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隆基泰和智慧能源 LONGITECH SMART ENERGY

LONGITECH SMART ENERGY HOLDING LIMITED

隆基泰和智慧能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1281)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the “**Board**”) of directors (the “**Directors**”) of LongiTech Smart Energy Holding Limited (the “**Company**”) announces the audited consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019 (the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2018 as follows:

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	Year ended 31 December	
		2019	2018
		RMB'000	RMB'000
Revenue	3(a)	147,460	708,493
Cost of sales	4	(68,786)	(464,662)
Gross profit		78,674	243,831
Selling and distribution expenses	4	(1,740)	(22,146)
Administrative expenses	4	(72,212)	(89,234)
Impairment losses on financial and contract assets	5	(316,169)	(15,761)
Other income		585	2,107
Other gains – net	6	2,100	1,211
Operating (loss)/profit		(308,762)	120,008

Consolidated Statement of Profit or Loss (Continued)

For the year ended 31 December 2019

	<i>Notes</i>	<u>Year ended 31 December</u>	
		2019 RMB'000	2018 <i>RMB'000</i>
Finance income		13,461	7,330
Finance expenses		<u>(35,989)</u>	<u>(16,638)</u>
Finance expenses – net		(22,528)	(9,308)
Share of net profit of associates accounted for using the equity method		<u>5,422</u>	<u>8,187</u>
(Loss)/profit before income tax		(325,868)	118,887
Income tax credit/(expense)	7	<u>64,454</u>	<u>(10,386)</u>
(Loss)/profit for the year		<u><u>(261,414)</u></u>	<u><u>108,501</u></u>
(Loss)/profit is attributable to:			
Owners of the Company		(264,522)	107,720
Non-controlling interests		<u>3,108</u>	<u>781</u>
		<u><u>(261,414)</u></u>	<u><u>108,501</u></u>
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company (RMB):			
Basic (loss)/earnings per share	8(a)	<u><u>(0.1782)</u></u>	<u><u>0.0821</u></u>
Diluted (loss)/earnings per share	8(b)	<u><u>(0.1782)</u></u>	<u><u>0.0820</u></u>

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	<u>Year ended 31 December</u>	
	2019	2018
	RMB'000	RMB'000
(Loss)/profit for the year	(261,414)	108,501
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translation of financial statements of overseas operations	<u>3,450</u>	<u>14,638</u>
Other comprehensive income for the year, net of tax	<u>3,450</u>	<u>14,638</u>
Total comprehensive (loss)/income for the year	<u>(257,964)</u>	<u>123,139</u>
Total comprehensive (loss)/income for the year is attributable to:		
Owners of the Company	(261,072)	122,358
Non-controlling interests	<u>3,108</u>	<u>781</u>
	<u>(257,964)</u>	<u>123,139</u>

Consolidated Balance Sheet

At 31 December 2019

		As at 31 December	
	Notes	2019	2018
		RMB'000	RMB'000
Assets			
Non-current assets			
Leasehold land and land use rights		—	4,254
Property, plant and equipment		477,990	498,459
Right-of-use assets		19,861	—
Intangible assets		9,551	19,698
Deferred tax assets		70,007	3,021
Contract assets	9	43,738	155,440
Investments accounted for using the equity method		280,645	101,587
Financial assets at fair value through profit or loss		—	8,762
Financial assets at amortised cost	10	13,750	—
Other non-current assets		10,969	7,781
Total non-current assets		926,511	799,002
Current assets			
Inventories		8,755	24,480
Contract assets	9	361,728	304,350
Trade and other receivables	11	175,969	543,486
Financial assets at amortised cost	10	123,272	178,513
Financial assets at fair value through profit or loss		157,003	155,681
Restricted cash		66,388	1,219
Cash and cash equivalents		32,228	162,917
Total current assets		925,343	1,370,646
Total assets		1,851,854	2,169,648

Consolidated Balance Sheet (Continued)

At 31 December 2019

		<u>As at 31 December</u>	
	<i>Notes</i>	2019	2018
		RMB'000	RMB'000
Equity and liabilities			
Share capital		12,255	12,255
Reserves		1,162,613	1,154,287
Retained earnings		40,918	307,248
Equity attributable to owners of the Company		1,215,786	1,473,790
Non-controlling interests		9,307	6,159
Total equity		1,225,093	1,479,949
Liabilities			
Non-current liabilities			
Borrowings		235,400	534,400
Lease liabilities		12,016	—
Deferred government grants		2,279	2,386
Deferred tax liabilities		11,891	12,291
Total non-current liabilities		261,586	549,077
Current liabilities			
Trade and other payables	12	50,184	95,041
Contract liabilities		1,009	2,184
Current tax liabilities		11,854	10,197
Borrowings		299,000	33,200
Lease liabilities		3,128	—
Total current liabilities		365,175	140,622
Total liabilities		626,761	689,699
Total equity and liabilities		1,851,854	2,169,648

Notes to the Financial Statements

For the year ended 31 December 2019

1 GENERAL INFORMATION

LongiTech Smart Energy Holding Limited (the “Company”) was incorporated in the Cayman Islands on 4 January 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, the Cayman Islands. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 12 January 2012.

The Company and its subsidiaries (together, the “Group”) are principally engaged in smart energy business and public infrastructure construction business. The two major shareholders of the Company are Longevity Investment Holding Limited and Lightway Power Holdings Limited. The ultimate beneficial owner of the Company is Mr. Wei Shaojun (the “controlling shareholder”).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which include all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

2.1.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation — Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures — Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement — Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules by recognising the cumulative effect of initially applying the new standard on 1 January 2019, which is disclosed in Note 2.2. The other amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.1.2 New standards and interpretations not yet adopted

The following published new accounting standards and interpretations are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group:

		Effective for annual period commencing on or after
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework for Financial Reporting		1 January 2020

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1.1 above, the Group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.39% per annum.

2.2.1 Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

2.2.2 Measurement of lease liabilities

	<i>RMB'000</i>
Operating lease commitments as at 31 December 2018	<u>26,139</u>
Discounted using the lessee's incremental borrowing rate at the date of initial application	14,541
Less: short-term leases not recognised as a liability	(2,936)
Less: low-value leases not recognised as a liability	<u>(28)</u>
Lease liability recognised as at 1 January 2019	<u><u>11,577</u></u>
Of which are:	
Current lease liabilities	578
Non-current lease liabilities	<u>10,999</u>
	<u><u>11,577</u></u>

2.2.3 Measurement of right-of-use assets

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

2.2.4 Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Leasehold land and land use rights — decreased by RMB4,254,000
- Right-of-use assets — increased by RMB15,831,000
- Lease liabilities — increased by RMB11,577,000

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Sales of electricity	64,814	63,788
Sales of home photovoltaic systems and rendering smart energy services	51,992	465,470
Public infrastructure construction	30,654	179,235
	147,460	708,493
<i>Timing of revenue recognition</i>		
At a point in time	80,899	438,804
Over time	66,561	269,689
	147,460	708,493

For the year ended 31 December 2019, there were four customers (2018: two) with which the Group's transactions exceeded 10% of total revenue. One customer (2018: one) was from public infrastructure construction business and three customers (2018: one) were from smart energy business. For the year ended 31 December 2019, revenue derived from these customers amounted to RMB87,616,000 (2018: RMB539,716,000).

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group presents the following two reportable segments:

- Smart energy business, and
- Public infrastructure construction business.

No geographical information is presented as substantially all of the Group's business activities were in the People's Republic of China (the "PRC").

(c) Reportable segment profit or loss, assets and liabilities

	Smart energy business <i>RMB'000</i>	Public infrastructure construction business <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Intersegment eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2019					
Revenue from external customers	116,806	30,654	—	—	147,460
Impairment losses on financial and contract assets	(268,354)	(47,815)	—	—	(316,169)
Finance income	13,041	188	232	—	13,461
Finance expenses	(16,019)	(19,927)	(43)	—	(35,989)
Share of net profit of associates accounted for using the equity method	5,422	—	—	—	5,422
Income tax credit	59,667	4,787	—	—	64,454
Loss for the year	(193,267)	(48,915)	(19,232)	—	(261,414)
<i>Other information</i>					
Depreciation and amortisation	(34,581)	(80)	(685)	—	(35,346)
Additions to non-current assets (Note)	19,420	—	3,218	—	22,638
As at 31 December 2019					
Reportable segment assets	1,390,258	481,723	505,708	(525,835)	1,851,854
Reportable segment liabilities	<u>721,015</u>	<u>427,373</u>	<u>4,208</u>	<u>(525,835)</u>	<u>626,761</u>

	Smart energy business RMB'000	Public infrastructure construction business RMB'000	Unallocated RMB'000	Intersegment eliminations RMB'000	Total RMB'000
Year ended 31 December 2018					
Revenue from external customers	529,258	179,235	—	—	708,493
Impairment losses on financial and contract assets	(15,761)	—	—	—	(15,761)
Finance income	3,722	1,855	1,753	—	7,330
Finance expenses	(16,638)	—	—	—	(16,638)
Share of net profit of associates accounted for using the equity method	8,187	—	—	—	8,187
Income tax expense	(10,386)	—	—	—	(10,386)
Profit/(loss) for the year	130,063	15,107	(36,669)	—	108,501
<i>Other information</i>					
Depreciation and amortisation	(34,894)	(84)	(845)	—	(35,823)
Additions to non-current assets	74,886	—	1,633	—	76,519
As at 31 December 2018					
Reportable segment assets	1,561,178	463,048	574,618	(429,196)	2,169,648
Reportable segment liabilities	<u>758,314</u>	<u>360,393</u>	<u>188</u>	<u>(429,196)</u>	<u>689,699</u>

Note: Additions to non-current assets exclude financial assets, investments accounted for using the equity method and deferred tax assets.

4 EXPENSES BY NATURE

Cost of sales, selling and distribution expenses and administrative expenses in the consolidated statement of profit or loss are listed by nature as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Changes in inventories of finished goods	16,196	366,675
Subcontract costs	10,261	76,595
Employee benefit expense	37,445	58,675
Depreciation and amortisation	35,346	35,823
Consulting and legal fees	8,759	7,954
Repair and maintenance expenses	3,516	1,674
Transportation and travelling expenses	3,236	9,220
Promotion and advertising expenses	2,976	4,642
Rental expense	2,527	4,384
Impairment of goodwill	2,209	—
Impairment of other intangible assets	4,288	—
Impairment of inventories	1,899	255
Auditor's remuneration		
— Audit services	2,200	2,500
— Non-audit services	—	—
Others	11,880	7,645
Total cost of sales, selling and distribution expenses and administrative expenses	142,738	576,042

5 IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss allowance for contract assets (<i>Note 9</i>)	47,815	—
Loss allowance for financial assets at amortised cost (<i>Note 10</i>)	94,889	900
Loss allowance for trade and other receivables (<i>Note 11</i>)	173,465	14,861
	316,169	15,761

6 OTHER GAINS — NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net fair value gains/(losses) on financial assets at fair value through profit or loss	1,704	(8,751)
Net foreign exchange (losses)/gains	(325)	1,005
Net gains on disposal of property, plant and equipment	387	730
Gains on disposal of subsidiaries	143	962
Fair value gain on put option over shares in associate	—	7,403
Others	191	(138)
	<u>2,100</u>	<u>1,211</u>

7 INCOME TAX CREDIT/(EXPENSE)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax	(2,932)	(13,101)
Deferred income tax	<u>67,386</u>	<u>2,715</u>
	<u>64,454</u>	<u>(10,386)</u>

- (a) The reconciliation of income tax expense to the theoretical amount that would arise using the statutory tax rates applicable to the consolidated entities are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
(Loss)/profit before income tax	<u>(325,868)</u>	<u>118,887</u>
Tax calculated at applicable statutory tax rates	77,955	(29,722)
Tax effect of:		
Preferential tax rates	1,970	16,708
Expenses not deductible for tax purpose	(7,687)	—
Research and development tax credit	425	762
Income not taxable	3,834	—
Tax losses for which no deferred tax assets has been recognised	(5,512)	(7,588)
Temporary differences for which no deferred tax assets has been recognised	(8,607)	—
Previously unrecognised tax losses recouped to reduce current tax expense	2,076	5,007
Recoverable income tax of public infrastructure construction business	<u>—</u>	<u>4,447</u>
Income tax credit/(expense)	<u>64,454</u>	<u>(10,386)</u>

- (b) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income taxes in these jurisdictions.
- (c) The Group did not make any provisions for Hong Kong profit tax as there were no assessable profits arising in Hong Kong during the year ended 31 December 2019 (2018: nil).
- (d) For the year end 31 December 2019, the statutory income tax rate of entities within the Group registered in the PRC is 25% (2018: 25%), except for certain entities entitled to tax exemption or preferential rates.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year:

	<u>Year ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
(Loss)/profit attributable to owners of the Company (RMB'000)	<u>(264,522)</u>	<u>107,720</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,484,604</u>	<u>1,311,614</u>
Basic (loss)/earnings per share (RMB)	<u><u>(0.1782)</u></u>	<u><u>0.0821</u></u>

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. During the years ended 31 December 2019 and 2018, the Company had outstanding share options. The resulting number of shares issued for nil consideration is considered in the weighted average number of ordinary shares as the denominator for calculating diluted (loss)/earnings per share:

	<u>Year ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
(Loss)/profit attributable to owners of the Company (RMB'000)	<u>(264,522)</u>	<u>107,720</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,484,604</u>	<u>1,311,614</u>
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (thousands) (<i>Note</i>)	<u>—</u>	<u>1,557</u>
Adjusted weighted average number of ordinary shares (thousands)	<u>1,484,604</u>	<u>1,313,171</u>
Diluted (loss)/earnings per share (RMB)	<u><u>(0.1782)</u></u>	<u><u>0.0820</u></u>

Note: For the year ended 31 December 2019, the Group made a loss therefore the effect of share options was anti-dilutive and was ignored from the calculation of diluted loss per share.

9 CONTRACT ASSETS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Contract costs incurred plus recognised profit less recognised losses	1,384,546	1,325,073
Less: progress billings	(979,080)	(865,283)
Net balance sheet position for ongoing contracts	405,466	459,790
Of which are:		
Current contract assets	361,728	304,350
Non-current contract assets	43,738	155,440
	405,466	459,790

According to the amendment to the original agreement of Baoding Donghu Cultural Center Project entered into between Baoding Municipal People's Government and the Group in December 2019, contract assets in respect of income tax and certain expenses incurred in previous years as well as related profits amounting to RMB47,815,000 would not be compensated. Therefore a provision of RMB47,815,000 was made by the Group accordingly. Movement in the loss allowance of contract assets is as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Opening balance	—	—
Increase in loss allowance	47,815	—
Written off as uncollectible	(47,815)	—
Closing balance	—	—

10 FINANCIAL ASSETS AT AMORTISED COST

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
<i>Non-current debt investments</i>		
Loans to third parties	<u>13,750</u>	<u>—</u>
<i>Current debt investments</i>		
Loans to related parties	46,023	111,872
Loans to third parties	110,271	67,541
Receivable relating to investment in Shandong Hailifeng Clean Energy Joint Stock Co., Ltd. (“Hailifeng”)	<u>62,767</u>	<u>—</u>
	<u>219,061</u>	<u>179,413</u>
	<u>232,811</u>	<u>179,413</u>
Less: loss allowance	<u>(95,789)</u>	<u>(900)</u>
	<u>123,272</u>	<u>178,513</u>

Interests from loans to related parties and third parties charged at commercial rates are included in finance income. The non-current loans to third parties are due within two years from 31 December 2019.

For debt investments at amortised cost considered to have low credit risk, applying the expected credit risk model did not result in any loss allowance recognised during the year ended 31 December 2019 (2018: nil).

For debt investments at amortised cost showing a significant increase in credit risk since initial recognition, a total allowance of lifetime expected credit losses amounting to RMB95,789,000 was recognised as at 31 December 2019 (31 December 2018: RMB900,000).

Movement in the loss allowance of financial assets at amortised cost is as follows:

	Loans to related parties (a)	Loans to third parties	Receivable relating to investment in Hailifeng (b)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2018	—	—	—	—
Increase in loss allowance	—	900	—	900
As at 31 December 2018	—	900	—	900
Increase in loss allowance	2,156	77,571	15,162	94,889
As at 31 December 2019	2,156	78,471	15,162	95,789

- (a) On 6 December 2018 and 15 January 2019, Baoding Yize New Energy Technology Co., Ltd. (“Baoding Yize”), an indirect wholly-owned subsidiary of the Company, provided a loan of RMB2,000,000 and RMB50,000 to Longyao (Beijing) Clean Energy Technology Co., Ltd. (“Longyao Beijing”), an associate of the Group, with an interest rate of 9% per annum, for the period from 6 December 2018 to 5 March 2019 and from 15 January 2019 to 14 April 2019, respectively. As Longyao Beijing failed to repay the principal and interests in 2019, based on management’s impairment assessment, a total loss allowance of RMB2,156,000 was provided for the year ended 31 December 2019.
- (b) On 26 July 2018, Beijing Longguang Energy Technology Co., Ltd. (“Beijing Longguang”), an indirect wholly-owned subsidiary of the Company, acquired 40% equity interest of Hailifeng from Shengli Oilfield Lifeng Industrial Group Co., Ltd. (“Shengli Oilfield Lifeng”), an independent third party, at a consideration of RMB1 and by making capital contribution of RMB60,000,000 to Hailifeng. In accordance with the terms of the acquisition agreement, Shengli Oilfield Lifeng provided certain performance undertakings to Beijing Longguang, under which Beijing Longguang has the right to require Shengli Oilfield Lifeng to repurchase the 40% equity interest of Hailifeng if Hailifeng fails to meet the performance target for the year ended 31 December 2018 (the “put option”).

As Hailifeng failed to meet the performance target for the year ended 31 December 2018, Beijing Longguang elected to exercise the put option and entered into a repurchase agreement with Shengli Oilfield Lifeng and Hailifeng in March 2019. Shengli Oilfield Lifeng agreed to repurchase the 40% equity interest of Hailifeng at a consideration of RMB60,000,000, which should be paid before 30 June 2019.

As Shengli Oilfield Lifeng has not paid the consideration of RMB60,000,000, Beijing Longguang initiated legal proceedings against Shengli Oilfield Lifeng and Hailifeng in December 2019, and ceased to maintain significant influence over Hailifeng. Therefore this investment in associate had been reclassified at the carrying value to financial assets at amortised cost.

Based on management’s estimate of the future cash flows of Hailifeng discounted at a current lending rate, a loss allowance amounting to RMB15,162,000 was recognised for the year ended 31 December 2019.

The security of loans to third parties is as follows:

Principal amount as at 31 December 2019 RMB'000	Pledged assets	Guarantees
8,000	Borrower's assets	By the borrower's controlling shareholder and an independent third party
8,000	Equity interest in the borrower	By the borrower's parent company, controlling shareholder and his spouse
24,600	Borrower's assets and equity interest in a third-party company	By one of the shareholders of the borrower and independent third parties

As at 31 December 2019 and 2018, the Group's financial assets at amortised cost were all denominated in RMB.

Since most of the financial assets at amortised cost were short-term in nature and the interest rates were close to the market rates, the carrying amounts of current and non-current financial assets at amortised cost were not materially different from their fair values as at 31 December 2019 and 2018.

11 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables (a)	274,335	431,790
Tariff adjustment receivables (b)	64,789	45,725
	339,124	477,515
Less: loss allowance	(187,467)	(18,652)
Total trade receivables	151,657	458,863
Notes receivables	700	300
Prepayments	3,295	6,328
Other receivables	20,317	77,995
	175,969	543,486

As at 31 December 2019, the collection rights of trade receivables derived from certain solar power plants with carrying amount of RMB81,979,000 (31 December 2018: RMB62,405,000) were pledged as security for the Group's borrowings.

Ageing analysis of trade receivables in gross basis is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within 1 year	80,268	433,029
1 year to 2 years	238,801	43,740
2 years to 3 years	18,155	422
Over 3 years	1,900	324
	339,124	477,515

- (a) Trade receivables from sales of home photovoltaic systems and rendering electricity distribution service are due within 180 days from the date of billing. Trade receivables from rendering smart energy services are due within one year from the date of billing. Trade receivables from sales of electricity are due within one month from the date of billing. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and ageing. The allowance for trade receivables as at 31 December 2019 was determined as follows:

	Current	Past due			Total
	Within 6 months	Between 6 months to 1 year	Between 1 year to 2 years	Over 2 years	
<i>Individually assessed:</i>					
Gross carrying amount (RMB'000)	14,634	3,624	180,625	11,676	210,559
Loss allowance (RMB'000)	—	—	(163,863)	(11,676)	(175,539)

Due to deterioration in the operations of relevant distributors in home photovoltaic system business, credit risk of trade receivables from home photovoltaic system business has significantly increased during the year ended 31 December 2019. A total allowance for expected credit losses in trade receivables amounting to RMB175,539,000 was recognised as at 31 December 2019 (31 December 2018: RMB18,652,000).

	Current	Past due			Total
	Within 6 months	Between 6 months to 1 year	Between 1 year to 2 years	Over 2 years	
<i>Individually assessed:</i>					
Gross carrying amount (RMB'000)	—	—	4,045	—	4,045
Loss allowance (RMB'000)	—	—	(4,045)	—	(4,045)

	<u>Current</u>	<u>Past due</u>				
	Within 1 year	Between 1 year to 2 years	Between 2 years to 3 years	Between 3 years to 4 years	Over 4 years	Total
Rendering smart energy services						
<i>Individually assessed:</i>						
Gross carrying amount (RMB'000)	—	15,530	—	—	—	15,530
Loss allowance (RMB'000)	<u>—</u>	<u>(9,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(9,000)</u>
<i>Collectively assessed:</i>						
Expected loss rate	—	5%	10%	20%	50%	
Gross carrying amount (RMB'000)	27,046	3,690	320	—	—	31,056
Loss allowance (RMB'000)	<u>—</u>	<u>(185)</u>	<u>(32)</u>	<u>—</u>	<u>—</u>	<u>(217)</u>
Total loss allowance (RMB'000)						<u><u>(9,217)</u></u>

	Current	Past due					
	Within 1 month	Between 1 month to 1 year	Between 1 year to 2 years	Between 2 years to 3 years	Between 3 years to 4 years	Over 4 years	Total
Sales of electricity							
Individually assessed:							
Gross carrying amount (RMB'000)	21	590	527	671	248	393	2,450
Loss allowance (RMB'000)	<u>(21)</u>	<u>(590)</u>	<u>(527)</u>	<u>(671)</u>	<u>(248)</u>	<u>(393)</u>	<u>(2,450)</u>
Collectively assessed:							
Expected loss rate	—	—	5%	10%	20%	50%	
Gross carrying amount (RMB'000)	2,223	9,612	1,577	1,128	104	96	14,740
Loss allowance (RMB'000)	<u>—</u>	<u>—</u>	<u>(79)</u>	<u>(113)</u>	<u>(21)</u>	<u>(48)</u>	<u>(261)</u>
Total loss allowance (RMB'000)							(2,711)

- (b) As at 31 December 2019, RMB42,270,000 (2018: RMB23,795,000) of trade receivables aged over one year represented tariff adjustment receivables, derived from the subsidies in respect of sales of electricity. Applying the expected credit risk model did not result in any loss allowance recognised for tariff adjustment receivables for the year ended 31 December 2019 (2018: nil).

(c) Movement in the loss allowance of trade and other receivables is as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	18,652	3,791
Increase in loss allowance		
— Trade receivables	172,860	14,861
— Other receivables	606	—
Written off as uncollectible		
— Trade receivables	(4,045)	—
— Other receivables	(606)	—
Closing balance	<u>187,467</u>	<u>18,652</u>

(d) The Group's trade and other receivables were denominated in the following currencies:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	567	1,886
RMB	<u>175,402</u>	<u>541,600</u>
	<u>175,969</u>	<u>543,486</u>

As at 31 December 2019 and 2018, the carrying amounts of trade and other receivables approximated their fair values.

12 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	19,638	36,154
Accruals and other payables	30,546	45,926
Tax payables	—	12,961
	<u>50,184</u>	<u>95,041</u>

Ageing analysis of trade payables is as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	6,021	35,073
Over 1 year	13,617	1,081
	19,638	36,154

As at 31 December 2019 and 2018, the Group's trade and other payables were all denominated in RMB and the carrying amounts approximated their fair values.

13 DIVIDENDS

During the year ended 31 December 2019 and 2018, the Company did not declare any dividends to the shareholders of the Company.

14 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Since early 2020, the pandemic of Coronavirus Disease 2019 ("the COVID-19 outbreak") has spread across China, and it has affected business and economic activities to some extent. Up to the date on which this set of financial statements were authorised for issue, the impacts of the COVID-19 outbreak on the Group's customers' financial positions and the macro-economic conditions as a whole are still uncertain, the Group is unable to quantify the related financial effects. The Group will pay close attention to the development of the COVID-19 outbreak, perform further assessment of its impact and take relevant measures.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is principally engaged in smart energy business and public infrastructure construction business, with gradual expansion and diversification to other clean energy business. Specifically, our smart energy business primarily represents the investments in electricity, heat and gas, as well as the smart operation and management of such energy sources. Our public infrastructure construction business represents such construction for the Baoding Donghu project (the “**Baoding Donghu Project**”) and its related pre-investment and post-construction operation management business. Operating under the philosophy of “Compassion, Integrity and Creditworthiness”, the Group aims to become a leading comprehensive service provider of smart energy in China.

The world economic growth continued to slow down during 2019. Facing the complex and changing external environment, the economic of the People’s Republic of China (the “**PRC**”) strived for restructuring with stability and therefore, has been under increasing downward pressure. Having gone through the shuffle in the solar power generation industry since 2018, the entire sector developed cautiously and conservatively in 2019. Amongst all, the small and medium-sized enterprises (SMEs) in the PRC has always shared the liquidity problem as it is difficult and expensive for their financing. So as to the Group’s business partners, distributors and clients. Living with such difficulties and changing economic and industry situation, the Group adjusted its strategy by slowing down business expansion, prioritizing risk control and taking steady development, during the Reporting Period.

During the Reporting Period, the Group’s revenue amounted to RMB147,460,000 (for the same period of 2018: RMB708,493,000), while the loss attributable to owners of the Company was RMB264,522,000 (for the same period of 2018: profit attributable to owners of the Company of RMB107,720,000), representing a decrease of approximately 79.2% and 345.6%, respectively as compared to the same period of last year. The decrease in revenue and profit was primarily due to the following aspects:

- (i) As for home photovoltaic systems business, the Group, exposed to the sustained impact of national policy on the solar power industry, recorded limited development during the Reporting Period, with the resultant significant decline in revenue and profit as compared to the same period of last year. For the sake of prudence, the management made a provision of approximately RMB156,887,000 for the trade receivables from home photovoltaic system business during the Reporting Period, which resulted in a direct increase of the same amount in the Group’s loss before income tax in the Reporting Period.
- (ii) As for the public infrastructure construction business, the Group suffered slower progress in the early-stage development compared with the original plan, due to the land acquisition and planning progress of the Baoding Government. Meanwhile, in relation to public infrastructure construction projects, the Group has almost completed its development and construction for government-tendered projects, without any new untendered projects. This caused a drastic decline in investment under the Group’s Baoding Donghu Project during the Reporting Period, and much less revenue

and profit generated to the Group. Meanwhile, due to the tariff adjustment and subsequent settlement for the Baoding Donghu Project by the Baoding Government, the Group had to make provisions for contract assets in the financial statements of the Reporting Period for its income tax, certain expenses and related profits recorded in the previous years, which directly increased the Group's loss before income tax of approximately RMB47,815,000 during the Reporting Period.

- (iii) As for the Group's financial assets arising from the investment activities in the recent years, due to repayment delays and other uncertainties, the management made a provision of approximately RMB94,889,000 for financial assets at amortized cost for the sake of prudence, thereby resulting in a direct increase of the same amount in the Group's loss before income tax during the Reporting Period.

The Board is of the view that although such considerable amounts of the above provisions exerted a significant impact on the Group's performance during the Reporting Period, the Company maintained stable development of its core solar power plant and online cloud platform businesses. Currently, the public infrastructure construction business accounted for merely 34.7% of the total development, with an untapped scale of approximately 65.3% and an aggregate investment amount of approximately RMB2,070,000,000 left for the future. In the long run, the Group will embrace healthier financial position.

Business Review

Smart Energy Business

The Group's smart energy business, positioned as comprehensive energy services for the user side, mainly serves to meet the demands from customers including industrial, commercial and residential sectors as well as public institutions. The Group provides its customers with a full range of smart energy comprehensive utilization services based on various energy resources including electricity, heat and gas by leveraging on its smart energy cloud platform (the "**Cloud Platform**") with proprietary intellectual property rights, to help customers improve their energy utilization efficiency and reduce energy consumption cost, whereby building a diversified, clean and low-carbon energy supply system.

The Group works to realize the above business objectives by integrating its energy systems with internet technology. On one hand, the Group acquires premium energy assets and projects by expanding its offline business in comprehensive energy supply such as electricity, heat and gas, and generates stable operation and investment returns from operating and managing such assets. On the other hand, the Group uploads the real-time data of electricity, heat and gas consumption of its industrial and commercial enterprises and residential users to the Cloud Platform, integrates and analyzes such big data, and taps into the energy consumption potential of customers, so as to provide them with other full industrial chain services, including multi-energy complementation of electricity, heat and gas, smart operation and maintenance, energy trade, energy efficiency analysis, and consultancy management to energy finance and energy big data.

Offline Energy Business

Given the uncertainties in industry development during the Reporting Period, the Group's offline energy business mainly focused on stabilizing and improving the operation of its existing solar power plants, in tandem with prioritizing risk control as well as sorting out and optimizing the original investment structure.

In respect of the solar power business, the Group held the same 11 solar power plants with the same aggregate installed capacity of approximately 64 MW during the Reporting Period as in the corresponding period of last year. Out of the 11 plants, 10 were industrial and commercial distributed solar power plants and one was a ground power plant. In spite of their natural attenuation, the Group's solar power plants delivered a historic new high in power generation during the Reporting Period, by improving technology and enhancing operation and maintenance management. For the Reporting Period, power generation totaled approximately 80,724 MWh (for the same period of 2018: 75,044 MWh). With respect to the home photovoltaic system business, the national policy in 2018 has a continuous impact on the solar power industry. Although the country promulgated the subsidies policy on solar power business in 2019, it was announced late and officially implemented from 1 July 2019, with a substantial reduction in subsidies (from RMB0.37 per kWh to RMB0.18 per kWh, decreased by RMB0.19 per kWh) with an imposition of quota control (from the previous unlimited scale to a cap of around 3.5 GW). The quota for subsidies in the home photovoltaic industry in 2019 had been all utilised as of October 2019. In view of such a slash in subsidies and a squeezed profit margin, the Group mainly worked on digesting the inventories of its home photovoltaic system business from 2018, with limited expansion for new business during the Reporting Period.

In respect of the heating business, the Group mainly focused on the operations of the distributed gas heating projects which had already been established during the Reporting Period. Meanwhile, the Group reassessed the investment returns and risks for some of its heating projects, withdrew from the investment projects that failed to meet the performance target, and invested more in projects with better growth to ensure investment returns and control investment risks. During the Reporting Period, the Group withdrew its 40% equity interests investment in Shandong Hailifeng Clean Energy Joint Stock Co., Ltd.* (山東海利豐清潔能源股份有限公司) (“**Hailifeng**”) and invested in the 40% equity interests in Gao Bei Dian City Long Chuang Central Heating Company Limited* (高碑店市隆創集中供熱有限公司) (“**Longchuang Heating**”), a subsidiary of a connected person. In the future, subject to the actual operation and financial conditions of Longchuang Heating, the fulfillment of profit guarantee and other factors, the Group is entitled to, at any time, further increase its equity interests in Longchuang Heating to at least 51% and therefore Longchuang Heating will become a subsidiary of the Company. Longchuang Heating currently operates a centralized heat supply project in Gaobeidian City, Hebei Province, covering an aggregate area of over 6 million sq.m. It also plans to boost its heat supply capacity by another 14,700,000 sq.m. by 2031. In addition, the Group invested in and operated part of the campus hot water business during the Reporting Period, with a coverage of approximately 12,000 students.

In respect of incremental power distribution grids, the Group optimized and reconstructed its original assets and operation during the Reporting Period, in an effort to maximize the effectiveness of the assets. In July 2019, the Group established a power distribution network joint venture with two local state-owned enterprises via its subsidiary in Xinjiang, to make full use of the existing transformer station assets of the Group at Xinjiang HMAc Hefeng Industrial Park. Such a move has also provided an opportunity for the Group to engage in capacity expansion of the Industrial Park in the future.

Online Intelligent Management

We work to improve the efficiency of our energy utilisation through big data processing and intelligent management at the Cloud Platform, to ensure the reliability and stability of energy supply and attain optimized operation, less energy consumption and better user experience. All the solar power plants of the Group are connected to the Cloud Platform, which is capable of monitoring the power generation and operation of each power plant in real time, as well as analyzing and comparing with the operation of the power plants, eliminating breakdowns in a timely manner, and increasing the power generation of the power plants when necessary. The Group's distributed gas heating business enables gas module furnaces to maintain optimal combustion efficiency in various environments through intelligent management and control. Project data such as the temperature of the supply and return water collected by sensors at the equipment terminal are transmitted to the Cloud Platform through 4G modules. Operation and maintenance personnel can design equipment operation strategies based on such data and give instructions via the Cloud Platform. At the same time, with remote intelligent management and control, we can timely respond to changes in weather and working conditions, adjust operating parameters and improve energy efficiency. In terms of the campus hot water business, the Group leverages on the eco-campus IoT big data Platform, which can automatically collect energy consumption data and generate charts and energy consumption audit reports in various forms, to achieve dynamic monitoring on energy consumption, prepare the optimum operational plan for higher energy efficiency and more reliable hot water supply, and provide the best solution to energy-saving operation.

In the future, the Group will continue to strengthen its technological research and development and investment on the Cloud Platform, so as to effectively support and serve data access to and business development of the Group in respect of the segments of electricity, heat, and gas.

During the Reporting Period, the smart energy business contributed approximately RMB116,806,000 in revenue to the Group (for the same period of 2018: RMB529,258,000), representing a decrease of approximately 77.9% as compared to the same period of last year; and the loss attributable to owners of the Company was approximately RMB193,267,000 (for the same period of 2018: profit attributable to owners of the Company of RMB130,063,000), representing a decrease of approximately 248.6% as compared to the same period of last year. The decrease in revenue and profit was mainly attributable to substantially lower revenue and profit generated by the Group from its home photovoltaic system business during the Reporting Period under the impact of the national policies on solar power industry, and a considerable amount of provision made by the management for the trade receivables of the home photovoltaic system business for the sake of prudence.

Public Infrastructure Construction Business

The public infrastructure construction business represents such construction business under the Baoding Donghu Project in Baoding City, Hebei Province, and the related pre-investment and post-construction operation management business. During the Reporting Period, the public infrastructure construction business generated revenue of approximately RMB30,654,000 for the Group (for the same period of 2018: RMB179,235,000), with loss attributable to owners of the Company amounting to approximately RMB48,915,000 (for the same period of 2018: profit attributable to owners of the Company of RMB15,107,000). The decrease in revenue and profit was mainly attributable to the fact that the Group's revenue and profit fell significantly due to a major decline in investment under the Baoding Donghu Project during the Reporting Period, and that due to the settlement and tariff adjustment for the project by the Baoding Government, the Group made a provision of approximately RMB47,815,000 during the Reporting Period (for the same period of 2018: nil) for its income tax, certain expenses and related profits recorded in the previous years.

The above provision was made on a one-off basis. A wholly owned subsidiary of the Group signed a new supplementary agreement with the Baoding Government in respect of the Baoding Donghu Project in December 2019, to agree on tariff settlement and revenue recognition etc. of the project. Hence, the provision will not affect the Group's future development, investment and revenue recognition of the project. For details, please refer to the announcement issued by the Company on 16 December 2019.

Business Outlook for 2020

2020 is destined to be an unusual year. The coronavirus pandemic (the “**Pandemic**”) that spread across the world, together with other unsettling factors, has added to the woes of the already sluggish global economy. The Chinese economy has also suffered such material adverse impacts as a result, with all industries exposed to varying degrees of shock and impact.

Facing the difficulty and complexity of external economic situation, we will continue to uphold our strategy of stable operation, with enhanced meticulous management and operation management in 2020. In respect of the Group's 11 solar power plants and distributed heating business, the Group's clients mainly comprised enterprises and schools who suspended their operations due to the Pandemic. This is expected to leave a considerable impact upon the Group's revenue from power generation and heat supply in the first quarter. However, each first quarter usually sees a low electricity consumption by enterprises due to the Chinese New Year, and the distributed heating business accounted for a relatively small proportion of the Group's total revenue and profit. With the Pandemic getting under control in China, enterprises have made great efforts to resume work, which allows us to expect no material adverse impact from the Pandemic on the Group's financial performance in 2020. Meanwhile, the Group's public infrastructure construction business in Baoding Donghu has an untapped development capacity of more than RMB2 billion, with subsequent investment and development to take place successively according to the government's development plan and progress.

In the meantime, we will continue to optimize our business structure. Considering that the solar power industry in the PRC is in the transition period from subsidy withdrawal to grid parity, the industry is confronted by quite limited profit margin and huge pressure on cash flow pressure. In 2020, we will mainly focus on the operation of the existing solar power plants, and actively control the business scale of the home photovoltaic system business with low profit margins. In respect of the heating business, the nationwide implementation of energy conservation and emissions reduction policies and the increasing urbanization rate in China have created a continuous stream of huge demand for the urban centralized heating and distributed clean heating markets. Moreover, the heating business, especially the urban centralized heating business, is characteristic of less exposure to external economic conditions, strong industry stability and good cash flow. In 2020, we will further develop the heating business, particularly the urban centralized heating business, based on our experience of investment and operation management in the heating industry (including distributed heating and urban centralized heating). At the same time, we will make full use of the big data analysis and processing capabilities of the Cloud Platform, reduce the energy consumption of heating projects, and improve energy efficiency, meticulous management and asset management capabilities, in order to attain higher project returns. We will also explore investment and development in other clean energy businesses when opportunities arise.

Financial Review

Revenue and Gross Profit

The Group's revenue and gross profit for the Reporting Period amounted to RMB147,460,000 (for the same period of 2018: RMB708,493,000) and RMB78,674,000 (for the same period of 2018: RMB243,831,000), respectively. The gross profit margin was 53.4% (for the same period of 2018: 34.4%).

The significant decrease in revenue from the same period of last year was primarily attributable to the major decline in the Group's revenue and profit from the home photovoltaic system and public infrastructure construction businesses during the Reporting Period. The increase in gross profit margin from the same period of last year was primarily attributable to the changes in revenue structure, solar power plants which have higher gross profit margin and increase in the percentage of smart energy services to revenue.

Selling and Distribution Expenses

The Group incurred selling and distribution expenses of RMB1,740,000 for the Reporting Period (for the same period of 2018: RMB22,146,000), representing a decrease of 92.1% as compared to last year, which was primarily attributable to the less development of the smart energy business, especially the home photovoltaic system business.

Administrative Expenses

The Group incurred administrative expenses of RMB72,212,000 for the Reporting Period (for the same period of 2018: RMB89,234,000), representing a decrease of 19.1% as compared to last year, primarily because of the decrease in business volume during the Reporting Period which resulted in less relevant operation expenses.

Impairment Provisions for Trade Receivables of Home Photovoltaic System Business

During the Reporting Period, the Group made impairment provisions of RMB156,887,000 for the trade receivables of home photovoltaic system business (for the same period of 2018: RMB14,861,000). In this regard, the management has assessed the expected credit loss to determine the recoverable amount of trade receivables. For this purpose, the management has considered the following factors, including but not limited to (1) the negative impact of the national control policy on the solar power industry and the Group's home photovoltaic system business agents and distributors in the past two years; (2) the future development trends of the Chinese solar power industry, particularly the home photovoltaic system business; (3) the site visits and analysis on current operations, assets and liabilities and actual repayment ability of major distributors; and (4) the capabilities of the future business development of major distributors and the possible subsequent cooperation with the Group. In response to the situation of different distributors, the Company's management has continued to increase trade receivables collection through legal means, bank account supervision, and active communication with the management of the other party. Further details regarding the bad debt provisions for trade receivables are set out in note 11 to the consolidated financial statements.

Impairment Provisions for Financial Assets at Amortised Cost

During the Reporting Period, the Group made impairment provisions of RMB94,889,000 for financial assets at amortised cost arising from the previous investment process (for the same period of 2018: RMB900,000). For this purpose, the management mainly considered the delayed repayment and other uncertainties in relation to relevant financial assets at amortised cost as well as the extreme challenges from the Chinese market, and made such bad debt provisions for the sake of prudence. In response to different situations, the management of the Company resorted to legal actions, account seizure, property preservation, and active communication with the management of the other party, to recover relevant amounts and safeguard the legitimate rights and interests of the Company. Further details regarding the impairment provisions of financial assets at amortised cost are set out in note 10 to the consolidated financial statements.

Finance Expenses — Net

Net finance expenses amounted to RMB22,528,000 for the Reporting Period (for the same period of 2018: RMB9,308,000), representing an increase of 142.0% as compared to last year, primarily because the borrowing interests of RMB19,927,000 for public infrastructure construction projects was expensed.

Income Tax Credit/(Expense)

Income tax credit amounted to RMB64,454,000 for the Reporting Period (for the same period of 2018: income tax expense of RMB10,386,000), representing a decrease of 720.6% in income tax expense as compared to last year, primarily because bad debts provision was made for trade receivables and financial assets measured at amortised cost, which resulted in income tax expense offset by the deferred income tax assets recognised.

Financial Assets at Fair Value through Profit or Loss

The Group held three financial assets for investment purpose as at the end of the Reporting Period, which were stated at fair value:

- (1) The Group held shares in an unlisted investment fund company, Giga Opportunities Fund Ltd., an independent third party, at the total investment cost of HK\$90,000,000 (equivalent to RMB78,859,000). The Group had the intention of holding it as short to medium term investment redeemable upon application to the fund manager, which allowed better investment flexibility, and expected to gain profit dividend and capital appreciation from the fund. The fund was stated at fair value and amounted to HK\$80,333,000 (equivalent to RMB71,960,000) as at 31 December 2019 (as at 31 December 2018: HK\$78,586,000, equivalent to RMB68,858,000), with a fair value gain of approximately HK\$1,747,000 (equivalent to RMB1,537,000) recognised for the Reporting Period (for the same period of 2018: loss of approximately HK\$11,414,000, equivalent to approximately RMB10,001,000). The carrying amount of the fund represented approximately 3.9% (as at 31 December 2018: 3.2%) of the total assets of the Group and approximately 45.9% (as at 31 December 2018: 41.9%) of the portfolio of financial assets at fair value through profit or loss as at 31 December 2019.
- (2) The Group held shares in an unlisted investment fund, Yue Xiu Stable Income Segregated Portfolio, an independent third-party investment fund, at the investment cost of HK\$88,800,000 (equivalent to RMB77,806,000). The Group had the intention of holding it as short to medium term investment redeemable upon application to the fund manager, which allowed better investment flexibility, and expected to gain capital appreciation from the fund. The fund, stated at fair value, amounted to HK\$89,452,000 (equivalent to RMB80,130,000) as at 31 December 2019 (as at 31 December 2018: HK\$90,642,000, which was equivalent to RMB79,420,000), with a fair value loss of approximately HK\$1,190,000 (equivalent to approximately RMB1,047,000) recognized for the Reporting Period (for the same period of 2018: gain of approximately HK\$1,842,000, equivalent to approximately RMB1,614,000). The carrying amount of the fund represented approximately 4.3% (as at 31 December 2018: 3.7%) of the total assets of the Group, and approximately 51.0% (as at 31 December 2018: 48.3%) of the portfolio of financial assets at fair value through profit or loss as at 31 December 2019.

- (3) The Group held the unlisted exchangeable corporate bonds due on 31 December 2020 in the principal amount of HK\$10,000,000 (equivalent to RMB8,762,000) at a coupon rate of 13.5% per annum, issued by Supreme Trillion Development Limited, an independent third party on 11 September 2018. The Group may exercise the exchangeable rights to convert the whole or part of the exchangeable corporate bonds into the ordinary shares of Asia Interactive Content Holdings Limited, a subsidiary of Supreme Trillion Development Limited, representing approximately 8.5% or 10% (as the case may be) of its issued share capital.

During the Reporting Period, the Group requested to redeem the exchangeable corporate bonds. The remaining principal amount of the exchangeable corporate bonds was HK\$5,455,000 as at 31 December 2019 (equivalent to RMB4,887,000), with a fair value of HK\$5,485,000 (equivalent to RMB4,913,000) (as at 31 December 2018: HK\$10,000,000, equivalent to RMB8,762,000). During the Reporting Period, the exchangeable corporate bonds generated a fair value gain of approximately HK\$30,000 (equivalent to RMB26,000) (for the same period of 2018: nil). As at 31 December 2019, the book value of the exchangeable bonds accounted for approximately 0.3% of the total assets of the Group (as at 31 December 2018: 0.4%) and approximately 3.1% of the portfolio of financial assets at fair value through profit or loss (as at 31 December 2018: 5.3%).

The Group's investments primarily consist of long-term projects in the area of smart energy and public infrastructure construction, which generally take an extended period of time to generate positive cash flows. In the event of any unexpected event that has a negative impact on the business and prospects of the smart energy industry, the Group's overall business performance may be affected. In light of the above, as part of the Group's development plan and risk control, in the financial year 2018, the Board considered that the inclusion of investment in financial assets would help diversify its asset and investment portfolio and reduce the impact of any market risk on the overall business of the Group.

The strategy of the Group with respect to the investment in financial assets is not to invest in speculative securities but mainly in investments with lower risks, with the initial investments focusing on investment funds managed by qualified and licensed investment managers. Such funds invest in low-risk underlying assets with relative low price volatility, high liquidity, short to medium term and/or stable income stream.

Liquidity, Financial and Capital Resources

Cash position

As at 31 December 2019, bank balances and cash amounted to approximately RMB98,616,000 (as at 31 December 2018: RMB164,136,000), of which approximately RMB66,388,000 (as at 31 December 2018: RMB1,219,000) was restricted bank balances (mainly used for the expenses incurred by the Baoding Donghu Project). Such decrease in bank balances and cash was mainly due to the capital expenditures and financing expenses incurred by the smart energy business.

Total current assets and liquidity ratio

As at 31 December 2019, total current assets and liquidity ratio (total current assets/total current liabilities) were approximately RMB925,343,000 (as at 31 December 2018: RMB1,370,646,000) and 2.53 (as at 31 December 2018: 9.75). The decrease in total current assets came from fewer trade and other receivables, while the increase in liquidity ratio was due to a net increase of RMB265,800,000 in the balance of current bank borrowings in 2019.

External borrowings and pledge of assets

As at 31 December 2019, the Group had external borrowings of RMB534,400,000 (as at 31 December 2018: RMB567,600,000), of which RMB259,400,000 was secured by the machinery of solar power plants with a carrying amount of RMB302,146,000 and the future receivable collection right of certain subsidiaries (as at 31 December 2018: RMB282,600,000 was secured by the machinery of solar power plants with a carrying amount of RMB303,731,000 and the future receivable collection right of certain subsidiaries); and RMB275,000,000 was secured by the undertakings made by the related parties of the Group (as at 31 December 2018: RMB285,000,000).

Gearing ratio

The following table sets out the calculation of the gearing ratios of the Group as at the dates indicated:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Bank loans	534,400	567,600
Lease liabilities	15,144	—
Less: Cash and cash equivalents	(32,228)	(162,917)
Restricted cash	(66,388)	(1,219)
Net debt	450,928	403,464
Total equity	1,225,093	1,479,949
Total capital (Net debt plus total equity)	1,676,020	1,883,413
Gearing ratio (Net debt/total capital)	26.9%	21.4%

As at 31 December 2019, the gearing ratio of the Group was 26.9%, representing an increase of 5.5 percentage points as compared to 21.4% as at 31 December 2018. The increase was primarily due to the decrease in cash and cash equivalents held and the decrease in total equity.

Long-term and short-term debts accounted for 44.0% and 56.0%, respectively (as at 31 December 2018: 94.2% and 5.8%), of which the borrowings of RMB259,400,000 of solar power plants were gradually settled by the proceeds from electricity sales, and the borrowings of RMB275,000,000 for the Baoding Donghu Project will be settled by the existing monetary funds and the project capital paid by Baoding Government in 2020. Therefore, the Group was not exposed to any significant insolvency risk.

Interest rate risk

The Group's interest rate risk arises primarily from external borrowings. During the Reporting Period, the interest rates of external borrowings ranged from 5.39% to 7.00% per annum (for the same period of 2018: 5.39% to 7.00% per annum). In particular, the interests on the borrowings incurred by the Baoding Donghu Project were borne by the government, with no exposure to any interest rate risk thereon. The interest rate applicable to the borrowings for solar power plants was 10% to 15% over the same period base lending rate of the People's Bank of China. The source of risk lies in the fluctuations in China's interest rate policies. Nevertheless, the Group expects that the interest rate risk will have no material impact on the Group's consolidated profit or loss.

Exchange Risk

As the Group's principal activities are carried out in the PRC, the Group's transactions are mainly denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The Group currently does not have a policy on foreign currency risk as it had minimal transactions denominated in foreign currencies during the Reporting Period, and the impact of foreign currency risk on the Group's operation is minimal.

Investment Commitments

As at 31 December 2019, investment commitments amounted to RMB101,600,000 (as at 31 December 2018: 101,600,000), which were mainly the Group's obligations of capital contribution to its associate Longyao (Beijing) Clean Energy Technology Company Limited (隆耀(北京)清洁能源科技有限公司) (“**Longyao Beijing**”) that shall be fulfilled before 31 December 2021.

Contingent Liabilities

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

MATERIAL ACQUISITIONS, INVESTMENT AND DISPOSAL

Material Acquisitions and Investment

1. *Investment in Longchuang Heating*

On 21 May 2019, Beijing Longguang Energy Technology Co., Ltd. (“**Beijing Longguang**”), an indirect wholly-owned subsidiary of the Company, entered into a capital increase agreement (the “**Capital Increase Agreement**”) with Hebei Julin Chuanghe Cultural Communication Limited (“**Hebei Julin**”) and Longchuang Heating. Pursuant to the Capital Increase Agreement, Beijing Longguang conditionally agreed to acquire 40% equity interests in Longchuang Heating by contributing RMB245,000,000 to the capital of Longchuang Heating. Longchuang Heating mainly focuses on providing heating service in Gaobeidian City, Hebei Province, the PRC, with the first phase of its heat supply service able to provide heating service to an aggregated area of over 6,000,000 sq.m. Longchuang Heating also plans to complete the second phase of its heat supply project by the year 2031, to increase its heat supply capacity by another 14,700,000 sq.m.

Through this transaction, the Group is expected to increase its market share in the centralized heating industry in Hebei Province. The transaction was approved at the extraordinary general meeting of the Company on 26 June 2019, with the industry and commerce registration of the capital injection completed on 26 June 2019. Upon completion, Longchuang Heating became an associate of the Company. Equity accounting has been applied to recognise the share of profit or loss of Longchuang Heating.

For details, please refer to the announcements of the Company dated 21 May 2019 and 26 June 2019, and the circular of the Company dated 11 June 2019.

2. *Establishment of Joint Venture for Incremental Power Distribution Grids*

On 2 July 2019, HMAc Sifang Dianjin Energy Co., Ltd.* (和布克賽爾蒙古自治縣四方電金能源有限公司) (“**Sifang Dianjin**”), an indirect 95% owned subsidiary of the Company, entered into a joint venture agreement (the “**Joint Venture Agreement**”) with HMAc Urban Development and Investment Co., Ltd.* (和布克賽爾蒙古自治縣城市建設投資發展有限公司) (the “**First Investor**”) and HMAc Industrial Park Development and Investment Co., Ltd.* (和布克賽爾蒙古自治縣和園建設投資發展有限公司) (the “**Second Investor**”). Pursuant to the Joint Venture Agreement, the parties agreed to establish a joint venture (the “**Joint Venture**”) to principally engage in the investment, construction, operation and management of the incremental power distribution grids at Hefeng Industrial Park. The registered capital of the Joint Venture is RMB100,000,000, and is contributed as to 79%, 20% and 1% by Sifang Dianjin, the First Investor and the Second Investor, respectively. The Joint Venture was established on 12 July 2019. After its establishment, the Joint Venture became a subsidiary of the Group and its financial results have been consolidated into the financial statements of the Group.

The establishment of the Joint Venture is expected to leverage on the strength and resources of the parties, enable the Group to utilize the capacity of its existing transformer station at HMAF Hefeng Industrial Park, and provide the Group with the opportunity to participate in the capacity expansion at the industrial park in the future. This, in turn, is expected to ensure a stable income stream for the Group as well as provide it with necessary experience in the operation and management of incremental power distribution grids.

For details, please refer to the announcement of the Company dated 2 July 2019.

Save as disclosed above, the Group had no other material acquisition and investment during the Reporting Period.

Material Disposal

As Hailifeng failed to meet the performance target for the year ended 31 December 2018, Beijing Longguang elected to exercise a put option (the “**Put Option**”). Beijing Longguang, Shengli Oilfield Lifeng Industrial Group Co., Ltd.* (“**Shengli Oilfield Lifeng**”) and Hailifeng entered into a repurchase agreement (the “**Repurchase Agreement**”) on 29 March 2019. Pursuant to the Repurchase Agreement, Shengli Oilfield Lifeng agreed to purchase 40% equity interests in Hailifeng held by Beijing Longguang for a consideration of RMB60,000,001. In addition, Beijing Longguang is entitled to an aggregate amount of distributable profit and Put Option of Hailifeng of RMB16,000,000 for the year 2018. During the Reporting Period, Hailifeng paid to Beijing Longguang the above-mentioned RMB16,000,000 in accordance to the Repurchase Agreement, with the remaining consideration of RMB60,000,001 (the “**Consideration**”) and investment gain of RMB2,767,000 for the first half of 2019 yet to be paid by Shengli Oilfield Lifeng and Hailifeng. Although the Group has been actively taking various measures to negotiate with Shengli Oilfield Lifeng and Hailifeng, no repayment arrangement has been reached so far. In order to protect the interests of the Group, Beijing Longguang initiated legal proceedings at Beijing Second Intermediate People’s Court in December 2019, accusing that, among others, (i) Shengli Oilfield Lifeng shall pay the Consideration plus the related default payment and legal fees; and (ii) Hailifeng shall bear the incidental liability for the above-mentioned payment obligation of Shengli Oilfield Lifeng. Meanwhile, Beijing Longguang has applied for, and the court has completed, the preservation measures for the relevant properties of Shengli Oilfield Lifeng and Hailifeng.

For details, please refer to the announcements of the Company dated 26 July 2018, 29 March 2019, and 13 December 2019.

Given the uncertainty over the recovery of the Consideration, after taking into account the operating conditions and cash flows of Hailifeng, the management made a provision of approximately RMB15,162,000 for the Consideration and receivable investment gain during the Reporting Period for the sake of prudence.

Save as disclosed above, the Group had no other material disposal during the Reporting Period.

USE OF PROCEEDS

Rights Issue in March 2018

On 25 January 2018, the Company conducted a rights issue on the basis of one rights share for every two shares held on the record date, by issuing 459,474,000 rights shares at the subscription price of HK\$1.20 per rights share. The par value of rights shares was HK\$0.01 each. The theoretical ex-rights price calculated based on the closing price of HK\$2.05 per share as quoted on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on the last trading day, being 25 January 2018, was approximately HK\$1.77 per share. The issuance of rights shares financed the requirements of the Group’s development, offered all the qualified shareholders an equal opportunity to subscribe for their pro-rata provisional allotment of the rights shares without diluting their respective shareholding, and provided them with an opportunity to participate in the future development of the Group.

The Company completed the rights issue on the basis of one rights share for every two shares by placing and issuing an aggregate of 459,474,000 shares on 22 March 2018. The gross proceeds from the rights issue were approximately HK\$551 million, with the net proceeds of approximately HK\$549 million and the net price per rights share of approximately HK\$1.19.

The planned uses of the net proceeds from the rights issue were as follows: (a) approximately HK\$384 million, being 70% of the net proceeds, for the development of smart energy and solar power business; and (b) approximately HK\$165 million, being 30% of the net proceeds, as general working capital of the Group.

The analysis of the planned and actual uses of the net proceeds from the rights issue as at 31 December 2019 is set out below:

	Intended use of proceeds HK\$'000	Balance as at 31 December 2018 HK\$'000	Amount actually utilized during the Reporting Period HK\$'000	Balance as at 31 December 2019 HK\$'000
70% used for developing smart energy and solar power business	384,000	37,000	(37,000)	—
30% used as general working capital	<u>165,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>549,000</u>	<u>37,000</u>	<u>(37,000)</u>	<u>—</u>

EMPLOYEES AND REMUNERATION POLICIES

The Group had 85 employees as at 31 December 2019 (31 December 2018: 170 employees). The decrease in the number of employees was primarily due to the contraction of the Group's smart energy business, especially the home photovoltaic system business. Employees were remunerated according to the nature of their positions, individual qualification, performance, work experience and market trends, and subject to periodic reviews based on their performance. Meanwhile, to attract and retain high-caliber employees to ensure smooth operation and cater for the Group's constant expansion, the Group offers competitive remuneration and benefit packages to employees at different levels, including discretionary bonuses, various training programmes, sponsorship for further study and share option schemes for the benefit of the directors and eligible employees of the Group.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

With smart energy and public infrastructure construction business as its principal business, the Group is committed to protecting the environment and mitigating the impact of its operations on the environment. During the Reporting Period, the Group complied with the requirements of the relevant laws and regulations that have a significant impact on the Group's operations.

In the course of developing its smart energy and public infrastructure construction businesses, the Group should mainly comply with the requirements and restrictions under the following environmental laws and regulations, namely, the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》) and the Regulations on the Administration of Environmental Protection of Construction Projects (《建設項目環境保護管理條例》). The Group has paid consistent attention to complying with the laws and regulations on environmental protection. During the Reporting Period, the Group complied with the relevant laws and regulations on environmental protection that have a material impact on the Group.

We also recognize the importance of maintaining mutually beneficial relationships with stakeholders, including our employees, customers, suppliers and local communities. Their support is vital to the Group's sustainable development. We pay close attention to the needs of all our stakeholders, offer solutions to addressing their needs and continuously interact with them in ways that are conducive to the sustainable growth of the Company, the industry and the community. For details of the Group's environmental, social and governance report for 2019, please refer to the "Environmental, Social and Governance Report" of the Company which is expected be issued before the end of May 2020.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group operates its businesses mainly in Mainland China. The development and operation of the Group's smart energy and public infrastructure construction businesses in the PRC are mainly regulated by the local laws and regulations on renewable energy, electricity supply and construction projects, as well as various policies and industry guidelines issued by such local governments. There was no incident of non-compliance with the relevant laws and regulations that had or would have a significant impact on the Company during the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company had complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) during the Reporting Period, except for the following deviation:

Mr. Wei Qiang, an executive Director, is both the chief executive officer and the chairman of the Board. Mr. Yuen Chi Ping, an executive Director, is both the vice-chairman of the Board and co-chief executive officer. According to Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board is of the opinion that, with the Company now being at a stage of rapid development, the current structure could improve the Company's effectiveness and efficiency in reaching its business goals. The Board also believes that this arrangement will not be detrimental to the balance of power and authority between the chairman and the chief executive officer, while a higher ratio of non-executive Directors (including independent non-executive Directors) will enable the Board to make unbiased judgments more effectively.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiries, all of the Directors who held their office during the Reporting Period have confirmed that they had complied with the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

FINAL DIVIDENDS

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

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”), comprising the three independent non-executive Directors, has reviewed the Group’s consolidated financial statements for the year ended 31 December 2019 together with the management of the Company.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The financial figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, Certified Public Accountants, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2019 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.longitech.hk), and the 2019 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
LongiTech Smart Energy Holding Limited
Wei Qiang
Chairman

Hebei, 30 March 2020

As at the date of this announcement, the executive Directors are Mr. Wei Qiang, Mr. Yuen Chi Ping and Dr. Liu Zhengang, the non-executive Director is Mr. Wei Shaojun and the independent non-executive Directors are Dr. Han Qinchun, Mr. Wong Yik Chung, John and Mr. Han Xiaoping.

* *For identification purpose only.*