liabilities by category

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

	2019 RMB'000	2018 RMB'000
Financial assets		
Amortised cost		
– Loan receivable	–	90,108
– Notes receivables	188	–
– Deposits and other receivables	71,127	88,387
– Restricted bank deposits	5,000	51,032
– Cash and bank balances	431,825	215,493
	2019 RMB'000	2018 RMB'000
Financial liabilities		
Amortised cost		
– Trade payables	77,362	56,471
– Other payables and accruals	65,163	62,770
– Lease liabilities	28,323	–
– Bank and other borrowings	442,058	601,720
– Amount due to a shareholder	–	44,786
– Amount due to a non-controlling shareholder of a subsidiary	40	–

Financial instruments not measured at fair value

Financial instruments not measured at fair value include loan receivable, notes receivables, deposits and other receivables, cash and bank balances, restricted bank deposits, trade payables, other payables and accruals, lease liabilities, bank and other borrowings, amount due to a shareholder and a non-controlling shareholder of a subsidiary.

Due to their short-term nature, their carrying values approximate their fair values except for lease liabilities. Disclosures of fair value of lease liabilities is not required.

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39. CAPITAL MANAGEMENT

The Group's capital management objectives are:

- (i) to ensure the Group's ability to continue as a going concern; and
- (ii) to provide an adequate return to equity holders.

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

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

	2019 RMB'000	2018 RMB'000
Total equity	1,145,382	998,228
Overall financing:		
Bank and other borrowings	442,058	601,720
Amount due to a shareholder	-	44,786
Amount due to a non-controlling shareholder of a subsidiary	40	-
	442,098	646,506
Equity-to-overall financing ratio	2.59	1.54

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

40. CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, neither the Group nor the Company had any significant contingent liabilities.

41. EVENT AFTER THE END OF THE REPORTING PERIOD

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impacted the global business environment. Up to the date of these financial statements, COVID-19 has not caused material impact to the Group. Subject to the development and spread of COVID-19 subsequent to the date of these financial statements, COVID-19 may have further impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will closely monitor the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

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42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank loans and other borrowings (note 29) RMB'000	Amount due to a shareholder (note 36(b)) RMB'000	Amount due to a non-controlling shareholder of a subsidiary (note 36(c)) RMB'000
At 1 January 2018	915,226	-	-
Changes from cash flows:			
Loan from a shareholder	-	41,832	-
Drawdown of bank and other borrowings	535,100	-	-
Repayment of bank and other borrowings	(848,823)	-	-
Interest paid	(54,485)	(3,751)	-
Total changes from financing cash flows	(368,208)	38,081	-
Exchange adjustments	217	2,954	-
Other changes:			
Interest expense	50,033	3,751	-
Interest capitalised to property, plant and equipment	4,452	-	-
At 31 December 2018 and at 1 January 2019	601,720	44,786	-
Changes from cash flows:			
Repayment to a shareholder	-	(44,786)	-
Loan from a non-controlling shareholder of a subsidiary	-	-	40
Drawdown of bank and other borrowings	418,058	-	-
Repayment of bank and other borrowings	(577,720)	-	-
Interest paid	(34,163)	(826)	-
Total changes from financing cash flows	(193,328)	(45,612)	40
Other changes:			
Interest expense	30,660	826	-
Interest capitalised to property, plant and equipment	3,503	-	-
At 31 December 2019	442,058	-	40

43. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the directors on 24 March 2020.

SUMMARY OF FINANCIAL INFORMATION

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

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
RESULTS					
Revenue	2,121,592	2,285,619	1,858,955	1,457,523	1,859,300
Gross profit	315,413	292,636	190,211	149,754	452,979
Profit from operations	220,165	165,806	71,431	29,557	238,979
Profit before income tax	220,165	165,806	71,431	36,914	208,462
Income tax expenses	(58,612)	(66,142)	(24,548)	(18,104)	(100,367)
Profit for the year	161,553	99,664	46,883	18,810	108,095

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
ASSETS AND LIABILITIES					
Non-current assets	1,234,391	1,319,138	1,365,807	1,417,725	1,529,066
Current assets	590,199	508,638	601,809	369,957	339,146
TOTAL ASSETS	1,824,590	1,827,776	1,967,616	1,787,682	1,868,212
Current liabilities	640,151	705,424	940,916	666,989	836,904
Non-current liabilities	39,057	124,124	115,933	380,784	313,646
TOTAL LIABILITIES	679,208	829,548	1,056,849	1,047,773	1,150,550
NET ASSETS	1,145,382	998,228	910,767	739,909	717,662