DONGGUANG CHEMICAL LIMITED
東光化工有限公司

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

ANNUAL REPORT 2022

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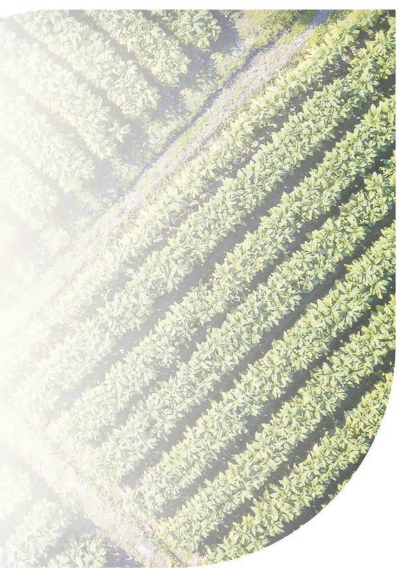



CORPORATE PROFILE

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 produces and sells by-products of urea, including vehicle urea solution, methanol, liquid carbon dioxide, liquefied natural gas, liquid ammonia and compound fertiliser.

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**.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Zhihe *(Chairman)*
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 Zushan

Nomination Committee

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

Corporate Governance Committee

Mr. Ng Sai Leung *(Chairman)*
Mr. Xu Xijiang
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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1615-20, 16/F, Tower II,
Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
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
17/F, Far East Finance Centre
16 Harcourt Road
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

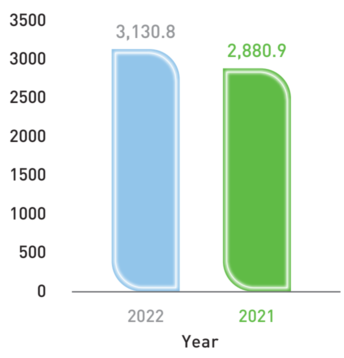
www.dg-chemical.com

FINANCIAL HIGHLIGHTS

	FY2022	FY2021
Revenue (RMB' million)	3,130.8	2,880.9
Gross Profit (RMB' million)	329.6	458.8
Profit for the Year (RMB' million)	202.1	275.6
Earnings per Share – Basic (RMB cents)	31.3	42.9
Net Asset Value per Share – Basic (RMB)	2.6	2.4

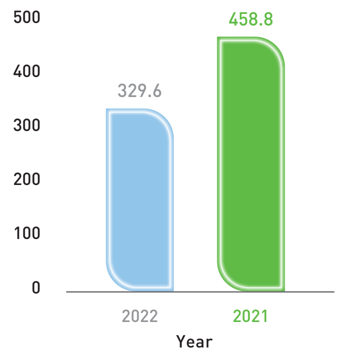
REVENUE INCREASE: 8.7%

RMB' million



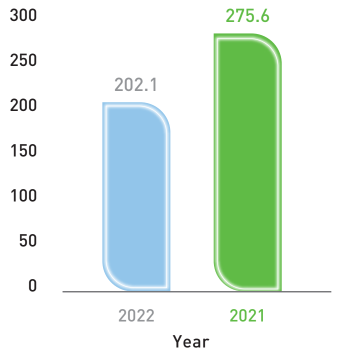
GROSS PROFIT DECREASE: 28.2%

RMB' million



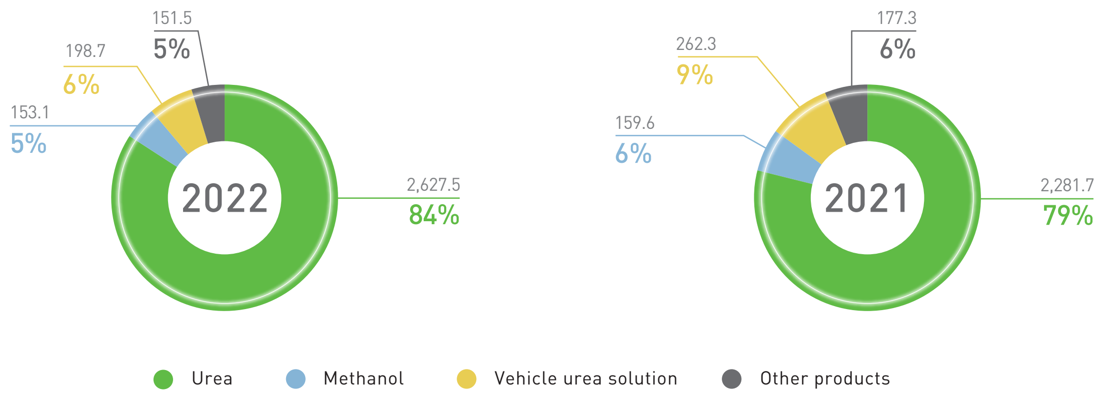
PROFIT FOR THE YEAR DECREASE: 26.7%

RMB' million



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 2022 (the "Reporting Period").

BUSINESS REVIEW

Since 2022, the situation in China has been complicated and ever-changing. Pandemic prevention and control measures went from lockdowns to optimization, and the production and operation of a number of enterprises experienced difficulties and challenges. Against the backdrop of the Russo-Ukrainian War, fluctuations in energy and commodity prices were central to chemical product prices throughout 2022, and urea product prices went from increase to decrease on the whole. As a chemical enterprise with a long history and a wealth of experience, the Group held fast to our original intention to serve our country in the industry and actively promoted the construction of green industries. In face of the complicated and severe economic situation, the Group managed to strengthen its duties, surmount the difficulties brought by pandemic prevention and control, a short supply in raw materials and interruption in logistics and transportation, and made every effort to secure fertiliser supply by a better production and transportation. Although the annual results decreased compared with last year, we still made remarkable profits thanks to the solidarity and effort of all our employees.

During the Reporting Period, the Group recorded an increase in revenue. However, the Group's net profit decreased by approximately RMB73.4 million or 26.7%, from approximately RMB275.6 million for the year ended 31 December 2021 to approximately RMB202.1 million for the Reporting Period, mainly due to the decrease of overall gross profit and gross profit margin. The decrease in overall gross profit and gross profit margin was primarily due to the increase in the Group's cost of sales which was primarily due to the increase in raw material costs. Nevertheless, due to the increase in average selling prices of the Group's urea products, the Group's revenue increased by approximately RMB249.8 million or 8.7%, from approximately RMB2,880.9 million for the year ended 31 December 2021 to approximately RMB3,130.8 million for the Reporting Period.

During the Reporting Period, the sales volume of vehicle urea solution recorded a decline, which was caused by a shrink in demand for the product due to COVID-19 outbreak in various parts of China. Affected by the sales demand, the Group's revenue from the sales of vehicle urea solution decreased by approximately RMB63.6 million or 24.2% from approximately RMB262.3 million for the year ended 31 December 2021 to approximately RMB198.7 million during the Reporting Period. In addition, pandemic prevention and control resulted in a restricted supply chain and a substantial fluctuation in raw material prices. The price of coal, the raw material for urea production of the Group, was subject to the government's macroeconomic regulation and remained high, resulting in a significant increase in the Group's cost of sales, which led to a decrease in both overall gross profit and gross profit margin and a reduction in the Group's profit compared with last year.

Regarding production and operation, the Group strengthened its management and control over key equipment and facilities to maximize their potential; and the Group actively optimized the production and operation of equipment, consolidated expertise and facility management, improved delicacy and care in employees' work, and ensured that the equipment operation was sustainable, safe, stable and highly effective. In particular, during the autumn fertiliser-preparation period in November 2022, the Group's staff demonstrated solidarity to resist pressure from the pandemic, putting in place an enclosed production management, coordinating pandemic prevention and control and production work, and reasonably scheduling production and the daily routine of staff. The year saw a production of 1.10 million tonnes of urea in total.

In addition to ensuring production, the Group overcame all difficulties to bring different forces in concert for optimized transportation of products. Through active communication and coordination, the Group fought for policies that vehicles with agricultural resources were given priority and convenience in checkpoints, as aided by the authorities for pandemic prevention, traffic police and railways. This cleared the way for resource-carrying vehicles in securing supply, and ensured the use of both roadway and railway for transportation. Not only was the supply of fertilisers to Hebei Province secured, tens of other municipalities and provinces including Beijing, Tianjin, Shandong, Anhui, Inner Mongolia, the three provinces in Northeastern China, etc. were also supplied with the product.

In recent years, economies and societies around the world are all working towards green and low-carbon emission. Since its establishment, the Group has been introducing the idea of green development into the whole process of production, operation and management. The Group are utilizing state-of-the-art technologies at home and abroad for technological retrofit, building national-level green eco-factories, ensuring enterprise operation in compliance with law, establishing a good social image, and realizing the win-win situation of a development for both ecological and economic efficiency. The Group was therefore awarded with titles such as National Green Factory, Advanced Unit for Energy Conservation and Emission Reduction in Nitrogen Fertilizer/Methanol Industry, Water Efficiency Leader Enterprise in Nitrogen Fertilizer Industry, and Benchmarking Unit for Raw Material Fuel Power Consumption Industry (Fixed Layer Intermittent Coal Gasification Synthetic Ammonia), injecting inexhaustible energy into achieving carbon peaking and carbon neutrality.

Under the big environment of drastic market changes and incessant turbulence, the Group maintained its inertia of development to plan and act as circumstances dictate. A brand of wide influence and competitive power was thus established in the industry. Currently, enterprises of chemical products are still facing a situation that has both opportunities and challenges, and the Group will bring into play its advantages in industry chain and branding to continuously improve on its product structure and business layout for an overall enhancement of its comprehensive strength. With a view to producing better results of the Group in the future, the Group will also actively adapt to market changes, roll out market-focused and user-driven products, strengthen its risk management, facilitate a steady growth in efficiency by multiple means, and continuously augment its operating power and industry-wide competitive power.

PROSPECTS

In the 2022 Central Economic Working Conference, it was put forward that the guiding direction for economic work in 2023 is still to keep up with a steady economic progress. A world in peace comes from a stable grain supply, which, in turn, comes from a secure supply of fertilisers. Agriculture is the bedrock for the national economy of China, and is of great relevance to the realms of people's livelihood, welfare, and economic and social development. In 2022, many local governments rolled out policies that buttress and favour agriculture, increasing agricultural investments, accelerating agricultural and rural modernization, and stimulating further demands for urea. Besides, demands for urea are also expected to grow as domestic economy revitalizes and enterprise operation returns to normal.

Looking forward to 2023, with the impact of the pandemic starting to recede and the national "double carbon" strategy setting in motion, green eco-factories are becoming a key direction in the future development of industries. At the same time, the reopening from pandemic prevention and control will be critical for boosting economic recovery and reviving the urea industry in general, thereby prompting a steady rebound in the industry. The Group will follow its established course of strategic development, and utilize the "production-and-sales" integrated model of production and operation coupling the "roadway-and-railway" two-pronged mode of transportation, in order to ensure fertiliser use in springtime. The Group will also firmly grasp the opportunities for industrial development and steadily march forward to ramp up the Group's efficiency while protecting the environment, continuously enhancing its core competitive power and risk-resistance capability, and realizing the Group's high-quality sustainable development. In addition, with the Ministry of Industry and Information Technology releasing the new annual plan to secure fertiliser supply, the Group will further reinforce production management, ensure product quality and increase production volume, in order to secure fertiliser supply, stabilize fertiliser price, and contribute the power of Dongguang Chemical to the promotion of food safety in the country.

Lastly, I would like to take this opportunity to extend my sincere gratitude and best regards to each of the shareholders of the Company, the management and the employees and clients of the Group, and those who show care and support to the Group's development. Over the past year, all the employees of the Group spared no effort to fight for a continuous improvement in the business and management of the Group amid complicated market conditions. In the future, the Group will uphold its development philosophy of "enterprise development, value creation, employee enrichment, and society contribution" to vigorously scale up business, constantly consolidate the bedrock for mainstream business development, enhance profitability, and strive to generate greater values to society, thereby creating richer returns for its shareholders and enabling the Group to reach higher goals.

Wang Zhihe
Chairman of the Board

24 March 2023

BUSINESS REVIEW

During the Reporting Period, under the influence of the outbreak of the COVID-19 in various parts of the People's Republic of China (the "PRC") and the tension between Russia and Ukraine, the international energy shortages have led to the continuous rise of global energy and food prices. In addition, many countries around the world have restricted urea exports, which drove the demand for fertilizers and chemical products. The complex and ever-changing international situation has led to increasing uncertainties in the market, rising energy prices in the international market, continued tight domestic energy and coal supply, and rising urea prices with frequent fluctuations.

During the Reporting Period, the Group recorded an increase in revenue. However, the Group's net profit decreased by approximately RMB73.4 million or 26.7%, from approximately RMB275.6 million for the year ended 31 December 2021 to approximately RMB202.1 million for the Reporting Period, mainly due to the decrease of overall gross profit and gross profit margin. The decrease in overall gross profit and gross profit margin was primarily due to the increase in the Group's cost of sales which was primarily due to the increase in raw material costs. Nevertheless, due to the increase in average selling prices of the Group's urea products, the Group's revenue increased by approximately RMB249.8 million or 8.7%, from approximately RMB2,880.9 million for the year ended 31 December 2021 to approximately RMB3,130.8 million for the Reporting Period.

During the Reporting Period, the average selling price of the Group's urea products was approximately RMB2,382 per tonne, representing an increase of approximately 17.8% from approximately RMB2,022 per tonne for the year ended 31 December 2021. In addition, the Group's administrative expenses and finance costs decreased for the Reporting Period as compared to the year ended 31 December 2021, mainly attributable to the decrease in provision for other receivables and decrease in interest-bearing bank borrowings, which partially offset the aforementioned negative impact on the cost of sales, gross profit and net profit of the Group.

The Group has always adhered to the philosophy of innovative development, and has actively explored new markets and developed new products. The sales of vehicle urea solution, a urea by-product newly developed by the Group in recent years, continued to contribute significantly to the revenue of the Group's urea by-product during the Reporting Period. During the Reporting Period, the average selling price of the Group's vehicle urea solution products was approximately RMB1,533 per tonne, representing an increase of approximately 0.2% from approximately RMB1,530 per tonne for the year ended 31 December 2021. However, due to the effect of sales demand, the Group's revenue generated from the sales of vehicle urea solution decreased by approximately RMB63.6 million or 24.2% from approximately RMB262.3 million for the year ended 31 December 2021 to approximately RMB198.7 million for the Reporting Period.

As a result of the increase in cost of sales and the higher percentage increase in cost of sales than the percentage increase in revenue during the Reporting Period, the Group's gross profit and net profit both decreased during the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000	% Change +/(-)
Urea	**2,627,522**	2,281,685	15.2%
Vehicle urea solution	**198,707**	262,295	-24.2%
Methanol	**151,452**	159,577	-5.1%
Other products	**153,100**	177,377	-13.7%
Total	**3,130,781**	2,880,934	8.7%

Urea

Revenue from urea increased by approximately RMB345.9 million, or 15.2%, from approximately RMB2,281.7 million for the year ended 31 December 2021 to approximately RMB2,627.5 million during the Reporting Period, as the average selling price of the Group's urea increased by approximately RMB360 per tonne, or 17.8%, from approximately RMB2,022 per tonne for the year ended 31 December 2021 to approximately RMB2,382 per tonne for the Reporting Period, mainly due to the continued growth of the domestic fertilizer and chemical product market during the Reporting Period. The sales volume of urea slightly decreased by approximately 2.2%, mainly due to the outbreak of COVID-19 which slowed down the production and transportation of the Group's products for the Reporting Period as compared to the year ended 31 December 2021.

Vehicle urea solution

Revenue from vehicle urea solution decreased by approximately RMB63.6 million, or 24.2%, from approximately RMB262.3 million for the year ended 31 December 2021 to approximately RMB198.7 million during the Reporting Period, mainly due to the decrease of the sales volume because of the outbreak of COVID-19 in various part of the PRC which slowed down the vehicle urea solution demand during the Reporting Period. The average selling price of the Group's vehicle urea solution products increased by approximately RMB3 per tonne, or 0.2%, from approximately RMB1,530 per tonne for the year ended 31 December 2021 to approximately RMB1,533 per tonne for the Reporting Period.

Methanol

Revenue from methanol decreased by approximately RMB8.1 million, or 5.1%, from approximately RMB159.6 million for the year ended 31 December 2021 to approximately RMB151.5 million during the Reporting Period, mainly due to the decrease of sales volume. The average selling price of the Group's methanol increased by approximately RMB48 per tonne, or 2.6%, from approximately RMB1,812 per tonne for the year ended 31 December 2021 to approximately RMB1,860 per tonne for the Reporting Period, mainly due to the increase in energy prices during the Reporting Period.

Other products

Other products include carbon dioxide, liquid ammonia, compound fertiliser and LNG. Revenue from other products decreased by approximately RMB24.3 million, or 13.7%, from approximately RMB177.4 million for the year ended 31 December 2021 to approximately RMB153.1 million for the Reporting Period mainly due to the decrease in revenue of the Group's liquid ammonia and carbon dioxide products during the Reporting Period. The decrease in revenue of liquid ammonia was mainly due to the decrease of sales volume for the Reporting Period; and the decrease in revenue of carbon dioxide was mainly due to the decrease of sales volume and average selling price for the Reporting Period.

Cost of sales

The Group's cost of sales increased by approximately RMB379.0 million, or 15.6%, from approximately RMB2,422.1 million for the year ended 31 December 2021 to approximately RMB2,801.2 million for the Reporting Period, primarily due to the increase in raw materials costs, increase in labour costs and electricity cost during the Reporting Period.

Gross Profit and Gross Profit Margin

	Year ended 31 December 2022		Year ended 31 December 2021			
	Gross Profit RMB'000	Margin %	Gross Profit RMB'000	Margin %	Change RMB'000	%
Urea	329,971	12.6	393,212	17.2	(63,241)	(16.1)
Vehicle urea solution	24,299	12.2	32,657	12.5	(8,358)	(25.6)
Methanol	(72,638)	(48.0)	(36,190)	(22.7)	(36,448)	(100.7)
Other products	47,982	31.3	69,134	39.0	(21,152)	(30.6)
Total	329,614	10.5	458,813	15.9	(129,199)	(28.2)

The Group's gross profit decreased by approximately RMB129.2 million, or 28.2%, from approximately RMB458.8 million for the year ended 31 December 2021 to approximately RMB329.6 million for the Reporting Period, primarily due to the increase in the Group's cost of sales resulting from the increase in the average purchase price of coals which is a major raw material for the production of the urea products. As a result of the increase in the Group's cost of sales and the higher percentage increase in cost of sales than the percentage increase of revenue during the Reporting Period, the Group's gross profit margin decreased from approximately 15.9% for the year ended 31 December 2021 to approximately 10.5% for the Reporting Period.

Other income

Other income increased by approximately RMB2.8 million, or 39.0%, from approximately RMB7.1 million for the year ended 31 December 2021 to approximately RMB9.9 million for the Reporting Period, primarily due to the gain on financial assets at fair value through profit or loss which attributed to the investment gain from trading of urea futures contracts, and the write off of certain long outstanding trade payables during the Reporting Period.

Other losses/gains, net

Other loss (net) of approximately RMB4.5 million (2021: other gain of approximately RMB3.5 million) was recorded for the Reporting Period mainly due to the exchange loss of RMB to USD, and the net loss on sales of scrap materials during the Reporting Period.

Administrative expenses

Administrative expenses decreased by approximately RMB10.8 million, or 16.8%, from approximately RMB64.0 million for the year ended 31 December 2021 to approximately RMB53.2 million for the Reporting Period, primarily due to the decrease in the provision for other receivables for the Reporting Period, and such decrease was partially offset by the increase in staff salaries and welfare expenses and in legal and professional fees for the Reporting Period.

Distribution expenses

Distribution expenses increased by approximately RMB0.3 million, or 9.2%, from approximately RMB3.3 million for the year ended 31 December 2021 to approximately RMB3.6 million for the Reporting Period, primarily due to the increase in staff salaries and welfare expenses for the Reporting Period.

Finance costs

Finance costs decreased by approximately RMB15.5 million, or 88.7%, from approximately RMB17.4 million for the year ended 31 December 2021 to approximately RMB2.0 million for the Reporting Period, mainly due to the decrease in interest-bearing bank borrowings and therefore a decrease of interest for bank borrowings during the Reporting Period.

Taxation

Income tax expenses decreased by approximately RMB35.0 million, or 32.1%, from approximately RMB109.1 million for the year ended 31 December 2021 to approximately RMB74.1 million for the Reporting Period, primarily due to decrease in profit before taxation for the Report Period.

Profit for the year

Profit for the year decreased by approximately RMB73.4 million or 26.7% from approximately RMB275.6 million for the year ended 31 December 2021 to approximately RMB202.1 million for the Reporting Period. This was mainly due to the decrease in gross profit and gross profit margin during the Reporting Period as mentioned above. The decrease in profit for the Reporting Period was partially offset by the increase in other income of approximately RMB2.8 million, decrease in administrative expenses of approximately RMB10.8 million decrease in finance costs of approximately RMB15.5 million and decrease in income tax expense of RMB35.0 million.

CAPITAL STRUCTURE

As at 31 December 2022, the Group had net assets of approximately RMB1,620.4 million (as at 31 December 2021: approximately RMB1,479.0 million), comprising of non-current assets of approximately RMB1,057.0 million (as at 31 December 2021: approximately RMB1,148.2 million), and current assets of approximately RMB812.1 million (as at 31 December 2021: approximately RMB692.4 million), which primarily consist of cash and bank balances amounted to approximately RMB535.5 million (as at 31 December 2021: approximately RMB425.1 million). Moreover, inventories amounted to approximately RMB129.3 million (as at 31 December 2021: approximately RMB139.2 million) and prepayments, deposit and other receivables amounted to approximately RMB137.6 million (as at 31 December 2021: approximately RMB110.2 million) are also major current assets. The Group recorded a net current assets position of approximately RMB600.0 million as at 31 December 2022 (as at 31 December 2021: net current assets of approximately RMB369.8 million). Major current liabilities include trade payables amounted to approximately RMB50.1 million (as at 31 December 2021: approximately RMB54.4 million), other payables and accruals amounted to approximately RMB74.5 million (as at 31 December 2021: approximately RMB87.8 million), contract liabilities amounted to approximately RMB80.4 million (as at 31 December 2021: approximately RMB70.8 million) and interest-bearing bank borrowings amounted to nil (as at 31 December 2021: approximately RMB96.0 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had cash and bank balances of approximately RMB535.5 million (as at 31 December 2021: approximately RMB425.1 million) and had no interest-bearing bank borrowings (as at 31 December 2021: approximately RMB96.0 million).

As at 31 December 2022, as the Group had no interest-bearing bank borrowings, the gearing ratio for the Group was 0% (as at 31 December 2021: 6.5%, calculated based on bank borrowings of approximately RMB96.0 million and equity attributable to owners of the Company of approximately RMB1,466.0 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking 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 obligations whilst supporting its working capital requirements and future expansion.

PROSPECTS

Looking ahead, as the COVID-19 epidemic receded, many countries have reopened the borders, and many industries in general have gradually resumed normal operations. The liberalization of epidemic prevention and control measures will play an important role in promoting global economic recovery and the overall recovery of the urea industry, and promote the urea industry to enter a new stage of stabilization and recovery. The domestic demand of chemical fertilizer is expected to maintain a consistent growth. In terms of industrial economy, along with the gradual commencements of new infrastructure projects in the PRC and the recovery of overseas economies, it is likely that the overall industrial demand for urea will continue to increase. In addition, the introduction of carbon neutrality and carbon peaks strategy in the PRC brings new challenges and opportunities for the chemical industry, and the supply and demand for chemical fertilizers remain uncertain. Green, ecological, and sustainable development have become the common sense of the global development, and even the essential requirements for enterprises to gain competitiveness in the future. Nevertheless, the Group has considerable advantages in energy conservation, emission reduction and green production. It always takes the lead in green development and takes ecological and environmental protection seriously, integrating the green development concept of "lucid waters and lush mountains are invaluable assets" into the whole process of production, operation and management.

The Group will continue to consolidate and develop its existing market and industry position and do its best to increase shareholder value. In addition, the Group will continue to promote its growth strategies, including increasing production capacity, improving production quality and efficiency, expanding the value chain to urea-related products, strengthening relationships with major customers, and expanding customer base, while seeking to establish strategic relationships and identify acquisition opportunities to achieve sustainable and steady development and actively respond to future challenges, with a view to providing more efficient and environmentally friendly products and high-quality services.

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 bank balances in currency 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 2022, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB20.6 million (as at 31 December 2021: approximately RMB18.2 million).

CHARGE ON ASSETS

As at 31 December 2022, there was no charge over any assets of the Group.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any material contingent liabilities (as at 31 December 2021: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2022, the Group employed a total of 1,312 employees (as at 31 December 2021: 1,285 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 RMB142.0 million (year ended 31 December 2021: RMB121.5 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.

EVENTS AFTER THE REPORTING PERIOD

There is no event that will have material impact on the Group from the end of the Reporting Period to the date of this announcement.

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.

SIGNIFICANT INVESTMENTS

There was no significant investment held by 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.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK8 cents (2021: HK10 cents) per ordinary share, absorbing a total amount of about HK$49.7 million (2021: HK$62.1 million), in respect of the year ended 31 December 2022 (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 Thursday, 25 May 2023 (the "2023 AGM"). The Proposed Final Dividend is expected to be paid on Friday, 9 June 2023 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 5 June 2023.

* *For identification purpose only*

EXECUTIVE DIRECTORS

Mr. Wang Zhihe (王治河), aged 65

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 44 years of experience in operation, and over 30 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 2022 respectively. Mr. Wang's interest in the Shares as at 31 December 2022 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 70

Executive Director and chief operating officer of the 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 52 years of experience in operation, and over 24 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 61

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 41 years of experience in operation, and over 24 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.

NON-EXECUTIVE DIRECTOR

Ms. Chen Jimin (陳繼敏), aged 49

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 19 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) as a member of the board of directors and the general manager, and currently as its Chairlady who is in charge of the company operation, management and team formation, and participated in the preparation of initial public offerings for various enterprises. 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 of Hong Kong Limited (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 60

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 34 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 59

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 27 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 50

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 (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 Yunhong Guixin Group Holdings Limited (formerly known as 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.

Mr. Guo Jianming (郭建明), aged 49

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 44

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 20 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 2022 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 2022 (the "CG Code") as contained Part 2 of in Appendix 14 of the Listing Rules.

A. Corporate Purpose, Strategy and Governance

A.1 Corporate strategy, business model and culture

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.

Code Provisions		Any deviations?	Governance practice of the Company
A.1.1	The Board should establish the issuer's purpose, values and strategy, and satisfy itself that these and the issuer's culture are aligned. All Directors must act with integrity, lead by example, and promote the desired culture. Such culture should instil and continually reinforce across the organisation values of acting lawfully, ethically and responsibly.	No	The Board has established the Company's purpose, values and strategy and ensured that a complementary culture has been formulated and promoted within the Group. The culture of the Group is further supplemented by the anti-corruption and whistle-blowing policies adopted by the Group which hold employees to high standards of ethical and moral conduct.
A.1.2	The Directors should include a discussion and analysis of the Group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term (the business model) and the strategy for delivering the issuer's objectives.	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.

A.2 Corporate Governance Functions

Principle

The Board is responsible for performing the corporate governance duties. It may delegate the responsibility to a committee or committees.

Code Provisions		Any deviations?	Governance practice of the Company
A.2.1	The terms of reference of the Board (or a committee performing the corporate governance function) should include at least 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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

B. BOARD COMPOSITION AND NOMINATION

B.1 Board composition, succession and evaluation

Principle

The Board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the issuer's business, and should ensure that the directors devote sufficient time and make contributions to the issuer that are commensurate with their role and Board responsibilities. 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 independent non-executive Directors ("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.

Code Provisions		Any deviations?	Governance practice of the Company
B.1.1	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.
B.1.2	An issuer should maintain on its website and on the Stock Exchange's website 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 Stock Exchange.
B.1.3	The Board should review the implementation and effectiveness of the issuer's policy on Board diversity on an annual basis.	No	The Board reviewed the implementation and effectiveness of the Company's policy on Board diversity for the year ended 31 December 2022.
B.1.4	An issuer should establish mechanism(s) to ensure independent views and input are available to the Board and disclose such mechanism(s) in its Corporate Governance Report. The Board should review the implementation and effectiveness of such mechanism(s) on an annual basis.	No	Various mechanisms have been put in place so as to ensure the Board has access to independent views and input. The Board has reviewed such mechanisms for the year ended 31 December 2022.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

B. BOARD COMPOSITION AND NOMINATION *(Continued)*

B.2 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.

Code Provisions		Any deviations?	Governance practice of the Company
B.2.1	Directors should ensure that they can 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.
B.2.2	Every Director, including those appointed for a specific term, 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.
B.2.3	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.
B.2.4	Where all the INEDs of an issuer have served more than nine years on the Board, the issuer should: (a) disclose the length of tenure of each existing INED on a named basis in the circular to shareholders and/or explanatory statement accompanying the notice of the annual general meeting; and (b) appoint a new INED on the Board at the forthcoming annual general meeting.	No	There is no INED who has served more than 9 years.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

B. BOARD COMPOSITION AND NOMINATION *(Continued)*

B.3 Nomination Committee

Principle

In carrying out its responsibilities, the Nomination Committee should give adequate consideration to the Principles under B.1 and B.2.

Code Provisions		Any deviations?	Governance practice of the Company
B.3.1	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.
B.3.2	The Nomination Committee should make available its terms of reference explaining its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and issuer's website.	No	Terms of reference of the Nomination Committee (including its role and functions) are available on the websites of the Stock Exchange and the Company.
B.3.3	Issuers should provide the Nomination Committee 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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

B. BOARD COMPOSITION AND NOMINATION *(Continued)*

B.3 Nomination Committee (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
B.3.4	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 statement accompanying the notice of the relevant general meeting: (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; (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; (c) the perspectives, skills and experience that the individual can bring to the Board; and (d) how the individual contributes to diversity of the Board.	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)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS

C.1 Responsibilities of directors

Principle

Every director must always know their 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.

Code Provisions		Any deviations?	Governance practice of the Company
C.1.1	Newly appointed Directors should receive a comprehensive, formal and tailored induction on appointment. Subsequently they should receive any 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.
C.1.2	The functions of non-executive Directors should include: (a) participating in Board meetings to bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; (b) taking the lead where potential conflicts of interests 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 2022 have duly performed these functions.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.1 Responsibilities of directors (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
C.1.3	The Board should establish written guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the issuer's securities. "Relevant employee" includes any employee or a director or employee of a subsidiary or holding company who, because of such office or employment, is likely to possess inside 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 2022 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.
C.1.4	All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. 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.
C.1.5	Directors should disclose to the issuer at the time of their appointments, and in a timely manner for any changes, 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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.1 Responsibilities of directors (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
C.1.6	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	During the year ended 31 December 2022, 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). Most of the INEDs and the non-executive Director of the Company had attended the annual general meeting of the Company held on 27 May 2022.
C.1.7	INEDs and other non-executive Directors should make a positive contribution to the development of the issuer's strategy and 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 2022 were able to provide independent, constructive and informed comments and decisions on the development of the Company's strategy and policies.
C.1.8	An 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)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.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.

Code Provisions		Any deviations?	Governance practice of the Company
C.2.1	Roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing.	No	Mr. Wang Zhihe is the Group's Chairman but no Chief Executive Officer has been appointed.
C.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.
C.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.
C.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. The Chairman should be primarily responsible for drawing up and approving the agenda for each Board meeting.	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.
C.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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.2 Chairman and Chief Executive (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
C.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.
C.2.7	The Chairman should at least annually hold meetings with the INEDs without the presence of other Directors.	No	During the year ended 31 December 2022, the Chairman had held a meeting with the INEDs of the Company.
C.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.
C.2.9	The Chairman should promote a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular 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)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.3 Management functions

Principle

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

Code Provisions		Any deviations?	Governance practice of the Company
C.3.1	When the Board delegates aspects of its management and administration functions to 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.
C.3.2	An issuer should formalise the functions reserved to the Board and those delegated to management. It should review those arrangements periodically to ensure that they remain appropriate to the issuer's needs.	No	There is a formal schedule of matters reserved for the Board's decision, including: (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.
C.3.3	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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.4 Board Committees

Principle

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

Code Provisions		Any deviations?	Governance practice of the Company
C.4.1	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.
C.4.2	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 restrictions on their ability to do so.	No	This term has been included in the terms of reference of the relevant Board Committees

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.5 Conduct of Board proceedings and supply of and access to information

Principle

The issuer should ensure directors can participate in Board proceedings in a meaningful and effective manner. 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.

Code Provisions		Any deviations?	Governance practice of the Company
C.5.1	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.
C.5.2	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.
C.5.3	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.
C.5.4	Minutes of Board and Board Committees meetings of should be kept by a duly appointed secretary of the meeting and should be open for inspection 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.
C.5.5	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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.5 Conduct of Board proceedings and supply of and access to information (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
C.5.6	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.
C.5.7	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.
C.5.8	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.
C.5.9	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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS *(Continued)*

C.5 Conduct of Board proceedings and supply of and access to information (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
C.5.10	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.

C.6 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.

Code Provisions		Any deviations?	Governance practice of the Company
C.6.1	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.
C.6.2	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.
C.6.3	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.
C.6.4	All Directors should have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable law, rules and 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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT

D.1 Financial reporting

Principle

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

Code Provisions		Any deviations?	Governance practice of the Company
D.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.
D.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 as a whole 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.
D.1.3	The Directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	No	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 2022, the Directors have: (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. The Independent Auditor's Report states the auditor's reporting responsibilities.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

D.1 Financial reporting (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
D.1.4	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.

D.2 Risk management and internal control

Principle

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems. Such risks would include, amongst others, material risks relating to ESG (please refer to the ESG Reporting Guide in Appendix 27 to the Listing Rules for further information). The Board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems.

Code Provisions		Any deviations?	Governance practice of the Company
D.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	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. 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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

D.2 Risk management and internal control (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
D.2.2	The Board's annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit, financial reporting functions, as well as those relating to the issuer's ESG performance and reporting.	No	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, as well as those relating to the Company's environmental, social and governance performance and reporting.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

D.2 Risk management and internal control (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
D.2.3	The Board's annual review should, in particular, consider: (a) the changes, since the last annual review, in the nature and extent of significant risks (including ESG risks), and the issuer's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks (including ESG risks) and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the Board (or Board Committee(s)) which enables it to assess control of the issuer and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; and (e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.	No	The Board's review has generally covered the aspects as referred to in D.2.3. of the CG Code.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

D.2 Risk management and internal control (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
D.2.4	Issuers should disclose a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period.	No	Please refer to section (III)(J) of this Corporate Governance Report.
D.2.5	The issuer 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 in the Corporate Governance Report.	No	The Company has an internal audit function
D.2.6	The issuer should establish a whistleblowing policy and system for employees and those who deal with the issuer to raise concerns, in confidence and anonymity, with the Audit Committee (or any designated committee comprising a majority of INEDs) about possible improprieties in any matter related to the issuer.	No	The Company has adopted a whistleblowing policy and system to allow concerns to be raised in confidence and anonymity.
D.2.7	The issuer should establish policy(ies) and system(s) that promote and support anti-corruption laws and regulations.	No	The Company has adopted an anti-corruption policy and system to promote and support anti-corruption laws and regulations among employees.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

D.3 Audit Committee

Principle

The Board should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management 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.

Code Provisions		Any deviations?	Governance practice of the Company
D.3.1	Full minutes of Audit Committee meetings should be kept by 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 comment 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.
D.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 a 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 2022 were former partners of the external auditor.
D.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 2022. 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. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

D.3 Audit Committee (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
D.3.4	The Audit Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and the issuer's website.	No	The terms of reference of the Audit Committee (including its role and functions) are available on the websites of the Stock Exchange and the Company.
D.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 should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) 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 reappointed as the external auditor. The Board endorsed the Audit Committee's recommendation on the re-appointment of the external auditor.
D.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.
D.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 2022. 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)*

E. REMUNERATION

E.1 The level and make-up of remuneration and disclosure

Principle

An issuer should have a formal and transparent policy on directors' remuneration 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 that director's own remuneration.

Code Provisions		Any deviations?	Governance practice of the Company
E.1.1	The Remuneration Committee should consult the Chairman and/or chief executive about their remuneration proposals for other executive Directors. The Remuneration Committee should 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 2022, the Remuneration Committee did not require the service of an independent professional advice.
E.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.
E.1.3	The Remuneration Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and the issuer's website.	No	Terms of reference of the Remuneration Committee (including its role and functions) are available on the websites of the Stock Exchange and the Company.
E.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.

(I) STATEMENT OF COMPLIANCE *(CONTINUED)*

E. REMUNERATION *(Continued)*

E.1 The level and make-up of remuneration and disclosure (Continued)

Principle *(Continued)*

Code Provisions		Any deviations?	Governance practice of the Company
E.1.5	Issuers should disclose the Directors' remuneration policy, details of any remuneration payable to members of senior management by band and other remuneration related matters in their annual reports.	No	Directors' remuneration policy and 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.

F. SHAREHOLDERS ENGAGEMENT

F.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.

Code Provisions		Any deviations?	Governance practice of the Company
F.1.1	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)*

F. SHAREHOLDERS ENGAGEMENT *(Continued)*

F.2 Shareholders meetings

Principle

The issuer should ensure that shareholders are given sufficient notice of shareholders meetings and are familiar with the detailed procedures for conducting a poll, and should arrange to address questions from shareholders in the shareholders meetings.

Code Provisions		Any deviations?	Governance practice of the Company
F.2.1	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 27 May 2022.
F.2.2	The 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. 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.	No	The Chairman had attended the Company's annual general meeting held on 27 May 2022. 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.
F.2.3	The Chairman of a meeting should ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any 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 27 May 2022.

(II) 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 2022, 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 2022. 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 37 of the Notes to the Consolidated Financial Statements on pages 132 to 137 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 2022.

(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.

The Group is committed to developing a positive and innovative culture that is built on its purpose, strategy, and values; one that empowers the Group's growth in parallel with sustainable development, allows employees to achieve their full potential, and enables delivery of healthy and long-term success.

The culture of the Group has been developed over time and has been instrumental to supporting the Group's corporate governance efforts and corporate image. Through the implementation of various policies, systems and open dialogue within the workplace, the Group has developed a corporate culture emphasising on lawful, ethical and responsible business conduct which has been reflected in its overall operations and management of the Group.

(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 2022 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 2022, 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 2022 are set out in the table below:

Meetings of	Board	AC	NC	RC	CGC	Annual General Meeting
Total held in 2022	5	3	1	1	1	1
			Attendance Record			
Executive Directors						
Mr. Wang Zhihe	5	N/A	1	N/A	N/A	1
Mr. Sun Zushan	5	N/A	N/A	1	N/A	1
Mr. Xu Xijiang	5	N/A	N/A	N/A	1	1
Non-executive Director						
Ms. Chen Jimin	5	N/A	N/A	N/A	N/A	1
Independent Non-executive Directors						
Mr. Ng Sai Leung	5	3	N/A	N/A	1	1
Ms. Lin Xiuxiang	5	3	1	1	1	1
Mr. Liu Jincheng	5	3	1	1	N/A	1

(5) During the year ended 31 December 2022, 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 2022, 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 C.1.4 of the Code for the year ended 31 December 2022, 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.

(9) To ensure that independent views and input are available to the Board, the following mechanisms have been implemented:

1. The Board requires that each INED provide written confirmations as to the factors affecting their independence as provided under the Listing Rules.
2. In recruiting INEDs, the Nomination Committee shall assess if the candidate(s) would be independent with reference to the relevant guidelines set out in the Listing Rules and also consider other factors, including but not limited to his/her character, integrity, cross-directorships and significant links with other Directors, time commitment, professional qualifications and relevant work experience.
3. The Nomination Committee shall review the structure, size and composition of the Board by taking into account of various aspects, including the Company's Board diversity policy (the "Board Diversity Policy") and measurable objectives to achieve Board diversity (if any), on an annual basis.
4. The Board shall also take into account the lack of involvement of the INED in the daily management of the Company and their relationship or circumstances which would affect the exercise of their independent judgement.
5. The Chairman meets with the INEDs regularly without the presence of the other Directors.
6. The Directors may seek advice from external independent professional advisors at the Company's expense to perform their duties.
7. The Board shall also ensure that further re-appointment of any long-serving INED is subject to a separate resolution to be approved by the Shareholders at the annual general meetings of the Company.

(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 Zushan

(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;

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(i) to review and/or approve matters relating to shares schemes under Chapter 17 of the Listing Rules.

(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 2022, 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.

(5) The breakdown of each individual Director's remuneration, showing the level and mix for the year ended 31 December 2022, 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	653	595	–	–	1,248
Mr. Sun Zushan	311	346	–	–	657
Mr. Xu Xijiang	311	116	–	–	427
Ms. Chen Jimin	–	–	–	–	–
Mr. Ng Sai Leung	155	–	–	–	155
Ms. Lin Xiuxiang	155	–	–	–	155
Mr. Liu Jincheng	155	–	–	–	155

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

	2022 No. of individuals
Nil to HK$1,000,000	1
HK$1,000,001 to HK$2,000,000	1

(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 Board Diversity Policy 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 2022, 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 2022, 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 INEDs 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 the 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 (including in terms of gender) and the Board has not set any measurable objectives. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness and evaluate the business needs of the Group periodically to consider the need for setting any measurable objectives (if appropriate).

(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 ensure that effective systems are in place;

(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 2022, 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 set 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 2022 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 internal audit function 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 2022;

(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. Xu Xijiang

(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 2022, 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 RMB1,595,000.

(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 17/F, Far East Finance Centre, 16 Harcourt Road, 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

During the year ended 31 December 2022, the Articles of Association were amended and a new set of Articles of Association was adopted at the annual general meeting of the Company held on 27 May 2022 for the purposes of (i) bringing the Articles of Association in line with amendments to the Listing Rules and applicable laws of the Cayman Islands; and (ii) making certain minor housekeeping amendments to the Articles of Association for the purpose of clarifying existing practice and making consequential amendments in line with the amendments to the Articles of Association. A copy of the amended Articles of Association of the company is available on the websites of the Company and the Stock Exchange.

(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 Company has procedures and internal controls for the handling and dissemination of inside information: when employees of the Group become aware of any information that may be regarded as potential inside information, they would keep such matters confidential and report to the designated personnel of the Company, who would then consider whether it is necessary to pass such information to the Board for the purpose of considering and deciding whether such information constitutes inside information and whether disclosure by way of an announcement is required.

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 and budget of the Group's accounting, internal audit and financial reporting function as well as those relating to the Company's ESG performance and reporting.

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 associated 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 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.

During the year ended 31 December 2022, 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 identified by the external professional firm for the year ended 31 December 2022.

The Board considered that, for the year ended 31 December 2022, 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.

(III) OTHER INFORMATION *(CONTINUED)*

(L) Investor Relations *(Continued)*

The Company enhances investor relations and communications through various channels. Information of the Company shall be communicated to the shareholders of the Company and the community mainly through the Company's financial reports, annual general meetings and other meetings that may be convened, during which the Chairman and other Directors will attend and respond to queries from the Shareholders. External auditors would also attend the annual general meetings and answer any questions if necessary. The Board has reviewed the implementation of the shareholders' communications policy and is satisfied that it has been effective for the Board to understand the views and opinion of the shareholders through the available channels.

Shareholders are encouraged to attend the annual general meetings of the Company. Notice of the annual general meetings and related papers shall be sent to Shareholders in accordance with the requirements of the Articles of Association and the Listing Rules and such documents shall be also made available on the Company's website and the Stock Exchange's website.

(M) Gender ratio of the workforce

Set forth below are is the gender ratio in the Group's workforce as at 31 December 2022:

	Male	**Female**
Workforce (including senior management)	74.5%	25.5%

Given the industrial nature of the Group's business, the majority of the workforce of the Group consists of male employees. Accordingly, gender diversity for the Group is perceived to be less relevant due to the nature of work, and no targets have been set for achieving gender diversity among the workforce. Nevertheless, the Group has a career development program to aid in providing equal opportunity in recruitment, career development, promotion, reward and training to all employees. Further, the Group endeavours to increase diversity at the senior management level and also offers opportunities to potential candidates of different backgrounds, expertise and experience in the workforce.

The management of the Group may also, based on the Group's business needs, future development plans and needs of the different departments to determine whether recruitment of staff shall target specific groups.

The Directors present their report and audited consolidated financial statements of the Group for the year ended 31 December 2022.

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 32 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 2022.

SHARE CAPITAL

As of 31 December 2022, 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 2022 in the share capital of the Company are set out in note 29 to the consolidated financial statements. The Company has not issued any Shares during the year ended 31 December 2022.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2022.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2022 is set out in the "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" on page 5, pages 6 to 8 and pages 9 to 14 respectively of this Annual Report. The financial risk management of the Group are set out in note 37 to the consolidated financial statements. In addition, an analysis of the Group's performance during the year ended 31 December 2022 using key financial performance indicators is set out in the "Financial Highlights" of this Annual Report. Descriptions of important events affecting the Company after 31 December 2022 and the likely future development of the Group's business is set out in "Management Discussion and Analysis" on pages 9 to 14 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. Further details of the Group's environmental policies and performance are set out in the Environmental, Social and Governance Report of which is available on the websites of the Company and the Stock Exchange.

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 during the year ended 31 December 2022.

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 2022, 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 2022, 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 2022 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 80 to 82.

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 HK8 cents per ordinary share, absorbing a total amount of approximately HK$49.7 million in respect of the year ended 31 December 2022 (2021: HK10 cents), which is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 25 May 2023, the proposed final dividend is expected to be paid on Friday, 9 June 2023 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 5 June 2023.

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 2022 are set out in note 28 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 2022.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2022 are set out in the Consolidated Statement of Changes in Equity on page 83 of this Annual Report and note 30 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution, calculated in accordance with the provision of laws of Cayman Islands, amounted to approximately RMB590 million (2021: approximately RMB597 million).

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

During the year ended 31 December 2022, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EQUITY-LINKED AGREEMENT

Save as disclosed 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 2022.

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, with a remaining life of approximately 5 years.

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 9.98% 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 31 December 2022.

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2022, sales to the Group's five largest customers accounted for approximately 28% of the total sales for the year.

In the year ended 31 December 2022, purchases from the Group's five largest suppliers accounted for approximately 69% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 26%. 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 2022 and up to the date of this Directors' Report are as follows:

Executive Directors:

Mr. Wang Zhihe *(Chairman)*

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

By virtue of Articles 105(A) and 105(B) of the Articles of Association of the Company, Mr. Sun Zushan, Ms. Chen Jimin and Mr. Ng Sai Leung 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 15 to 19 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 35 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 2022 or at any time during the year ended 31 December 2022.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Directors' Service Contracts" and note 35 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 2022.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During and at the end of the year ended 31 December 2022, 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 2022.

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 31 December 2022, 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%

* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at 31 December 2022.

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.

Save as disclosed above, as at 31 December 2022, 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 31 December 2022, 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 Limited ("Plenty Sun")	Interest of controlled corporation	180,320,000 Shares (L) *(Note 4)*	29.04%
Mr. Sun Yi	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 31 December 2022.

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

Notes:

1. The letter "L" denotes the shareholder's long position in the Shares.

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); 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. 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.

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 Yi. 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 20 to 62 of this Annual Report.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group are set out in note 35 to the consolidated financial statements. None of the related party transactions disclosed in note 35 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 2022. 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 2022, 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 2022. Each of the Covenantors has confirmed and declared that, for the year ended 31 December 2022, 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 2022.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and which were not a contract of service with a Director or any person not engaged in the full-time employment of the Company were entered into or existed during the year ended 31 December 2022 or subsisted during the year ended 31 December 2022.

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(m) to the consolidated financial statements.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

The Company is not aware of any changes in the Directors' information during the year ended 31 December 2022 which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

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 2022, 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, 22 May 2023 to Thursday, 25 May 2023 (both days inclusive) for the purpose of determining the right to attend and vote at the 2023 AGM. In order to be qualified for attending and voting at the 2023 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Friday, 19 May 2023.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2023 AGM, the register of members of the Company will also be closed from Thursday, 1 June 2023 to Monday, 5 June 2023 (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 2023 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 Wednesday, 31 May 2023.

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 2022 to the date of this Directors' Report are set out in note 40 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 140 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 2022, 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 2023

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 80 to 139, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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)*

Revenue recognition

Refer to notes 4(j) and 6 to the consolidated financial statements for the accounting policies and disclosures.

We identified revenue recognition as a key audit matter due to the significance of the amount of revenue to the consolidated statement of profit or loss and other comprehensive income and with the adoption of IFRS 15, significant judgements and estimates made by the management are required for the revenue recognition. Revenue from manufacturing and selling urea and other chemical products in the People's Republic of China amounted to RMB3,130,781,000 (2021: RMB2,880,934,000), representing 100% (2021: 100%) of the Group's total turnover.

How our audit addressed the Key Audit Matter

Our procedures in relation to the revenue recognition included:

- understanding the revenue and business process of the Group;
- assessing the appropriateness of the Group's revenue recognition accounting policy in line with IFRSs;
- evaluating and testing the operating effectiveness of key controls on the recognition of revenue;
- checked to the sales ledger and sales register to ensure all sales invoices have been covered;
- identified any registers for delivery notes with delivery dates, and control list for the sales invoices issued, to ensure the amount of outstanding deposits received and not recognised as sales; and
- checked to the sales cut-off adjustment proposed by client to match with the amount of sales and deposits received.

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.

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

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the 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
Ho Yee Man
Practising Certificate Number: P07395

Hong Kong, 24 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 RMB'000	2021 RMB'000
Revenue	6	3,130,781	2,880,934
Cost of sales		(2,801,167)	(2,422,121)
Gross profit		329,614	458,813
Other income	6	9,882	7,107
Other (losses)/gains, net	7	(4,467)	3,465
Administrative expenses		(53,204)	(63,965)
Distribution expenses		(3,634)	(3,328)
Finance costs	10	(1,965)	(17,438)
Profit before income tax	9	276,226	384,654
Income tax expenses	11	(74,087)	(109,072)
Profit for the year		202,139	275,582
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		53	(5,188)
Total comprehensive income for the year attributable to owners of the Company		202,192	270,394
Profit attributable to:			
Owners of the Company		194,380	266,081
Non-controlling interest		7,759	9,501
		202,139	275,582
Total comprehensive income attributable to:			
Owners of the Company		194,433	260,893
Non-controlling interest		7,759	9,501
		202,192	270,394
		RMB cents	RMB cents
Earnings per share for profit attributable to the owners of the Company			
– Basic and diluted	14	31.3	42.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Note	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	15	**929,729**	1,014,656
Investment property	16	**13,130**	13,979
Right-of-use assets	17	**113,240**	115,846
Unlisted equity investment at fair value through other comprehensive income	18	**40**	40
Prepayments for equipment & land lease	22	**772**	3,657
Deferred tax assets	19	**60**	–
Total non-current assets		**1,056,971**	1,148,178
Current assets			
Inventories	20	**129,313**	139,247
Trade receivables	21	**9,784**	17,741
Notes receivables	21	**–**	100
Prepayments, deposits and other receivables	22	**137,581**	110,202
Cash and bank balances	23	**535,466**	425,061
Total current assets		**812,144**	692,351
Current liabilities			
Trade payables	24	**50,062**	54,380
Deferred revenue	25	**826**	826
Contract liabilities	26	**80,380**	70,810
Other payables and accruals	27	**74,545**	87,846
Lease liabilities	17	**242**	77
Short-term bank loans	28	**–**	96,000
Income tax payable		**6,001**	12,617
Amount due to a non-controlling shareholder of a subsidiary	35(b)	**40**	40
Total current liabilities		**212,096**	322,596
Net current assets		**600,048**	369,755

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Note	2022 RMB'000	2021 RMB'000
Non-current liabilities			
Lease liabilities	17	28,120	28,211
Deferred revenue	25	3,169	3,995
Deferred tax liabilities	19	5,302	6,716
Total non-current liabilities		36,591	38,922
Net assets		1,620,428	1,479,011
Capital and reserves attributable to owners of the Company			
Share capital	29	392	392
Reserves		1,608,533	1,465,565
Equity attributable to owners of the Company		1,608,925	1,465,957
Non-controlling interests	33	11,503	13,054
Total equity		1,620,428	1,479,011

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 2022

	Share capital RMB'000	Share premium RMB'000 (note 30(b))	Specific reserve RMB'000 (note 30(e))	Merger reserve RMB'000 (note 30(c))	Statutory reserve RMB'000 (note 30(a))	Foreign currency translation reserve RMB'000 (note 30(d))	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interest RMB'000 (note 33)	Total equity RMB'000
At 1 January 2021	392	738,848	56,581	(559,842)	96,407	(6,444)	904,965	1,230,907	3,169	1,234,076
Profit for the year	–	–	–	–	–	–	266,081	266,081	9,501	275,582
Other comprehensive income										
– Exchange difference arising on translation of foreign operations	–	–	–	–	–	(5,188)	–	(5,188)	–	(5,188)
Total comprehensive income	–	–	–	–	–	(5,188)	266,081	260,893	9,501	270,394
Capital contribution from non-controlling interest to a subsidiary (note 34)	–	–	–	–	–	–	–	–	86,472	86,472
Change in ownership in interest in a subsidiary without change of control (note 34)	–	–	–	–	–	–	94	94	(94)	–
Appropriation of reserve	–	–	8,587	–	2,002	–	(10,589)	–	–	–
Dividend approved and paid in respect of the previous year	–	–	–	–	–	–	(25,843)	(25,843)	–	(25,843)
Utilisation of specific reserve for the year	–	–	(8,931)	–	–	–	8,931	–	–	–
Disposal of interest in a subsidiary (note 34)	–	–	–	–	–	–	(94)	(94)	(85,994)	(86,088)
At 31 December 2021	392	738,848	56,237	(559,842)	98,409	(11,632)	1,143,545	1,465,957	13,054	1,479,011

	Share capital RMB'000	Share premium RMB'000 (note 30(b))	Specific reserve RMB'000 (note 30(e))	Merger reserve RMB'000 (note 30(c))	Statutory reserve RMB'000 (note 30(a))	Foreign currency translation reserve RMB'000 (note 30(d))	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interest RMB'000 (note 33)	Total equity RMB'000
At 1 January 2022	392	738,848	56,237	(559,842)	98,409	(11,632)	1,143,545	1,465,957	13,054	1,479,011
Profit for the year	–	–	–	–	–	–	194,380	194,380	7,759	202,139
Other comprehensive income										
– Exchange difference arising on translation of foreign operations	–	–	–	–	–	53	–	53	–	53
Total comprehensive income	–	–	–	–	–	53	194,380	194,433	7,759	202,192
Appropriation of reserve	–	–	10,248	–	2,770	–	(13,018)	–	–	–
Dividend approved and paid in respect of the previous year	–	–	–	–	–	–	(51,465)	(51,465)	–	(51,465)
Payment of dividend to a subsidiary's non-controlling interests	–	–	–	–	–	–	–	–	(9,310)	(9,310)
Utilisation of specific reserve for the year	–	–	(5,470)	–	–	–	5,470	–	–	–
At 31 December 2022	392	738,848	61,015	(559,842)	101,179	(11,579)	1,278,912	1,608,925	11,503	1,620,428

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 RMB'000	2021 RMB'000
Cash flows from operating activities		
Profit before income tax	276,226	384,654
Adjustments for:		
Amortisation of right-of-use assets	2,606	2,991
Depreciation of investment property	849	849
Depreciation of property, plant and equipment	130,769	158,718
Gain on disposal of a subsidiary	–	(398)
(Gain)/loss on financial assets at fair value through profit or loss	(461)	3,141
Write-off of prepayments and other receivables	5,840	17,520
Write-off of trade payable	(970)	–
Interest income	(5,335)	(5,373)
Interest expense	1,965	17,438
Operating profit before working capital changes	411,489	579,540
Decrease/(increase) in inventories	9,934	(56,830)
Increase in prepayments, deposits and other receivables	(33,219)	(85,973)
Decrease/(increase) in trade receivables	7,957	(9,250)
Decrease/(increase) in notes receivables	100	(100)
Decrease in trade payables	(3,348)	(8,515)
Increase in contract liabilities	9,570	5,996
Decrease in deferred revenue	(826)	(2,443)
(Decrease)/increase in other payables and accruals	(13,301)	29,802
Cash generated from operations	388,356	452,227
Income tax paid	(82,177)	(101,860)
Net cash generated from operating activities	306,179	350,367

	Note	2022 RMB'000	2021 RMB'000
Cash flows from investing activities			
Purchase of property, plant and equipment		(45,060)	(70,559)
Acquisition of right-of-use asset		–	(8,247)
Decrease in prepayment for acquisition of equipment and land lease		2,885	4,748
Interest received		5,335	5,373
Net proceeds/(payments) for disposals of financial assets at fair value through profit or loss		461	(3,141)
Proceeds from disposal of a subsidiary		–	23,576
Net cash used in investing activities		(36,379)	(48,250)
Cash flows from financing activities			
Drawdown of bank loans	41	–	534,000
Repayment of bank loans	41	(96,000)	(729,000)
Dividend paid		(51,465)	(25,843)
Dividend paid to a subsidiary's non-controlling interest		(9,310)	–
Interest paid	41	(2,599)	(18,018)
Repayment of principal portion of the lease liabilities	41	(74)	(111)
Net cash used in financing activities		(159,448)	(238,972)
Net increase in cash and cash equivalents		110,352	63,145
Cash and cash equivalents at beginning of year		425,061	367,104
Effect on foreign exchange rate changes		53	(5,188)
Cash and cash equivalents at end of year		535,466	425,061
Analysis of cash and cash equivalents:			
Cash and bank balances		535,466	425,061

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 Act, Cap 22 (Act 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 (collectively referred to as the "Group") are principally engaged in manufacturing and selling urea and other chemical products in the People's Republic of China (the "PRC"). Details of the Company and its subsidiaries are presented in note 32 of the consolidated financial statements.

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

(a) Adoption of new or amended IFRSs

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:

- Amendments to IAS 16, Proceeds before Intended Use
- Amendments to IAS 37, Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to IFRS 3, Reference to the Conceptual Framework
- Amendments to IFRSs, Annual Improvements to IFRSs 2018-2020

None of these new or amended IFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended IFRSs that is not yet effective for the current accounting period.

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

(b) New or amended IFRSs that have been issued but are not yet effective

The following new or amended 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.

- IFRS 17, Insurance Contracts and the related Amendments[1]
- Amendments to IAS 1, Classification of Liabilities as Current or Non-current[2]
- Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies[1]
- Amendments to IAS 1, Non-current Liabilities with Covenants[2]
- Amendments to IAS 8, Definition of Accounting Estimates[1]
- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]
- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
- Amendment to IFRS 16, Lease Liability in a Sale and Leaseback[2]

[1] Effective for annual periods beginning on or after 1 January 2023.

[2] Effective for annual periods beginning on or after 1 January 2024.

[3] The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

IFRS 17, Insurance Contracts and the related Amendments

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, nonlife, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adoption for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The Directors do not anticipate that the application of these amendments in the future will have a material impact on the consolidated financial statements.

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

(b) New or amended IFRSs that have been issued but are not yet effective *(Continued)*

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Company do not anticipate that these application of the amendments in the future will have an impact on the consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The Directors do not anticipate that the application of these amendments in the future will have a material impact on the consolidated financial statements.

Amendments to IAS 1, Non-current Liabilities with Covenants

The amendments clarify how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. The 2022 Amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The 2022 Amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.

The Directors do not anticipate that the application of these amendments in the future will have a material impact on the consolidated financial statements.

Amendments to IAS 8, Definition of Accounting Estimates

The amendments introduce a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The Directors do not anticipate that the application of these amendments in the future will have a material impact on the consolidated financial statements.

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

(b) New or amended IFRSs that have been issued but are not yet effective *(Continued)*

Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments require entities to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. For entities which may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

The Directors do not anticipate that the application of these amendments in the future will have a material impact on the consolidated financial statements.

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

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company anticipate that the application of these amendments may have an impact on the consolidated financial statements in future periods should such transaction arise.

Amendment to IFRS 16, Lease Liability in a Sale and Leaseback

The amendments specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are intended to improve the requirements for sale and leaseback transactions in HKFRS 16. They do not change the accounting for leases unrelated to sale and leaseback transactions.

The directors of the Company anticipate that the application of these amendments may have an impact on the consolidated financial statements in future periods should such transaction arise.

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 except for unlisted equity investment at fair value through other comprehensive income, which is measured at fair value as explained in the accounting policies set out below.

The outbreak of COVID-19 (the "Outbreak") has developed rapidly in 2021 and significantly impacted entities and economic activities in varying scales globally. While there have been more immediate and pronounced disruptions in certain industries, its impact on the manufacturing and selling of urea and other chemical products in the PRC has been rather modest during the current reporting period. Nevertheless, as the Outbreak continues to evolve, it is challenging at this juncture to predict the full extent and duration of its impact to the business and the economy. Management has assessed the impact of COVID-19 across the Group, and up to the date of this report, has not identified any areas which had direct and material adverse impact caused by COVID-19 to the financial performance or position of the Group as at 31 December 2022.

(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.

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 20 years or over the lease term, whichever is shorter
Plant and machinery	3 to 20 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.

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

(c) Property, plant and equipment *(Continued)*

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

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 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 live which is within 10-30 years using straight-line method. The useful live, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

(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.

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

(f) Leases

The Group as a lessee

All 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 is initially 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.

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 it 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 are 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.

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

(f) Leases *(Continued)*

The Group as a lessee (Continued)

Lease liability (Continued)

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

(i) fixed lease 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) 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 modification, or to reflect revised in-substance fixed lease payments.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient for COVID-19-Related Rent Concessions applies (see note 2(a)), if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

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

(f) Leases *(Continued)*

The Group as a lessor

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

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate leases. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

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

Any changes in the scope of the consideration for a lease that was not part of the original terms and conditions of the lease are accounted for as lease modifications. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, recognising the remaining lease payments as income on a either a straight-line basis or another systematic basis over the remaining lease term.

(g) Financial Instruments

(i) Financial assets

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

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

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. 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.

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

(g) Financial Instruments *(Continued)*

(i) Financial assets (Continued)

Debt instruments (Continued)

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

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

Equity instruments

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

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit losses ("ECLs") on trade receivables and financial assets measured at amortised cost. ECLs are measured on either of the following bases:

- 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and
- 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.

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

(g) Financial Instruments *(Continued)*

(ii) Impairment loss on financial assets (Continued)

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

For other debt financial assets, ECLs are based on lifetime ECLs except when there has not been a significant increase in credit risk since initial recognition, in which case the allowance will be based on the 12-months ECLs.

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 in default when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security (if any is held); or the financial asset is more than 90 days past due.

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

The Group considers a financial asset to be credit-impaired when:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in "FVTOCI reserve (recycling)".

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

(g) Financial Instruments *(Continued)*

(ii) Impairment loss on financial assets (Continued)

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

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 loans, lease liabilities and amounts due to subsidiaries 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.

(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.

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

(g) Financial Instruments *(Continued)*

(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.

(h) 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.

(i) 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 2022 and 2021, all of the Group's amounts consisted of cash held in bank and cash on hand.

(j) 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.

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

(j) Revenue recognition *(Continued)*

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.

(k) 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.

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

(k) Income tax *(Continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill not deductible for tax purposes and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax 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, and reflects any uncertainty related to income taxes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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.

(l) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (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.

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

(l) Foreign currency *(Continued)*

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 (attributed to non-controlling interests as appropriate). 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.

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 identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 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.

(m) Employee benefits

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.

Defined contribution retirement plans

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

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.

(n) 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.

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

(o) Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

(p) 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.

(q) 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.

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

(q) Related parties *(Continued)*

(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.

(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.

(r) 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.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

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 and investment property

The Group's management determines the estimated useful lives and residual values for its property, plant and equipment and investment property. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and investment property 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.

(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, including the incorporation of forward-looking information to supplement historical credit loss rate. 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.

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:

	2022 RMB'000	2021 RMB'000
Revenue		
Primary geographical market		
– PRC	**3,130,781**	2,880,934
Major products		
– Sales of urea	**2,627,522**	2,281,685
– Sales of methanol	**151,452**	159,577
– Sales of liquid ammonia	**62,273**	82,922
– Sales of carbon dioxide	**20,296**	42,829
– Sales of LNG	**39,498**	31,417
– Sales of compound fertiliser	**31,033**	20,209
– Sales of vehicle urea solution	**198,707**	262,295
Total revenue from contracts with customers	**3,130,781**	2,880,934
Timing of revenue recognition		
– At a point in time	**3,130,781**	2,880,934
Other income is presented as follows:		
Sales of scrap materials	**–**	227
Government grants (note (i))	**3,120**	3,344
Bank interest income	**5,335**	5,373
Rental income	**–**	47
Gain/(loss) on financial assets at fair value through profit or loss (note (ii))	**461**	(3,141)
Gain on disposal of a subsidiary	**–**	398
Refund for insurance compensation	**–**	711
Write-off of trade payable	**970**	–
Others	**(4)**	148
	9,882	7,107

6. REVENUE AND OTHER INCOME *(CONTINUED)*

Notes:

(i) 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 2022, RMB826,000 (2021: RMB2,443,000) was recognised as other income.

In addition, the Group obtained government grants of RMB2,294,000 for the year ended 31 December 2022 (2021: RMB901,000) from the PRC government and recognised directly under other income as subsidies for operations of production plants.

(ii) Gain/(loss) on financial assets at fair value through profit or loss represented investment gain/(loss) from trading of urea futures contracts during the year ended 31 December 2022 and 2021.

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

	2022 RMB'000	2021 RMB'000
Contract liabilities from sales of goods	80,380	70,810

Contract liabilities mainly relate to the advance consideration received from customers. RMB70,810,000 (2021: RMB64,814,000) of the contract liabilities has been recognised as revenue from performance obligation satisfied during the year when the goods were sold.

7. OTHER (LOSSES)/GAINS, NET

	2022 RMB'000	2021 RMB'000
Foreign exchange (losses)/gains	(2,298)	3,465
Net loss on sales of scrap materials	(2,169)	–
	(4,467)	3,465

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 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 the year ended 31 December 2022, none of the customers have transactions represent 10% or more of the Group's revenue.

For the year ended 31 December 2021, revenues from one customer of the Group's revenues arising from sales of urea amounted to RMB319,809,000, which represent 10% or more of the Group's revenue.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2022 RMB'000	2021 RMB'000
Auditors' remuneration	1,595	1,388
Cost of inventories sold recognised as expense	2,801,167	2,422,121
Depreciation of property, plant and equipment	130,769	158,718
Depreciation of investment property	849	849
Amortisation of right-of-use assets	2,606	2,991
Short-term lease payments	236	210
Impairment loss of other receivables	–	17,520
Written-off of other receivables	5,840	–
Employee benefit expenses (including directors' remuneration) (note 12)		
– Wages and salaries	62,513	56,682
– Discretionary bonuses	37,544	31,845
– Retirement benefit scheme contributions (note)	18,211	16,594
– Staff welfare and other benefits	23,751	16,370
	142,019	121,491

Note: For the years ended 31 December 2022 and 2021, there were neither contributions forfeited by the Group nor had there been any utilisation of such forfeited contributions to reduce future contributions. As at 31 December 2022 and 2021, there were no forfeited contributions which were available for utilisation by the Group to reduce the existing level of contributions to the MPF Scheme and the Central Pension Schemes.

10. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest expense in relation to:		
Bank loans wholly repayable within five years	782	16,045
Lease liabilities	1,965	1,973
	2,747	18,018
Less: Amount capitalised (note)	(782)	(580)
	1,965	17,438

Note: Borrowing costs of RMB782,000 (2021: RMB580,000) capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.1% (2021: 4%) to expenditure on qualifying assets. None of borrowing costs was capitalised during both years arose on the specific borrowing granted for acquisition of property, plant and equipment.

11. INCOME TAX EXPENSES

	2022 RMB'000	2021 RMB'000
Current tax – PRC		
Current tax	69,561	101,934
Withholding tax on dividends	6,000	2,826
Deferred tax (note 19)		
– (Credited)/charged for the year	(1,474)	4,312
	74,087	109,072

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 periods.

The provision for Mainland China current income tax is based on the statutory rate of 25% (2021: 25%) of the assessable profit of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 (the "New Corporate Income Tax Law") except for one subsidiary of the Company as mentioned below:

Besides, according to the Notice on Implementing the Policy of Inclusive Tax Relief for Small and Micro Enterprises ("SMEs"), released by the Ministry of Finance on January 2021, qualified SMEs with annual taxable income below RMB1 million per year are entitled to a preferential EIT rate of 10% on 25% of their income. Whereas, qualified SMEs with taxable income from RMB1 to 3 million are entitled to a preferential EIT rate of 10% on 50% of their income, one of the subsidiaries is entitled to the preferential tax rate for the year ended 31 December 2022.

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

	2022 RMB'000	2021 RMB'000
Profit before income tax	276,226	384,654
Tax calculated at a taxation rate of 25% (2021: 25%)	69,057	96,164
Effect of different tax rates operating in other jurisdictions	1,841	1,430
Effect of different tax rates operating for small and micro enterprises in PRC	(621)	–
Tax effect of non-deductible expenses	6,797	12,267
Tax effect of non-taxable income	(2,767)	–
Others	(220)	(789)
	74,087	109,072

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 periods 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 2022					
Executive Directors					
Mr. Wang Zhihe (王治河)	653	595	–	–	1,248
Mr. Sun Zushan (孫祖善)	311	346	–	–	657
Mr. Xu Xijiang (徐希江)	311	116	–	–	427
Total	1,275	1,057	–	–	2,332
Non-Executive Director					
Ms. Chen Jimin (陳繼敏)	–	–	–	–	–
Independent Non-Executive Directors					
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
Year ended 31 December 2021					
Executive Directors					
Mr. Wang Zhihe (王治河)	628	551	–	–	1,179
Mr. Sun Zushan (孫祖善)	299	333	–	–	632
Mr. Xu Xijiang (徐希江)	299	122	–	–	421
Total	1,226	1,006	–	–	2,232
Non-Executive Director					
Ms. Chen Jimin (陳繼敏)	–	–	–	–	–
Independent Non-Executive Directors					
Mr. Liu Jincheng (劉金成)	149	–	–	–	149
Mr. Ng Sai Leung (吳世良)	149	–	–	–	149
Ms. Lin Xiuxiang (林秀香)	149	–	–	–	149
Total	447	–	–	–	447

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

(b) Five highest paid individuals

The five highest paid individuals of the Group included 3 directors for the year ended 31 December 2022 (2021: 3), whose emoluments are reflected in note 12(a).

The analysis of the emolument of the remaining 2 highest paid individual for the year ended 31 December 2022 (2021: 2) are set out below:

	2022 RMB'000	2021 RMB'000
Salaries and allowances	1,297	1,227
Discretionary bonuses	–	–
Retirement benefit scheme contributions	15	15
	1,312	1,242

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

Number of individuals

	2022	2021
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$2,000,000	1	1

(c) During each of the reporting periods, 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

	2022	2021
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$2,000,000	1	1

13. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Final, proposed – HK8 cents (2021: HK10 cents) per share	**43,856**	50,623

The Board recommended a final dividend of HK8 cents (2021: HK10 cents) per ordinary share, absorbing a total amount of about HK$49,675,520 million (2021: HK$62,094,400) in respect of the year ended 31 December 2022, 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 2023. 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 attributable to owners of the Company is based on the following data:

	2022 RMB'000	2021 RMB'000
Earnings for the purposes of basic and diluted earnings per share	**194,380**	266,081
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**620,944,000**	620,944,000

No diluted earnings per share is presented as there was no potential ordinary shares in issue during the years ended 31 December 2022 and 2021.

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 2022						
Opening net carrying amount	213,335	1,666	692,182	73,330	34,143	1,014,656
Additions	7,571	611	7,745	2,247	27,668	45,842
Transfer in/(out)	202	–	12,899	–	(13,101)	–
Depreciation	(16,848)	(372)	(97,841)	(15,708)	–	(130,769)
Closing net carrying amount	204,260	1,905	614,985	59,869	48,710	929,729
As at 31 December 2022						
Cost	354,174	14,798	1,781,871	224,237	48,710	2,423,790
Accumulated depreciation and impairment	(149,914)	(12,893)	(1,166,886)	(164,368)	–	(1,494,061)
Net carrying amount	204,260	1,905	614,985	59,869	48,710	929,729
Year ended 31 December 2021						
Opening net carrying amount	222,733	1,439	754,183	90,867	41,057	1,110,279
Additions	7,033	574	23,287	96	40,149	71,139
Transfer in/(out)	–	–	39,019	–	(39,019)	–
Disposal of a subsidiary (note 34)	–	–	–	–	(8,044)	(8,044)
Depreciation	(16,431)	(347)	(124,307)	(17,633)	–	(158,718)
Closing net carrying amount	213,335	1,666	692,182	73,330	34,143	1,014,656
As at 31 December 2021						
Cost	346,401	14,187	1,761,227	221,990	34,143	2,377,948
Accumulated depreciation and impairment	(133,066)	(12,521)	(1,069,045)	(148,660)	–	(1,363,292)
Net carrying amount	213,335	1,666	692,182	73,330	34,143	1,014,656

As at 31 December 2022, the Group's property, plant and equipment with an aggregate carrying amount of approximately RMBnil (2021: RMB116,607,000) were pledged to secure general banking facilities granted to the Group (note 28).

16. INVESTMENT PROPERTY

	2022 RMB'000	2021 RMB'000
Carrying amount at beginning of the year	13,979	14,828
Depreciation during the year	(849)	(849)
Carrying amount at end of the year	13,130	13,979

The balance represented a piece of industrial land held by the Group under medium term lease in the PRC and an office property located in Beijing, 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). The fair value of the industrial land 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 office property was recognised as owner-occupied property as it was utilised as self-use office as at 31 December 2019. The office property was leased out for rental income on 28 February 2020 and became vacant to seek for potential tenant since August 2020. As such, the office property was reclassified from property, plant and equipment to investment property as at 31 December 2020.

The following tables give information about how the fair values of the investment property as at 31 December 2022 and 2021 is determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Properties	Fair value	Fair value hierarchy	Valuation technique	Significant unobservable input	Range of unobservable input	Relationship of unobservable input to fair value
Industrial land	RMB20,200,000 (2021: RMB20,200,000)	Level 3	Direct comparison approach	Estimated market unit sales price per square metre	RMB270 to RMB300 per sq. m. (2021: RMB264 to RMB270 per sq. m.)	The increase/ decrease in the market unit sales price would result in an increase/ a decrease in the fair value of the property
Office premises	RMB11,800,000 (2021: RMB12,700,000)	Level 3	Direct comparison approach	Estimated market unit sales price per square metre	RMB41,000 to RMB48,000 per sq.m. (2021: RMB43,000 to RMB52,000 per sq.m.)	The increase/ decrease in the market unit sales price would result in an increase/ a decrease in the fair value of the property

As at 31 December 2022 and 2021, the directors consider no impairment of the investment property is necessary. There were no transfers into or out of Level 3 for both years presented.

17. LEASES

The Group as a 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:

	2022 RMB'000	2021 RMB'000
Leasehold land	111,329	113,895
Plant and machinery leased for own use carried at depreciated cost	1,911	1,951
	113,240	115,846

	Leasehold land RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2021	115,399	2,031	117,430
Addition	8,247	–	8,247
Disposal of a subsidiary (note 34)	(6,840)	–	(6,840)
Amortisation	(2,911)	(80)	(2,991)
As at 31 December 2021 and 1 January 2022	113,895	1,951	115,846
Amortisation	(2,566)	(40)	(2,606)
As at 31 December 2022	111,329	1,911	113,240

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 2022, the Group's leasehold land with an aggregate carrying amount of approximately RMBnil (2021: RMB4,744,000) were pledged to secure general banking facilities granted to the Group.

17. LEASES *(CONTINUED)*

The Group as a lessee *(Continued)*

(ii) Lease liabilities

	Leasehold land RMB'000	Plant and machinery RMB'000	Total RMB'000
At 1 January 2021	26,138	2,261	28,399
Interest expense	1,822	151	1,973
Lease payments during the year	(1,891)	(193)	(2,084)
At 31 December 2021 and 1 January 2022	**26,069**	**2,219**	**28,288**
Interest expense	**1,817**	**148**	**1,965**
Lease payments during the year	**(1,891)**	**–**	**(1,891)**
At 31 December 2022	**25,995**	**2,367**	**28,362**

Future lease payments are due as follows:

31 December 2022	**Minimum lease payments RMB'000**	**Interest RMB'000**	**Present value RMB'000**
Not later than one year	**2,202**	**(1,960)**	**242**
Later than one year and not later than two years	**2,106**	**(1,943)**	**163**
Later than two years and not later than five years	**6,114**	**(5,684)**	**430**
Later than five years	**78,135**	**(50,608)**	**27,527**
	88,557	**(60,195)**	**28,362**

31 December 2021	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	2,038	(1,961)	77
Later than one year and not later than two years	2,038	(1,952)	86
Later than two years and not later than five years	6,114	(5,706)	408
Later than five years	79,883	(52,166)	27,717
	90,073	(61,785)	28,288

17. LEASES *(CONTINUED)*

The Group as a lessee *(Continued)*

(ii) Lease liabilities (Continued)

The present value of future lease payments are analysed as:

	2022 RMB'000	2021 RMB'000
Current liabilities	242	77
Non-current liabilities	28,120	28,211
	28,362	28,288

	2022 RMB'000	2021 RMB'000
Short term lease expense	236	210

The Group as a lessor

The Group's investment properties have been vacated as at 31 December 2022 and 2021. During the year ended 31 December 2021, insignificant portion of the Group's plant and machinery was sub-leased to an independent third party at a lease term of 3 years since 1 May 2019. The sub-leased to an independent third party was early terminated during the year ended 31 December 2021. The sub-lease rental income during the year ended 31 December 2021 was RMBnil (2020: RMB47,000).

As at 31 December 2022 and 2021, there is no minimum rent receivables under non-cancellable operating leases.

18. UNLISTED EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Unlisted equity investment	40	40

On 6 November 2020, an unlisted limited company was incorporated in the PRC which the Group has the equity interest of 5%. The captioned entity is principally engaged in the promotion of environmentally friendly technology, together with consultation, research and development and selling of environmentally friendly materials such as vehicle urea solution, compound fertilisers and automotive catalyst.

The unlisted equity investment is measured at fair value. In the opinion of the Company's directors, cost is an appropriate estimate of fair value as there are no significant changes in the investee's performance and market condition from the date of initial recognition to the end of the reporting period. The Company does not expect to dispose of the unlisted equity investments in the near future.

19. DEFERRED TAX ASSETS/(LIABILITIES)

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

	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 2021	(674)	2,317	(5,302)	1,255	(2,404)
(Charged)/credited to profit or loss	(4,833)	(611)	130	1,002	(4,312)
At 31 December 2021	(5,507)	1,706	(5,172)	2,257	(6,716)
Credited/(charged) to profit or loss	1,198	(206)	141	341	1,474
At 31 December 2022	**(4,309)**	**1,500**	**(5,031)**	**2,598**	**(5,242)**

The deferred tax assets/(liabilities) are analysed as:

	2022 RMB'000	2021 RMB'000
Deferred tax assets	60	–
Deferred tax liabilities	(5,302)	(6,716)
	(5,242)	(6,716)

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 dividend policy, the subsidiary will distribute the entire earnings in the foreseeable future at the end of the reporting period, and the deferred tax liabilities recognised approximately RMB4,309,000 (2021: RMB5,507,000). During the year ended 31 December 2022, special dividends in total of RMB60,000,000 was paid on 10 May 2022 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 periods.

20. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**54,247**	82,265
Finished goods	**71,400**	53,799
Parts and spares	**3,666**	3,183
	129,313	139,247

21. TRADE AND NOTES RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables (note (i))	**9,784**	17,741
Notes receivables (note (ii))	**–**	100
	9,784	17,841

(i) Trade receivables

An aging analysis of the trade receivables as at the end of the reporting periods, based on the invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
Within 3 months	**9,784**	17,741

As at 31 December 2022 and 2021, none of the debtors included in the Group's trade receivables were past due. Details of impairment assessment of trade receivables are set out in note 37(a)(ii).

21. TRADE AND NOTES RECEIVABLES *(CONTINUED)*

(ii) Notes receivables

All notes receivables were due within 6 months from the end of each reporting period and without recourse, and most of the notes receivables are 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 2021, the Group had not endorsed notes receivables accepted by banks in Mainland China (the "Endorsed Bills"), 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 had 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 were not significant.

During the year ended 31 December 2022 and 2021, the Group has not recognised any gain or loss on the date of transfer of the Endorsed Bills. 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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Other tax recoverable	81,735	58,834
Prepayments for utilities	–	3,151
Prepayments for equipment	772	3,657
Prepayments to coal suppliers	74,507	61,079
Prepayments to employees	1,488	573
Other prepayments, deposits and other receivables	3,211	4,085
	161,713	131,379
Less: impairment loss on other receivables	–	(17,520)
Less: write-off of other receivables (note)	(23,360)	–
	138,353	113,859
Represented by:		
Current portion	137,581	110,202
Non-current portion	772	3,657
	138,353	113,859

Note: Write-off of other receivables represented the write-off recognised for a portion of "other tax receivables" as the recoverability of such amount was uncertain.

23. CASH AND BANK BALANCES

	2022 RMB'000	2021 RMB'000
Current		
Cash and bank balances	535,466	425,061

As at 31 December 2022, the Group has cash and bank balances denominated in RMB amounted to approximately RMB531,483,000 (2021: RMB414,902,000) 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.

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.

24. TRADE PAYABLES

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

	2022 RMB'000	2021 RMB'000
Trade payable	**50,062**	54,380

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

	2022 RMB'000	2021 RMB'000
0 to 90 days	**29,605**	32,958
91 to 180 days	**637**	591
181 to 365 days	**1,110**	1,758
Over 365 days	**18,710**	19,073
	50,062	54,380

25. DEFERRED REVENUE

	2022 RMB'000	2021 RMB'000
Cost:		
At beginning and end of the year	**33,410**	33,410
Accumulated amortisation:		
At beginning of the year	**28,589**	26,146
Amortised during the year	**826**	2,443
At end of the year	**29,415**	28,589
Net carrying amount:		
Current	**826**	826
Non-current	**3,169**	3,995
	3,995	4,821

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.

26. CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Contract liabilities from sale of goods	80,380	70,810

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.

Movements in contract liabilities

	2022 RMB'000	2021 RMB'000
Balance as at 1 January	70,810	64,814
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	(70,810)	(64,814)
Increase in contract liabilities as a result of deposits received in advance from customers	80,380	70,810
Balance at 31 December	80,380	70,810

27. OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Accruals	14,479	17,090
Other payables (note)	60,066	70,756
	74,545	87,846

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

28. BANK LOANS

	2022 RMB'000	2021 RMB'000
Current		
Interest bearing		
Secured		
– Short-term bank loans (note (i))	–	76,000
Unsecured		
– Short-term bank loans	–	20,000
	–	96,000

At end of reporting period, total current and non-current bank loans were scheduled to repay as follows:

	2022 RMB'000	2021 RMB'000
Within one year	–	96,000

Note:

(i) As at 31 December 2021, the Group's secured short-term bank loans was secured by certain of the Group's property, plant and equipment (note 15) and leasehold land (note 17).

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

	2022 RMB'000	2021 RMB'000
Fixed-rate borrowings	N/A	3.70%-4.70%

29. SHARE CAPITAL

	Number of shares '000	Amount US$	Amount RMB'000
Authorised share capital:			
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022			
Ordinary share at US$0.0001 each	500,000,000	50,000,000	340,499
Issued share capital:			
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	620,944	62,094	392

30. 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 Dongguang Chemical, 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.

30. RESERVES *(CONTINUED)*

Group *(Continued)*

(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.

Company

	Share premium RMB'000	Accumulated losses RMB'000	Total reserves RMB'000
As at 1 January 2021	738,848	(139,005)	599,843
Profit for the year	–	23,240	23,240
Dividends approved in respect of the previous year	–	(25,843)	(25,843)
As at 31 December 2021 and 1 January 2022	**738,848**	**(141,608)**	**597,240**
Profit for the year	**–**	**44,239**	**44,239**
Dividends approved in respect of the previous year	**–**	**(51,465)**	**(51,465)**
As at 31 December 2022	**738,848**	**(148,834)**	**590,014**

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2022 RMB'000	2021 RMB'000
Non-current asset			
Interest in a subsidiary	32	**750,816**	750,816
Total non-current asset		**750,816**	750,816
Current assets			
Prepayments and other receivables		**207**	313
Cash and bank balances		**2,132**	3,728
Total current assets		**2,339**	4,041
Current liabilities			
Accruals		**3,451**	3,843
Amounts due to subsidiaries	35(b)	**159,298**	153,382
Total current liabilities		**162,749**	157,225
Net current liabilities		**(160,410)**	(153,184)
Net assets		**590,406**	597,632
Capital and reserves			
Share capital	29	**392**	392
Reserves	30	**590,014**	597,240
Total equity		**590,406**	597,632

On behalf of directors

WANG Zhihe 王治河 **SUN Zushan 孫祖善**

32. 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 in Hong Kong
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 in Hong Kong
Sino Emirates Chemicals Limited ("Sino Emirates")	Hong Kong/4 October 2007/ Limited liability company	Fully paid up share capital HK$1	–	100%	Investment holding in Hong Kong
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 in the PRC
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 RMB16,000,000	–	100%	Manufacturing and selling of vehicle urea solution in the PRC
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%	Manufacturing and selling of vehicle urea solution in the PRC

* 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.

33. NON-CONTROLLING INTEREST

As at and for the year ended 31 Decemer 2022 and 2021, the non-controlling interest ("NCI") was attributable to 49% 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:

	2022 RMB'000	2021 RMB'000
Revenue	166,276	218,982
Profit for the year	15,836	20,172
Total comprehensive income for the year	15,836	20,172
Profit and total comprehensive income allocated to NCI	7,759	9,885
Cash flows generated from operating activities	22,801	15,417
Cash flows (used in)/generated from investing activities	(160)	25
Cash flows used in financing activities	(19,000)	–
Net cash inflows	3,641	15,442
As at 31 December		
Current assets	35,742	38,625
Non-current assets	1,529	1,667
Current liabilities	(13,794)	(13,651)
Net assets	23,477	26,641
Accumulated non-controlling interest	11,503	13,054

34. DISPOSAL OF INTEREST IN A SUBSIDIARY

On 22 April 2021, an indirectly wholly owned subsidiary of the Company, Hebei Dongguang entered into an agreement ("the Agreement") with a third party investor (the "Investor") in relation to the capital contributions (the "Capital Contributions") to a subsidiary, Xinjiang Xinji Energy Chemical Co., Limited ("Xinjiang Xinji"). Total considerations of the Capital Contributions from Hebei Dongguang and the Investor were agreed at RMB90,000,000 and RMB96,080,000 in cash, in which RMB80,000,000 and RMB86,472,000 were injected. Details please refer to the Company's announcement dated 22 April 2021.

Prior to the Capital Contributions, Hebei Dongguang has contributed share capital of RMB10,000,000 to Xinjiang Xinji. After the Capital Contributions, the equity interest of the Group has been decreased from 100% to 51%, which was considered as a deemed disposal of a subsidiary and has been reallocated from retained earnings to non-controlling interest. The effect of changes in the ownership interest of Xinjiang Xinji on the equity attributable to owners of the Company during the six months ended 30 June 2021 is summarised as follows:

	2021 RMB'000
Carrying amount of non-controlling interests disposed of	(94)
Consideration received from non-controlling interests	–
Gain on deemed disposal within equity	(94)

On 12 September 2021, the Group disposed of the remaining 51% equity interest of Xinjiang Xinji. The net assets of Xinjiang Xinji at the date of disposal were as follows:

	2021 RMB'000
Property, plant and equipment	8,044
Right-of-use assets	6,840
Prepayment for equipment and land lease	7,795
Prepayments, deposits and other receivables	514
Cash and bank balances	152,896
Trade payables	(28)
Income tax payable	(371)
Net assets disposed of	175,690
Non-controlling interests	(86,088)
Gain on disposal of a subsidiary	398
Total cash consideration	90,000

34. DISPOSAL OF INTEREST IN A SUBSIDIARY *(CONTINUED)*

An analysis of net inflow of cash and cash equivalents in respect of disposal of its subsidiary is as follows:

	2021 RMB'000
Net cash inflows arising from disposal of a subsidiary	
Total consideration	90,000
Capital injection from shareholders of a subsidiary	86,472
Cash and cash equivalents disposed of	(152,896)
	23,576

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

(c) Compensation of key management personnel of the Group

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	**1,297**	1,227
Retirement benefit scheme contributions	**15**	15
Total compensation paid to key management personnel	**1,312**	1,242

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

36. CAPITAL COMMITMENTS

	2022 RMB'000	2021 RMB'000
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided	20,566	18,161

37. 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 37(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 2022 and 2021, 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$")

	2022 HK$'000	2021 HK$'000
Cash and bank balances	(2,521)	(10,414)
Overall net exposure	(2,521)	(10,414)

United States dollars ("US$")

	2022 US$'000	2021 US'000
Cash and bank balances	–	(3)
Overall net exposure	–	(3)

37. 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 2022	
	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%	20	–
US$	1%	–	–

		31 December 2021	
	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%	75	–
US$	1%	–*	–

* Represent amount less than RMB1,000

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.

37. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk and impairment provision

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.

At 31 December 2022 and 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables

In order to minimise the credit risk, the management of the Group has closely monitor the collection of trade receivables to ensure that follow up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model in accordance to IFRS 9 on trade balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has applied the simplified approach in accordance with IFRS 9 to measure the loss allowance of trade receivables at lifetime ECL. The Group determines the expected credit losses on trade receivables balances by individual credit evaluations performed on all customers which are requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. The assessment reflects the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Ongoing credit evaluation is performed on the financial condition of trade receivables.

As at 31 December 2022 and 2021, the loss allowance of trade receivables is insignificant.

Cash and cash equivalents

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.

Other receivables

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 other 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, except other tax receivables.

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

As at 31 December 2022 and 2021, the loss allowance of other receivables is insignificant, except other tax receivables.

37. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk and impairment provisions (Continued)

Other receivables (Continued)

Other tax receivables is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group.

(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 23) and bank loans (note 28), 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 2022, 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 RMB0.8 million (2021: RMB2.0 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.

37. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Financial risk factors *(Continued)*

(iv) 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 loans, 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 2022					
Trade payables	50,062	50,062	50,062	–	–
Other payables and accruals	74,545	74,545	74,545	–	–
Lease liabilities	28,362	88,557	–	2,202	86,355
Amount due to a non-controlling shareholder of a subsidiary	40	40	40	–	–
	153,009	213,204	124,647	2,202	86,355
As at 31 December 2021					
Trade payables	54,380	54,380	54,380	–	–
Other payables and accruals	87,846	87,846	87,846	–	–
Lease liabilities	28,288	90,073	–	2,038	88,035
Bank loans	96,000	97,029	–	97,029	–
Amount due to a non-controlling shareholder of a subsidiary	40	40	40	–	–
	266,554	329,368	142,266	99,067	88,035

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

37. 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(g) for explanations about how the category of financial instruments affects their subsequent measurement.

	2022 RMB'000	2021 RMB'000
Financial assets		
Amortised cost		
– Trade receivables	9,784	17,741
– Notes receivables	–	100
– Deposits and other receivables	4,034	3,287
– Cash and bank balances	535,466	425,061
Fair values through other comprehensive income		
– Unlisted equity investments	40	40

	2022 RMB'000	2021 RMB'000
Financial liabilities		
Amortised cost		
– Trade payables	50,062	54,380
– Other payables and accruals	74,545	87,846
– Lease liabilities	28,362	28,288
– Bank loans	–	96,000
– Amount due to a non-controlling shareholder of a subsidiary	40	40

Financial instruments not measured at fair value

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

Due to their short-term nature, their carrying values approximate their fair values.

38. 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:

	2022 RMB'000	2021 RMB'000
Total equity	**1,620,428**	1,479,011
Overall financing:		
Bank loans	**–**	96,000
Amount due to a non-controlling shareholder of a subsidiary	**40**	40
	40	96,040
Equity-to-overall financing ratio	**40,510.70**	15.40

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.

39. CONTINGENT LIABILITIES

As at 31 December 2022 and 2021, neither the Group nor the Company had any significant contingent liabilities.

40. EVENTS AFTER THE REPORTING PERIOD

No other significant events that require additional disclosure or adjustments occurred after the end of the reporting period.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank loans (note 28) RMB'000	Lease liabilities (note 17) RMB'000
At 1 January 2021	291,000	28,399
Changes from cash flows:		
Repayment of lease liabilities – principal portion	–	(111)
Drawdown of bank loans	534,000	–
Repayment of bank loans	(729,000)	–
Interest paid	(16,045)	(1,973)
Total changes from financing cash flows	(211,045)	(2,084)
Other changes:		
Interest expense	15,465	1,973
Interest capitalised to property, plant and equipment	580	–
At 31 December 2021 and at 1 January 2022	96,000	28,288
Changes from cash flows:		
Repayment of lease liabilities – principal portion	–	(74)
Repayment of bank loans	(96,000)	–
Interest paid	(782)	(1,817)
Total changes from financing cash flows	(96,782)	(1,891)
Other changes:		
Interest expense	–	1,965
Interest capitalised to property, plant and equipment	782	–
At 31 December 2022	–	28,362

42. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the directors on 24 March 2023.

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				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
RESULTS					
Revenue	**3,130,781**	2,880,934	1,956,044	2,121,592	2,285,619
Gross profit	**329,614**	458,813	234,649	315,413	292,636
Profit from operations	**276,226**	384,654	171,489	220,165	165,806
Profit before income tax	**276,226**	384,654	171,489	220,165	165,806
Income tax expenses	**74,087**	109,072	(45,004)	(58,612)	(66,142)
Profit for the year	**202,139**	275,582	126,485	161,553	99,664

	As at 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES					
Non-current assets	**1,056,971**	1,148,178	1,250,982	1,234,391	1,319,138
Current assets	**812,144**	692,351	508,070	590,199	508,638
TOTAL ASSETS	**1,869,115**	1,840,529	1,759,052	1,824,590	1,827,776
Current liabilities	**212,096**	322,596	479,598	640,151	705,424
Non-current liabilities	**36,591**	38,922	45,378	39,057	124,124
TOTAL LIABILITIES	**248,687**	361,518	524,976	679,208	829,548
NET ASSETS	**1,620,428**	1,479,011	1,234,076	1,145,382	998,228