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

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 695

# ANNUAL REPORT 2020

# CONTENTS

# DEFINITIONS

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

| | |
|---|---|
| Articles of Association | the Memorandum and Articles of Association of the Company |
| associated corporation(s) | has the same meaning ascribed to it under the SFO |
| associate(s) | has the same meaning ascribed to it under the Listing Rules |
| Audit Committee | the audit committee of the Company |
| Board | the board of Directors of the Company |
| Company | Dongwu Cement International Limited |
| controlling shareholder(s) | has the same meaning ascribed to it under the Listing Rules |
| Corporate Governance Code | the Corporate Governance Code contained in Appendix 14 to the Listing Rules |
| Director(s) | the director(s) of the Company |
| Goldview | Goldview Development Limited, a controlling shareholder and an associated corporation of the Company, wholly-owned by Mr. Tseung Hok Ming, a non-executive Director |
| Group | the Company and its subsidiaries |
| HK$ | Hong Kong dollars, the lawful currency of Hong Kong |
| independent third party(ies) | has the same meaning ascribed to it under the Listing Rules |
| Latest Practicable Date | 25 March 2021 |
| Listing Rules | the Rules Governing the Listing of Securities on the Stock Exchange |
| Model Code | the Model Code for Securities Transactions by Directors of Listed Issuers contained in appendix 10 to the Listing Rules |
| PRC or China | The People's Republic of China, which only for the purpose of this report, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| Reporting Period | the twelve months ended 31 December 2020 |

# DEFINITIONS

| | |
|---|---|
| Suzhou Dongwu | Suzhou Dongwu Cement Co., Ltd. *(蘇州東吳水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company |
| Orient Everhealth | Orient Everhealth Biomedical Company Limited*(東方恒康生命科學有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company |
| Suzhou Everhealth | Suzhou Everhealth Biomedical Company Limited*(蘇州恆康生命科學有限公司), a company established in the PRC with limited liability and an indirectly non-wholly owned subsidiary of the Company |
| RMB or Renminbi | Renminbi, the lawful currency of the PRC |
| SFO | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| Shanghai Xihua | Xihua Shanghai Investment Management Co., Ltd.*(熙華(上海)投資管理有限公司), a company incorporated in the PRC with limited liability, being a wholly-owned subsidiary of the Company |
| Orient Hengxin | Orient Hengxin Capital Holdings Limited, a company established in the PRC with limited liability, being directly controlled by Mr. Tseung Hok Ming, a non-executive Director |
| Shares | shares of the Company in issue, all of which are listed on the Stock Exchange |
| Shareholder(s) | holder(s) of Shares |
| Stock Exchange | The Stock Exchange of Hong Kong Limited |
| Substantial Shareholder(s) | has the same meaning ascribed to it under the Listing Rules |
| % | per cent |

# CORPORATE INFORMATION

## Board of Directors

### *Executive Directors*

Mr. Liu Dong *(Chairman)*
Mr. Wu Junxian (appointed on 28 May 2020)
Mr. Ling Chao (completed tenure on 28 May 2020)
Mr. Wang Jun (completed tenure on 28 May 2020)
Mr. Chan Ka Wing (completed tenure on 28 May 2020)

### *Non-executive Director*

Mr. Tseung Hok Ming
Ms. Xie Yingxia
(re-designated from executive Director to non-executive Director on 3 July 2020)
Mr. Chen Xuanlin (appointed on 27 October 2020)

### *Independent non-executive Directors*

Mr. Cao Guoqi (resigned on 27 October 2020)
Mr. Cao Kuangyu
Mr. Lee Ho Yiu Thomas (resigned on 10 January 2020)
Ms. Yu Xiaoying (appointed on 19 February 2020)
Mr. Suo Suo (appointed on 27 October 2020)

## Company Secretary

Sun Xin

## Auditor

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

## Authorized Representatives

Liu Dong
Sun Xin

## Audit Committee

Yu Xiaoying *(Chairlady)*
Cao Kuangyu
Suo Suo

## Remuneration Committee

Suo Suo *(Chairman)*
Cao Kuangyu
Yu Xiaoying

## Nomination Committee

Suo Suo *(Chairman)*
Cao Kuangyu
Yu Xiaoying

## Stock Code

695

## Registered Office

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

## Principal Place of Business in the PRC

Lili Town, Wujiang District
Suzhou City, Jiangsu Province, the PRC

## Principal Place of Business in Hong Kong

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

## Share Registrar

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

## Hong Kong Legal Advisor

Li & Partners
22nd Floor, World-Wide House
Central, Hong Kong

## Contacts Details

Tel: (852) 2520 0978
Fax: (852) 2520 0696
Email: admin@dongwucement.com

## Company Website

http://www.dongwucement.com

# FINANCIAL HIGHLIGHTS

**Consolidated statement of profit or loss and other comprehensive income**

*(expressed in RMB'000, unless otherwise stated)*

| | 2020 | 2019 (Re-presented) |
|---|---|---|
| Revenue | **460,970** | 571,150 |
| Profit for the year | **50,236** | 60,702 |
| Profit before income tax expense | **79,250** | 118,366 |
| Profit for the year attributable to owners of the Company | **50,262** | 66,669 |
| Basic and diluted earnings per share (expressed in RMB per share) | **0.091** | 0.121 |

**Consolidated statement of financial position**

*(expressed in RMB'000)*

| | 2020 | 2019 |
|---|---|---|
| Non-current assets | **236,598** | 309,692 |
| Current assets | **571,107** | 494,221 |
| Total assets | **807,705** | 803,913 |
| Total equity | **531,910** | 526,529 |
| Non-current liabilities | **34,322** | 26,559 |
| Current liabilities | **241,473** | 250,825 |
| Total liabilities | **275,795** | 277,384 |
| Total equity and liabilities | **807,705** | 803,913 |

**Consolidated statement of cash flows**

*(expressed in RMB'000)*

| | 2020 | 2019 |
|---|---|---|
| Net cash generated from operating activities | **131,807** | 231,956 |
| Net cash used in investing activities | **(108,884)** | (116,280) |
| Net cash used in financing activities | **(11,757)** | (69,553) |
| Net increase in cash and cash equivalents | **11,166** | 46,123 |

# FINANCIAL HIGHLIGHTS

## Financial Highlights in Previous Years

### *Results*

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | **460,970** | 571,150 | 519,403 | 357,563 | 255,914 |
| Cost of sales | **(359,913)** | (432,826) | (378,662) | (289,475) | (231,164) |
| Gross profit | **101,057** | 138,324 | 137,375 | 68,088 | 24,750 |
| Profit for the year | **50,236** | 60,702 | 71,931 | 46,366 | 8,632 |
| Profit before income tax expense | **79,250** | 118,366 | 131,203 | 43,484 | 5,657 |
| Income tax expense | **(29,101)** | (41,836) | (41,533) | (18,388) | (1,442) |
| Profit for the year attributable to owners of the Company | **50,262** | 66,669 | 90,334 | 25,899 | 2,564 |

### *Assets and liabilities*

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets | **807,705** | 803,913 | 709,065 | 597,700 | 507,890 |
| Total liabilities | **275,795** | 277,384 | 211,649 | 184,572 | 119,858 |
| Total equity | **531,910** | 526,529 | 497,416 | 413,128 | 388,032 |

# BUSINESS REVIEW

In 2020, the sudden outbreak of COVID-19 pandemic was a major global systematic crisis, which brought unprecedented challenges to various areas including economy, society, and culture. The Chinese government responded appropriately with prompt prevention and control measures and quickly brought the pandemic under control. Thanks to this, the cement industry revived. The Group proactively adjusted its operation strategies and enhanced internal management to diversify revenue sources and reduce expenditure, control production and operation cost while maintaining product quality as well as expanding sales channels.

During the Reporting Period, the Group strengthened the management in the procurement of raw and auxiliary materials, the consumption of each item and manufacturing equipments and techniques and strictly controlled the production cost. In 2020, the output of cement clinker amounted to approximately 771,300 tonnes, and the output of cement amounted to approximately 1,297,900 tonnes, among which, approximately 441,800 tonnes were grade 32.5R cement and approximately 856,100 tonnes were grade 42.5R cement. The annual production costs for grade 32.5R cement, grade 42.5R cement and cement clinker increased to some extent as compared to 2019. The supply of raw and auxiliary materials for production and the equipment operation maintained sound functions, and the production safety performed well throughout the year. Thus, the qualified rate of outgoing cement reached 100% throughout the year.

During the Reporting Period, the sales of cement market gradually picked up. During the year, the Group recorded product sales volume of approximately 1,290,500 tonnes, among which, approximately 439,200 tonnes were grade 32.5R cement and approximately 851,300 tonnes were grade 42.5R cement. As our principal business, income of cement segment amounted to approximately RMB460,970,000. Both the sales volume and income showed a decrease as compared to last year, which was mainly due to the suspension of production and operation and lockdown measures across the nation in respond to the pandemic until the gradual resumption under the orderly guidance of government, and the lagged recovery of prices and sales during the plum rain season.

The Group continued to build up its brand advantages with DONGWU cement as its featured brand. Since the establishment of the Group, the brand concept was determined as constantly pursuing high quality product and high level service. Currently, we are well recognized in areas of municipal traffic and construction market and have set a sound brand image of DONGWU cement. We will consolidate DONGWU cement's brand image in this region to build a regional strong brand and accumulate the Group's brand advantages.

The Group continued to promote technology innovation and technological reform, improve production efficiency and reduce production cost and enhance overall competitiveness of the Group in the market. Our technical transformation over the past three years has made great progress, which included the following key projects: (1) the technical transformation of limestone shed closure project; (2) the technical transformation of the wharf crane; (3) the launch of project on disposal of solid waste by use of cement kiln; (4) the technical transformation on reducing nitrogen oxide emissions from cement kilns, implementing ultra-low emissions; (5) the technical transformation on energy saving and production improvement of raw material mills, greatly reducing production costs; (6) the technical transformation on energy saving and production improvement of coal mills. The Group has been paying attention to the development and application of new technologies and new manufacturing processes in the industry, and introduces them into the actual production in due course, so as to improve the quality and efficiency of production and lower production costs. This is gradually becoming another competitive edge to the Group.

# BUSINESS REVIEW

During 2020, the Board has discussed the business plan of the Group and formulated its business strategies for the coming years. It considered that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify and broaden its revenue source by investing in businesses with growth potential.

Despite the fact that the steady performance of the existing cement business of the Company can generate reliable revenue and cash flows to the Group, the Board considers the future growth potential of the existing cement business may be limited by overcapacity in the industry and geographical expansion limitation. In addition, given the nature of cement production, the development of the existing cement business has been hindered by the tightening of environmental protection policies in the PRC. For example, the "Overall Plan for the Yangtze River Delta Eco-Green Integrated Development Demonstration Zone"(《長三角生態綠色一體化發展示範區總體方案》)(hereinafter referred to as the "**Plan**") issued by the National Development and Reform Commission of the PRC sets out that by 2025, certain areas in the Yangtze River Delta will be transformed into cultural and ecological lake areas with an aim to strengthen the comprehensive management of the ecological environment. Suzhou Dongwu, a wholly-owned subsidiary of the Group, is located on the Taipu Riverside in Lili Town, Wujiang mentioned under the Plan. It is principally engaged in the production and sale of cement. Because of Suzhou Dongwu's production characteristics, the Group may have to further invest in its production facilities to upgrade and transform existing machines and equipment to meet the tightening environmental requirements. As such, to a certain extent, the creation of cultural and ecological lake areas has limited Suzhou Dongwu's ability to expand its scale of cement production.

Given that the PRC has promulgated policies to support and encourage biopharmaceutical research and development from various aspects, and there is an emerging market for oncology and autoimmune medicines in the PRC, thus the Group acquired Orient Everhealth in 2020. Orient Everhealth holds 65% issued share capital in Suzhou Everhealth, which is principally engaged in the research and development and commercialization of innovative medicines and therapy technology for cancers and autoimmune diseases. The said acquisition was completed on 31 December 2020 and Orient Everhealth has become a wholly-owned subsidiary of the Company. The acquisition provides the Group with an opportunity to expand into comprehensive healthcare and biopharmaceutical sectors, which can be seen as a way to diversify the Group's business and enhance Shareholder value.

The Group is committed to exploring new business opportunities and intends to acquire quality businesses and assets with good prospects for the Group's future development. The Board is positively exploring investment opportunities in emerging industries, especially in the biopharmaceutical sector; and makes attempts to enhance operating efficiency through capital operation and improve overall competitiveness.

# CHAIRMAN'S STATEMENT

On behalf of the Board of Dongwu Cement International Limited and its subsidiaries, I would like to present to the Shareholders the report of the Group for the year ended 31 December 2020, together with audited consolidated financial statements.

## Financial Results

In 2020, as for the cement segment of the Group, the sales volume amounted to approximately 1,290.5 thousand tonnes, representing a decrease of approximately 16.0% from 2019; the revenue amounted to approximately RMB460,970,000, representing a decrease of approximately 19.3% from 2019; the gross profit margin amounted to approximately 21.9%, representing a decrease of approximately 2.3% from 2019. Details are set out in the section headed Management Discussion and Analysis. For the year ended 31 December 2020, profit attributable to the Shareholders and the basic earnings per share were approximately RMB50,262,000 and RMB0.091, respectively.

## Dividends

The Board does not recommend payment of any final dividend for the year ended 31 December 2020.

## Business Operation in 2020

In 2020, the sudden outbreak of COVID-19 pandemic was a major global systematic crisis, which brought unprecedented challenges to various areas including economy, society, and culture. The Chinese government responded appropriately with prompt timely prevention and control measures and quickly brought the pandemic under control. During the Reporting Period, the sales of cement market gradually picked up in the second half of the year. However, due to the suspension of production and operation and lockdown measures across the nation in respond to the pandemic during the plum rain season in the first half of the year and the lagged recovery of prices and sales, both the sales volume and income showed a significant decrease as compared to last year.

The Group has entered into a sale and purchase agreement with an independent third party on 16 December 2019 to dispose its entire equity interests in Shanghai Biofit (representing approximately 62.26% of equity interests of Shanghai Biofit) at the aggregate consideration of RMB22 million. For details of the above transaction, please refer to the announcement of the Company dated 16 December 2019. The above transaction has been completed. The operation of Shanghai Biofit ceased to be consolidated into the consolidated financial statements of the Group any more.

# CHAIRMAN'S STATEMENT

The Company has been actively exploring investment opportunities in emerging industries and intends to enhance operating efficiency and improve overall competitiveness via capital operation. Given the nature of cement production, the development of the existing cement business has been hindered by the tightening of environmental protection policies in the PRC. In addition, considering that the PRC has promulgated policies to support and encourage biopharmaceutical research and development from various aspects and there is an emerging market for oncology and autoimmune medicines in the PRC, the Group completed the acquisition of Orient Everhealth, which held 65% issued share capital of Suzhou Everhealth in 2020. Suzhou Everhealth is principally engaged in the research and development and commercialization of innovative medicines and therapy technology for cancers and autoimmune diseases, and has a strong research team which has the relevant technical expertise and deep experience in the research and development of cell therapy and antibody medicines. The CAR-T-cell therapy, a major pre-clinical research project being conducted by Suzhou Everhealth, demonstrates specific advantages over conventional therapies and has an expanding global CAR-T market. Therefore, the Board believes that the acquisition provided the Group with an opportunity to expand into comprehensive healthcare and biopharmaceutical sectors, which can be seen as a way to diversify the Group's business and enhance Shareholder value.

## Future Prospect

In 2021, under the guidance of long-term development strategy, the Group will continue to enhance current manufacturing facility reform, proactively promote disposal of municipal sewage sludge and domestic waste and cement kiln unanimously, expedite the transformation towards environmental preservation-oriented cement manufacturing entity, and improve the comprehensive competitiveness and market position, to ensure the Group becoming a leading cement manufacturing company within the region while focusing on local market. Meanwhile, the Group will also look into further developments in the emerging sector, especially in the biomedical sector, with an aim to diversify the business of the Group.

## Appreciation

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

In the new fiscal year, we will strive to move forward together, and believe that we will achieve better results in 2021. Thank you!

**Liu Dong**
*Chairman*

25 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## Industry Overview

### *Cement Segment*

In 2020, despite the severe and complicated environment at home and abroad, especially the severe impact by the COVID-19 pandemic, economic and social development was better than expected, and the gross domestic product for the year amounted to RMB101,598.6 billion in China, representing a growth of 2.3% over the corresponding period of last year (2019: 6.1%). According to the statistics released by National Bureau of Statistics (NBS) on January 18, 2020, the fixed asset investment in China (excluding rural households) in 2020 reached RMB51,890.7 billion, representing a year-on-year growth of 2.9%. The domestic real estate development and investment reached RMB14,144.3 billion, representing a year-on-year growth of 7.0% (Source: NBS). According to the NBS, the accumulated domestic cement output in 2020 amounted to 2.377 billion tonnes, representing a year-on-year increase of 1.63%, while the accumulated domestic clinker output was 1.579 billion tonnes, increased by 3.88% year on year. In respect of the cement and clinker output among China's 6 major regions, the northeast region and the north China region ranked first and second in terms of year-on-year increase, being 11.22% and 8.66% respectively. The east China to which the Group belongs, rose only by 1.05% year on year. In terms of provincial level, Guangdong Province ranked first with a total cement output of 170 million tonnes, surpassing Jiangsu and ranking second. In terms of growth rate, 9 provinces declined and 22 provinces grew. Apart from regions that enjoy small output and rely on input, such as Tianjin, Beijing and Shanghai, Hubei recorded the largest decline, a double-digit drop, namely 12.77%. The declines of Qinghai and Hainan were also in the top-ranking. Liaoning, Hebei and Henan ranked top three in terms of output growth, recording double-digit growth. It can be seen that the market demand is still obviously differentiated in different regions. According to the statistics of Digital Cement of China Cement Association, the domestic PO42.5 cement price index in 2020 was RMB439 per tonne, which remained unchanged from 2019. Taking into account of the trend of whole year, it has roughly gone through the following two stages, showing a V-shaped trend:

The first stage (January-August): The cement market price showed a trend of "starting high but ended low, while the overall price staying at a high level and recording great declines in certain times", represented by some regions like east China, declining from RMB545 per tonne in January to RMB425 per tonne in July.

The second stage (September-December): The overall trend was characterized by "month-on-month increase and year-on-year decrease". The domestic cement market price rose from RMB418 per tonne in August to RMB455 per tonne in December, an increase of RMB37. The main reason is that the demand for cement increased in the fourth quarter, supporting the month-on-month pickup of cement price (Source: Digital Cement).

From the regional perspective, the east China region in which the Group locates recorded the average annual price of RMB484 per tonne in 2020, a slight decrease of 0.3% compared to 2019. The price is slightly lower than that of the central and southern China region. The central and southern China ranked first among the six major regions in terms of price and growth, recording an average annual price of RMB488 per tonne in 2020, an increase of 14.7% over 2019. The northwest China region enjoyed the largest price growth, recording an average annual price of RMB434 per tonne in 2020, up by 8.3% compared with 2019. The southwest China region bore the largest decline, down by 8% from 2019. The northeast China region bore the second largest decline, namely 5% (Source: Digital Cement).

The overall performance of 2020 benefited from the stable demand in the fourth quarter and the price rebound in the cement industry. According to the interim result, the Group recorded revenue of approximately RMB174,805,000, representing a decrease of approximately 30.6% compared with the same period in 2019. Revenue of 2020 reached RMB460,970,000, representing a decrease of approximately RMB110,180,000 or 19.3% compared with that of approximately RMB571,150,000 for the year ended 31 December 2019. The decrease of revenue was narrowed by 11.3%.

### *Environmental Protection Segment*

The Group entered into a sale and purchase agreement with an independent third party on 16 December 2019 to dispose its entire equity interests in Shanghai Biofit (representing approximately 62.26% of equity interests) at the aggregate consideration of RMB22 million. For details of the above transaction, please refer to the announcement of the Company dated 16 December 2019. The above transaction has been completed. The results of Shanghai Biofit was no longer incorporated into the consolidated statements of the Group.

### *Money Lending and Financial Services Segment*

Given that the Group is expanding into the fields of environmental protection and biomedicine, the Group will close the money lending and financial services segment. Since its establishment, the money lending and financial service segment business has not yet started to operate.

### *Biomedical Segment*

According to an industry report issued by a global consulting firm in 2020, the oncology medicine market in the PRC has grown rapidly in recent years and is expectedly to keep growing in the future. The total sales of oncology medicines in the PRC increased from approximately RMB110.2 billion in 2015 to approximately RMB182.7 billion in 2019. One of the key growth drivers is the large and increasing patient base in the PRC. The large cancer patient base in the PRC keeps growing due to changes in people's lifestyle and diet as well as the growing aging population, which not only generates substantial market demand for cancer treatments but also provides a favourable clinical trial environment for the rapid development of new therapeutics. The number of cancer cases in the PRC has been increasing steadily in the past five years, from approximately 4 million cases in 2015 to approximately 4.4 million cases in 2019.

In addition, the market size and market share of medicine for autoimmune diseases in the PRC is also expected to keep consistent growth in the next decade according to an industry report issued by a global consulting firm in 2020. The growth is mainly driven by a combination of factors, including the development and improvement of diagnostics for autoimmune disease, favorable government programs and policies, increasing affordability of the citizens and growing public awareness of autoimmune diseases in the PRC.

The PRC has promulgated policies to support and encourage biopharmaceutical research and development from various aspects, such as the Opinions on Deepening the Review & Approval System Reform and Encouraging the medicine and Medical Device Innovation（《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》）issued in October 2017. In July 2018, the NMPA released the Announcement on Adjusting Review and Approval Procedures for Clinical Trials of Medicines （《國家藥品監督管理局關於調整藥物臨床試驗審評審批程序的公告》）, which states that when a new medicine clinical trial is applied in the PRC and with no negative or questionable comments received within a certain time frame, the clinical trial may be conducted in accordance with the submitted proposal. It is expected to encourage biopharmaceutical research and development by reforming the management of clinical trials and speeding up the review and approval process.

As disclosed in the interim report of the Company for the six months ended 30 June 2020, the Company is actively exploring investment opportunities in emerging industries and making attempts in capital operation to enhance operating efficiency and improve overall competitiveness. The Group is committed to exploring new business opportunities and intends to acquire quality businesses and assets with good prospects for the Group's future development. The desire to diversify the Group's business is intended to enable the Group to achieve greater returns in the long term.

Against this background, the Group has acquired the entire issued share capital of Orient Everhealth during the Reporting Period. Orient Everhealth holds 65% issued share capital in Suzhou Everhealth, which is principally engaged in the research and development of innovative medicines and therapy for cancers and autoimmune diseases, and their commercialisation. The above acquisition was completed on 31 December 2020 and Orient Everhealth has become a wholly-owned subsidiary of the Company. For details of the acquisition, please refer to the announcement dated 6 November 2020 and the circular dated 15 December 2020 of the Company. The acquisition provides the Group with an opportunity to expand into comprehensive healthcare and biopharmaceutical sectors, which would diversify the Group's business and enhance shareholders' value.

# MANAGEMENT DISCUSSION AND ANALYSIS

***Business Review***

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

***Revenue***

During the Reporting Period, the Group's revenue arised from the cement segment amounted to approximately RMB460,970,000, representing a decrease of approximately RMB110,180,000 or 19% from approximately RMB571,150,000 in the corresponding period in 2019. The decrease was mainly due to 2 factors: 1.) the outbreak of COVID-19 during the Reporting Period, which affected the resumption of work and production of enterprises, thus resulting in the effect on cement sales volume and sales amount; 2.) the plum rain season, continuous rainy weather seriously interfered with regional market demand.

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

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Sales Volume** | **Average Selling Price** | **Revenue** | Sales Volume | Average Selling Price | Revenue |
| | ***Thousand tonnes*** | ***RMB/tonne*** | ***RMB'000*** | *Thousand tonnes* | *RMB/tonne* | *RMB'000* |
| PO 42.5 Cement | **851.3** | **375.63** | **319,780** | 884.1 | 405.65 | 358,633 |
| PC 32.5 Cement | **439.2** | **317.80** | **139,581** | 652.5 | 322.62 | 210,511 |

Categorized by product type, the sales volume of cement products in 2020 amounted to approximately 1,290.5 thousand tonnes, representing a decrease of approximately 16.02% from 2019, while the sales income of cement products was approximately RMB459,361,000, representing a decrease of approximately 19.29% from 2019.

The rental income from cement kilns in 2020 amounted to approximately RMB1,609,000, representing a decrease of approximately RMB397,000 or 19.29% from approximately RMB2,006,000 in 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Revenue** | **% of total revenue** | Revenue | % of total revenue |
| | ***RMB'000*** | | *RMB'000* | |
| **Jiangsu Province** | **371,128** | **80.79%** | 461,140 | 81.02% |
| Wujiang District | **321,099** | **69.90%** | 344,617 | 60.55% |
| Suzhou (excluding Wujiang District) | **50,029** | **10.89%** | 116,523 | 20.47% |
| **Zhejiang Province** | **81,266** | **17.69%** | 80,286 | 14.11% |
| Southern Zhejiang Province (Taizhou, Zhoushan and Ningbo) | **44,155** | **9.61%** | 42,286 | 7.43% |
| Jiaxing | **37,111** | **8.08%** | 38,000 | 6.68% |
| **Shanghai** | **6,967** | **1.52%** | 27,718 | 4.87% |
| **Total** | **459,361** | **100.00%** | 569,144 | 100.00% |

During the Reporting Period, due to the impact of COVID-19 pandemic and plum rain season, the sales income and volume of cement products of the Group decreased as compared to the corresponding period of last year. The sales value in substantially all regions recorded different extents of decrease as compared to the corresponding period of last year.

### *Gross Profit and Gross Profit Margin*

During the Reporting Period, the gross profit, all generated from cement segment amounted to approximately RMB101,057,000, representing a decrease of approximately RMB37,267,000 or approximately 26.9% as compared to approximately RMB138,324,000 in 2019, while the gross profit margin amounted to approximately 21.9% in 2020, representing a decrease of approximately 2.3% as compared to approximately 24.2% in 2019. The decrease was mainly due to the year-on-year decrease in production and sales volume during the Reporting Period, and fixed costs remained unchanged, resulting in a decrease in gross profit margin.

### *Other Income and Other Gain*

The Group's other income and other gain amounted to approximately RMB9,099,000 during the Reporting Period, representing a decrease of approximately RMB3,321,000 or approximately 26.7% as compared to approximately RMB12,420,000 in 2019, which is mainly due to a decrease in investment returns obtained in 2020.

### *Sales and Distribution Expenses*

The Group's sales and distribution expenses, all generated from cement segment, amounted to approximately RMB4,855,000 during the Reporting Period, representing an increase of approximately RMB636,000 or approximately 15.1% as compared to approximately RMB4,219,000 in 2019. The increase was mainly due to the increase in freight charges during the Reporting Period.

### *General and Administrative Expenses*

The Group's general and administrative expenses amounted to approximately RMB31,237,000 during the Reporting Period, representing an increase of approximately RMB1,008,000 or approximately 3.3% as compared to approximately RMB30,229,000 in 2019. The increase in the general and administrative expenses was primarily due to increase in investor relationship related expenses during the Reporting Period.

### *Tax*

The Group's income tax expense amounted to approximately RMB29,101,000 during the Reporting Period, representing a significant decrease from approximately RMB41,853,000 of income tax expense in 2019, which was primarily due to a decrease in the results of the cement segment in 2020.

Details of the Group's income tax are set out in note 15 to the consolidated financial statements of this report.

### *Net Profit Margin*

During the Reporting Period, the Group's net profit margin was approximately 10.9%, representing a decrease of 2.5% as compared to approximately 13.4% in 2019. The decrease was mainly attributable to the decrease in profit of products due to the year-on-year decrease in production and sales volume as well as unchanged fixed costs during the Reporting Period, thus resulting in a decrease in net profit from continuing operations from approximately RMB76,513,000 in 2019 to approximately RMB50,149,000 in 2020.

### *Liquidity and Capital Resources*

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

| | **31 December 2020** *RMB'000* | 31 December 2019 *RMB'000* |
|---|---|---|
| Cash and cash equivalents – (including discontinued operations) | **93,015** | 81,849 |
| – Cement Segment | **91,842** | 80,161 |
| – Environmental Protection Segment – (discontinued operations) | **–** | 23 |
| – Money lending and financial services segment | **1,173** | 1,665 |
| Borrowings – (including discontinued operations) | **65,187** | 40,028 |
| – Cement Segment | **36,400** | 22,000 |
| – Environmental Protection Segment – (discontinued operations) | **–** | 3,000 |
| – Unallocated | **28,787** | 15,028 |
| Debt to equity ratio – (including discontinued operations) | **12.09%** | 7.6% |
| – Cement Segment | **6.55%** | 4.2% |
| – Environmental Protection Segment – (discontinued operations) | **–** | 10.1% |
| Debt to asset ratio – (including discontinued operations) | **77.8%** | 34.5% |
| – Cement Segment | **26.1%** | 28.6% |
| – Environmental Protection Segment – (discontinued operations) | **–** | 53.2% |

### *Cash Flow*

As at 31 December 2020, the Group's cash and cash equivalents amounted to approximately RMB93,015,000, representing an increase of approximately 13.6% from approximately RMB81,849,000 as at 31 December 2019, which was primarily due to the decrease in payables during the Reporting Period.

### *Borrowings*

| | **31 December 2020** ***RMB'000*** | 31 December 2019 *RMB'000* |
|---|---|---|
| Current: | | |
| Borrowings | | |
| – Cement segment | **36,400** | 22,000 |
| – Environmental protection segment | **–** | 3,000 |
| – Unallocated | **28,787** | 15,028 |
| Borrowings | **65,187** | 40,028 |

As at 31 December 2020, the Group's bank borrowings amounted to approximately RMB65,187,000, representing an increase of approximately 62.85% from approximately RMB40,028,000 as at 31 December 2019.

As at 31 December 2020 and 31 December 2019, the aforesaid borrowings were not secured, pledged and guaranteed by the Group's properties, plant and equipment, land use rights, bill receivables and restricted bank deposits. As at 31 December 2020, there was no bank borrowings secured by personal guarantees provided by the Director, Mr. Ling Chao and his close family members (as at 31 December 2019: approximately RMB3,000,000) and borrowings of approximately RMB11,050,000 (2019: RMB12,328,000) was secured by corporate guarantees from the Company.

As at 31 December 2020, the Group had unutilised bank financing facilities of RMB16,100,000.

### *Debt to Equity Ratio*

As at 31 December 2020, the Group's debt to equity ratio was 12.09%.

Among others, the debt to equity ratio of the cement segment was 6.55%, which increased as compared with 4.2% as at 31 December 2019.

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

### *Capital Expenditure and Capital Commitments*

The Group's capital expenditure amounted to approximately RMB19,296,000 in 2020, all of which were generated from the cement segment. It represented a notable decrease from approximately RMB52,496,000 in 2019, which was mainly due to the decrease in technical transformation costs.

As at 31 December 2020, the Group had capital commitments of approximately RMB6,117,000 (2019: RMB1,464,000).

### *Pledge of Assets*

As at 31 December 2020, the Group did not pledge any assets during the Reporting Period.

### *Contingent Liabilities*

As at 31 December 2020, the Group had no material contingent liabilities.

### *Foreign Currency Risk*

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Substantial Acquisitions and Disposals of Subsidiaries and Associated Companies

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

As disclosed in the announcement and the circular of the Company dated 6 November 2020 and 15 December 2020, in relation to the acquisition. Shanghai Xihua a wholly-owned subsidiary of the Company (as the purchaser) and Orient Hengxin (as the vendor) entered into a share purchase agreement on 6 November 2020, pursuant to which, Shanghai Xihua has agreed to purchase the entire issued share capital of Orient Everhealth at a total consideration of RMB32,500,000. Orient Everhealth holds 65% issued share capital in Suzhou Everhealth, which is principally engaged in the research and development of innovative medicines and therapy technology for cancers and autoimmune diseases and their commercialisation. The acquisition mentioned above was completed on 31 December 2020 and Orient Everhealth has become a wholly-owned subsidiary of the Company.

## Dividends

The Board does not recommend payment of any final dividend for the year ended 31 December 2020.

## Employees and Remuneration Policies

As at 31 December 2020, the Group had a total of 226 employees. The total remuneration of our employees amounted to approximately RMB23,142,000 during the Reporting Period. The remuneration levels of employees are consistent with their responsibilities, performance and contributions and determinated on the basis of their merits, qualification and competence as well as the opinions from the remuneration committee of the Company (if applicable).

## Future Prospects

In 2021, as the novel coronavirus pandemic was effectively controlled, the Group will continue to reduce costs in an effective manner through improving its internal management; upgrade existing company facilities to increase production efficiency and reduce maintenance costs; expand market share and increase profitability of our products by refining customer services; continuously develop and improve the construction of the research and development team to advance the development of product pipelines and further explore other innovative pipelines while positively exploring investment opportunities in emerging industries, especially in the biopharmaceutical sector; and make attempts in capital operation to enhance operating efficiency and improve overall competitiveness.

## Events after the Reporting Period

The Company has no other material event after the Reporting Period required to be disclosed as at the date of this report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Purchase, Sale or Redemption of Listed Securities of the Company

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

## Compliance with the Corporate Governance Code

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

During the Reporting Period and as of the date of this report, the Company has complied with Listing Rules, saved as deviations below.

As disclosed in the Company's announcements dated 10 January 2020 and 19 February 2020, following the resignation of Mr. Lee Haoyao as an independent non-executive Director on 10 January 2020, the Company failed to comply with the requirements of having (i) at least three independent non-executive Directors on the Board under Rule 3.10(1) of the Listing Rules; (ii) independent non-executive Directors who represent at least one-third of the Board under Rule 3.10A of the Listing Rules; (iii) at least one of the independent non-executive Directors who must have appropriate professional qualifications or appropriate accounting or related financial management expertise (the "**Qualification**") under Rule 3.10(2) of the Listing Rules; and (iv) the Audit Committee comprising only non-executive Directors with a minimum of three members and chaired by an independent non-executive Director, and at least one of the members is an independent non-executive Director who possesses the Qualification under Rule 3.21 of the Listing Rules.

Upon the appointment of Ms. Yu Xiaoying as an independent non-executive Director became effective on 19 February 2020, the Company has re-complied with the requirements of the above Listing Rules and met the terms of reference and procedures of the Company's Remuneration Committee and Nomination Committee regarding having a minimum of three members.

## Compliance with the Model Code

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

## Audit Committee

The Company has established an Audit Committee in accordance with the requirements of the Listing Rules with written terms of reference.

The Audit Committee has reviewed the financial statements of the Group for the year ended 31 December 2020 and has discussed the financial statements, risk management and internal control with the management and auditors of the Company. The Audit Committee is of the opinion that the preparation of such financial statements has complied with the applicable accounting standards and requirements and that adequate disclosures were made.

## Publication of the Annual Results and the Annual Report

The annual results announcement of the Company for the year ended 31 December 2020 is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.dongwucement.com. The 2020 annual report will be dispatched to the shareholders of the Company and published on the aforementioned websites in due course.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

Mr. Liu Dong（劉東）(“**Mr. Liu**”), aged 52, is the Chairman and an executive Director of the Company. Mr. Liu has worked for years as diplomat in Chinese Embassies and UN-subordinate organizations since university graduation. He has been admitted to the degree of Master of Philosophy by the University of Cambridge. From April 2005 to August 2016, Mr. Liu served as Assistant to President and then Vice President of Orient Holdings Group Co. Ltd., Executive Vice President of Huilitong Industry Co. Ltd. and Senior Vice President of Sunshine Oilsands Ltd.. Since September 2016, Mr. Liu has been acting as Vice President of Orient Holdings International Group Ltd., General Manager of Orient International Resources Group Ltd., Director and General Manager of Global Mining Co. Ltd. and Director of Board of Sino-Sindh Resources PL. Mr. Liu owns over ten years' experience in capital market and investor relationship areas in Hong Kong. He was appointed as an executive Director of the Company on 15 May 2019. Mr. Liu did not hold any directorship in any other listed companies in the past three years.

Mr. Wu Junxian（吳俊賢）(“**Mr. Wu**”), aged 40, is an executive Director and the chief executive officer of the Company and the general manager of Suzhou Dongwu. Mr. Wu is responsible for general management and operation of the Group. Mr. Wu joined our Group in March 2009, and has held various positions in Suzhou Dongwu such as assistant to general manager and deputy general manager. Mr. Wu assumed the title of general manger of Suzhou Dongwu on 11 September 2013. Prior to joining our Group, Mr. Wu worked for Orient Holdings, an investment holding company, as an officer of the assets management department, responsible for project research and development from 2003 to 2007. Mr. Wu subsequently worked for Shanghai Keli Communications Technology Co., Ltd.（上海科立通訊科技有限公司）, a company principally engaged in communication construction and services, as a project manager and was responsible for project development and customer service from 2007 to 2009. Mr. Wu graduated from Nanjing Audit University（南京審計學院）in 2003 with a bachelor degree in management administration. Mr. Wu did not hold any directorship in any other listed companies in the past three years.

## Non-Executive Directors

Mr. Tseung Hok Ming（蔣學明）(“**Mr. Tseung**”), aged 59, is a non-executive Director of the Company. From 1983 to 1986, Mr. Tseung served as a director of Wujiang Yarn Dyed Factory（吳江色織廠）. From 1994 to 2005, he was the chairman of Jiangsu Orient International Group Company Limited（江蘇東方國際集團有限公司）. Since 1995, he has been acting as the chairman of Oriental Holdings International Group（東方控股國際集團）. Since 1995, Mr. Tseung has been the vice chairman of the Hong Kong Financial Services Institute. Since 2005, he has been acting as the chairman and general manager of Orient Hengxin（東方恒信）. Since 2013, he has been acting as the chairman of Orient Xinmin Holdings Limited（東方新民控股有限公司）. Since 2015, he has served as a director of Fidelix (KR.032580). Since 2018, Mr. Tseung has served as the chairman of Dongxin Semiconductor Co., Ltd.（東芯半導體股份有限公司）.

Main social positions held by Mr. Tseung Hok Ming include: Member of the 9th, 10th, 11th and 12th Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference; Member of the 10th Shanghai Municipal Committee of the Chinese People's Political Consultative Conference; Executive Chairman of the Jiangsu Chamber of Commerce in Shanghai; Chairman of the Board of Directors of Shanghai Institute for Integrated Application of Network Technology; Standing Committee Member of the Jiangsu Federation of Industry and Commerce; Standing Director of the Jiangsu Glorious Business Promotion Association; Standing Vice Chairman of the Jiangsu General Chamber of Commerce in Hong Kong. Save as disclosed above, Mr. Tseung did not hold any directorship in any other listed companies in the past three years.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Xie Yingxia (謝鶯霞) ("**Ms. Xie**"), aged 44, was re-designated from an executive Director to a non-executive Director of the Group on 3 July 2020. Ms. Xie obtained a bachelor degree in investment economics from Fudan University (復旦大學) and a master degree in business administration from China Europe International Business School (中歐國際工商學院). From August 1998 to January 2001, Ms. Xie worked for Xiamen International Bank as the account manager and the deputy head of the credit department; from February 2001 to June 2008, Ms. Xie had worked for Orient Holdings Group Limited as the manager of the investment department, the chief financial officer and the vice president; since July 2008, Ms. Xie has been serving as a Director of Suzhou Dongwu Cement Co., Ltd.; from December 2011 to July 2020, Ms. Xie served as executive Director, Chairman of the board of directors and executive Director of the Group; since June 2015, Ms. Xie has served as a director and representative director of Fidelix (KR.032580); since November 2014, Ms. Xie has been a director of Dosilicon Co., Ltd. and since March 2020, Ms. Xie has been the general manager of Dosilicon Co., Ltd..

Mr. Chen Xuanlin (陳炫霖) ("**Mr. Chen**"), aged 33, is currently a chief investment officer of the Company, the chairman of CCI Holdings Co., Ltd.* (廣微控股有限公司), the chairman of Shanghai Zhongtong Ruide Investment Group Co., Ltd.* (上海中通瑞德投資集團有限公司) and the chairman of Shanghai Wanxiang Auto Manufacturing Co., Ltd.* (上海萬象汽車製造有限公司). Mr. Chen has assumed the title of chairman of CCI Holdings Co., Ltd.* (廣微控股有限公司) since 2017 and has been responsible for the overall business operation and strategic development of the group. Mr. Chen owns ten years' experience in capital market. Mr. Chen graduated from Zhejiang University City College (浙江大學城市學院) in 2009 with a bachelor's degree in business administration. Mr. Chen is currently the vice chairman of Taihu World Cultural Forum (太湖世界文化論壇), the executive vice president of the Zhejiang Chamber of Commerce in Shanghai (上海市浙江商會) and the managing vice president of the Taizhou Chamber of Commerce in Shanghai (上海市台州商會). Mr. Chen did not hold any directorship in any other listed companies in the past three years.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-Executive Director

Mr. Cao Kuangyu（曹貺予）(“**Mr. Cao**”), aged 71, is an independent non-executive Director of the Company. He holds a bachelor’s degree in economics from the University of Hunan and a master’s degree in financial management from the University of London. Mr. Cao has extensive experience in the areas of banking and finance. He worked in Bank of China, Hunan Province branch for from July 1981 to February 1996 and his last position was the deputy president of the branch. From February 1996 to September 1999, Mr. Cao was the deputy general manager of Bank of China, Singapore branch. From September 1999 to September 2003, he was the president of China Citic Bank, Shenzhen branch. He also acted as the managing director of the investment banking division of BOCI Asia Limited from September 2003 to September 2007. Mr. Cao is currently an independent non-executive director of Dingyi Group Investment Limited (stock code: 508), New Silkroad Culturaltainment Limited (stock code: 472) and Macrolink Capital Holdings Limited (stock code: 758). He was an independent non-executive director of Huili Resources (Group) Limited (stock code: 1303) from December 2011 to September 2017. Save as disclosed above, Mr. Cao did not hold any directorship in any other listed companies in the past three years.

Ms. Yu Xiaoying（俞曉穎）(“**Ms. Yu**”), aged 33, is an independent non-executive Director of the Company. Ms. Yu worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP in the People’s Republic of China from September 2010 to August 2014 as a senior consultant. From September 2014 to November 2018, she worked at Visa Information Systems (Shanghai) Co., Ltd.*（維薩信息系統（上海）有限公司）as the manager of the finance department. From December 2018 to January 2020, she worked at Kimberly-Clark (China) Co., Ltd.*（金佰利（中國）有限公司）as the tax manager of the finance department. Ms. Yu has obtained a bachelor’s degree in accounting and a master’s degree in business administration from Antai College of Economics and Management, Shanghai Jiao Tong University. She is also a Chinese certified public accountant and a member of the Association of Chartered Certified Accountants. Ms. Yu has not held any directorship in any other listed public companies during the last three years.

Mr. Suo Suo（索索）(“**Mr. Suo**”), aged 49, is an independent non-executive Director of the Company. Mr. Suo is a chartered financial analyst and asset manager with over 25 years of experience in banking, private equity and asset management. From 2017 to May 2020, Mr. Suo was a non-executive Director of China Resources and Transportation Group Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (stock code: 269). Mr. Suo has been appointed as the chief executive officer of Hong Kong Strait Capital Management Company Limited*（香港海峽資本管理有限公司）since May 2014. He was the head of Asia and the executive director of EIG Global Energy Partners, a US energy investment group, where he managed private fund assets. Prior to that, Mr. Suo worked for Trust Company of the West as a fund manager, mainly responsible for the investment structuring, asset portfolio and matching management of corporate bonds and mezzanine securities with high risk. From 1999 to 2005, Mr. Suo worked at the US Branch of Fortis Bank of the Netherlands as the head of U.S. leverage financing department, responsible for financing private equity-led leveraged buyouts and investing in distressed corporate bonds. Before joining Fortis Bank, Mr. Suo studied for his PhD in energy economics in the Pennsylvania State University from 1996 to 1998. In March 2000, he obtained a master degree in business administration from the University of Rochester in the United States. Save as disclosed above, Mr. Suo did not hold any directorship in any other listed companies in the past three years.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Senior Management

Mr. Feng Bing Song (馮炳松) ("**Mr. Feng**"), aged 52, is the deputy general manager of Suzhou Dongwu. Mr. Feng is responsible for marketing and sales of the Group. Prior to joining to the Group in December 2014, Mr. Feng, having been engaged in the finance matters and sales in the cement industry for about 20 years, has a knowledge of market trends and possesses extensive experience in sales. Mr. Feng once served as the financial controller of Piaoyang Orient Cement Company (漂陽東方水泥公司) and then was promoted to the deputy general manager, in charge of corporate finance and business planning. Later, Mr. Feng joined in Wujiang Xingyuan Cement Co., Ltd. as the vice president of sales responsible for making the strategic plans for the company.

Ms. Cai Linfen (蔡林芬) ("**Ms. Cai**"), aged 50, is the deputy general manager of Suzhou Dongwu. Ms. Cai is responsible for production of the Group. Ms. Cai possesses more than 25 years of experience in production management of cement. She has served as deputy general manager of Zhejiang Tongxing Cement Company Limited (浙江桐星水泥股份有限公司) and Tongxiang South Cement Company Limited (桐鄉南方水泥有限公司) before and was responsible for production respectively. Ms. Cai joined the Group in 2014, and had taken the position of chief engineer and deputy general manager etc. Ms. Cai graduated from Tongxiang Radio and TV University (桐鄉廣播電視大學) in 2013 and obtained a college degree in Management.

Mr. Wu Jiong (吳炯) ("**Mr. Wu**"), aged 57, is a director and the general manager of Suzhou Everhealth. He is a scientist with extensive experience in the areas of immunology and cell biology. He graduated with a bachelor degree of medicine from Tongji Medical College of Huazhong University of Science and Technology in the PRC, and obtained a master degree of immunology from Shanghai Institute of Biochemistry and Cell Biology of the Chinese Academy of Sciences and a Ph.D. from Nanjing University. Mr. Wu also cooperated with Huiyang Life Engineering Stock Co., Ltd to lead the research and development of IFN-$\gamma$ which was successfully commercialised more than 15 years ago. The outcome won the Ferid Murad Award at the 25th Conference on International Cytokines & Interferons. He served as an assistant professor and a researcher at McGill University, and was involved in the foundation of the Cell Signally Technology, Inc. where he served as a senior scientist. In addition, Mr. Wu had also served as senior vice president in Cell Applications, Inc. He also served as a scientific consultant for a number of public and private companies and research institutions. He is currently a distinguished professor at Renmin Hospital of Wuhan University and the honorary chairman of Hubei Provincial Society of Clinical Oncology.

Mr. Han Weihua（韓衛華）(“**Mr. Han**”), aged 47, was appointed as the vice president of the Company on 2 July 2020 and is responsible for investment and financing of the Company.

From February 2018 to July 2020, Mr. Han was the investment director of Orient Strait Capital Management Company Limited*（東方海峽資本管理有限公司）and was responsible for investment and financing of projects.

From 2016 to 2018, Mr. Han was the managing partner and fund manager of Shanghai Jiuyuan Asset Management Center (Limited Partnership)*（上海九沅資產管理中心（有限合夥））. From 2013 to 2016, Mr. Han was the assistant to chairman of Shanghai Lonyer Holding Co., Ltd.*（上海龍宇控股有限公司）and was responsible for investment. From 2007 to 2013, Mr. Han was the investment director of Dexing Feyi Capital Operation Center (Limited Partnership)*（德信豐益資本運營中心（有限合夥）), and was responsible for investment of private equity projects, fund raising and management of the investment & research team. From 2005 to 2007, Mr. Han was the investment director of Shanghai Orient Huaxia Venture Capital Co., Ltd.*（上海東方華夏創業投資有限公司）and was responsible for investigation of investment projects and post-investment operation. From 2001 to 2005, Mr. Han was the senior investment officer of Jumbo China Investments Limited*（寶華投資有限公司）, and was responsible for investigation, financial analysis, market research and project operation of investment projects in finance, infrastructure and energy sectors. From 1998 to 2001, Mr. Han worked in the strategic development department of Shanghai Diweisi Investment Development Co., Ltd*（上海帝威斯投資發展有限公司）and was responsible for evaluation and research of merger and acquisition projects.

From September 1994 to June 1998, Mr. Han studied at the School of Finance, Shanghai University of Finance and Economics, majoring in currency and banking, and obtained the bachelor’s degree in Economics. From September 2001 to July 2003, Mr. Han studied in Shanghai University of Finance and Economics, majoring in securities and futures as an on-the-job postgraduate, and obtained the certificate of postgraduate equivalent education. Mr. Han obtained the Certificate of Securities Professional from the Securities Association of China in 2002 and the Certificate of Fund Professional from the Asset Management Association of China in 2015.

Ms. Sun Xin（孫馨）(“**Ms. Sun**”), aged 37, was appointed as the joint company secretary of the Company on 28 May 2012, and has been the chief financial controller of the Company since 16 August 2013. Ms. Sun also served as the authorized representative of the Company (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Ms. Sun joined the Group in August 2010. From August 2006 to August 2010, Ms. Sun acted as the senior consultant of the business advisory and tax consultancy department of Deloitte Touche Tohmatsu CPA Ltd.. During the office term, Ms. Sun was responsible for the provision of due diligence service and structuring support to the foreign multi-national companies and the private equity funds concerning acquisition activities in the PRC, as well as the provision of tax consultancy services, including international tax consultancy, indirect tax consultancy, general domestic tax consultancy and tax standardization. From September 2002 to July 2006, Ms. Sun studied at Shanghai International Studies University（上海外國語大學）majoring in international economic law and obtained a bachelor degree in law. From September 2003 to June 2005, she studied at Shanghai University of Finance and Economics（上海財經大學）and obtained the Certificate for Second Major（輔修專業證書）in Accounting. Ms. Sun is currently a member of The Chinese Institute of Certified Public Accountants（中國註冊會計師協會）, an associate of the Hong Kong Institute of Chartered Secretaries（香港特許秘書公會）(ACS), and an associate of the Institute of Chartered Secretaries and Administrators (ACIS).

## Company Secretary

Ms. Sun Xin（孫馨）(“**Ms. Sun**”), aged 37, was appointed as the joint company secretary of the Company on 28 May 2012. For details of the biography of Ms. Sun Xin, please refer to paragraph headed “Senior Management” of this section. Ms. Sun was confirmed by the Stock Exchange that she had sufficient experience to fulfill the responsibility of company secretary and served as company secretary of the Company with effect from 21 March 2014.

# DIRECTORS' REPORT

## Principal Activities

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 November 2011. The Group mainly operates through its subsidiaries in the PRC. The Group is principally engaged in the production and sales of cement. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2020.

## Results and Dividends

The Group's results for the year ended 31 December 2020 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 96.

The Board does not recommend payment of any final dividend for the year ended 31 December 2020.

## Business Review

A review of the business of the Group for the year ended 31 December 2020, a discussion on the Group's future prospects, and an account of the principal risks and uncertainties faced by the Group are provided in "Management Discussion and Analysis" on pages 11 to 22 in this annual report, an analysis of the Group's performance during the current year using financial key performance indicators are provided in "Financial Highlights" on pages 5 to 6 in this annual report.

## Environmental Policy and Performance

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

In order to strengthen environmental protection, strictly control pollutant generation and comprehensively achieve the emission standard, the Group invested in approximately RMB4,500,000 on upgrading technology of environmental protection facilities and energy-saving and emission reduction projects in 2020. The Group implemented energy-saving and emissions reduction from various aspects, including: (1) technology transformation of coal mill system to reduce power consumption; (2) upgraded electric dust removal at kiln head and kiln tail to reduce dust emissions; and (3) upgraded technology for circulating fan to reduce power consumption.

# DIRECTORS' REPORT

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

## Compliance of Laws and Regulations

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

## Important Relationship with Employees, Clients and Suppliers

The relationships between the Group and employees, customers and suppliers have a material impact on performance and constant development of the Group. Therefore, the Group has established a sound and stable relationship with employees, customers and suppliers.

The Group regards its employees as the most important and valuable assets. The objective of human resources management is to motivate and recognize outstanding staffs with competitive remuneration package and comprehensive performance assessment, and assist the staff to develop their career and get promotion within the Group by providing suitable training and opportunities. Through a variety of incentive mechanism and organizing various activities, the Company has formed an enterprise culture, centering on able person doing more work and getting more pay for more work, competition out who ever needs upward, unity and harmony and innovation. The Group encouraged employees to actively participate in the management of the enterprise and adopts reasonable suggestion, so as to enable all staff to build up an awareness of treating factory as home and be proud of the factory, thereby fully leveraging on the staff's enthusiasm and subjective initiative.

The Group has always adhered to the principle of customer first, and identified customer's demand by collecting, analyzing and processing customer date to improve customer satisfaction. For consultation and suggestion from customer by way of interviewing, letter, telephone, fax and so on, there is specially-assigned person to answer, record and collect. Through a variety of activities, the Company grasped the market dynamics and customer requirements timely. If found any complaints, improvement suggestions, implicit requirements or expectations from customer, it should be immediately reported to relevant departments for making necessary improvement measures and implementation with an aim to ensure the improvement of customer satisfaction.

The Group has established a cooperation relationship of joint collaboration and win-win with its suppliers, and jointly explored markets to expand market demands and share and reduce operating cost of the early stage of the product through the integration of resources and competitive advantages. The Group clearly specifies procurement requirements and exchange information to make the transparency of the procurement process and improve the efficiency of supply chain and the reaction ability, therefore maximizing the interests on both sides.

# DIRECTORS' REPORT

## Closure of Register of Members

The register of members of the Company will be closed from Thursday, 13 May 2021 to Tuesday, 18 May 2021 (both days inclusive), during which period no transfer of shares will be registered. For determining Shareholders' entitlement to attend and vote at the annual general meeting to be held on Tuesday, 18 May 2021, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Wednesday, 12 May 2021.

## Property, Plant and Equipment

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

## Bank Loans and Other Borrowings

Details of bank loans and other borrowings are set out in note 28 to the consolidated financial statement of this annual report.

## Share Capital

As at 31 December 2020, the authorised share capital of the Company was HK$100,000,000, including issued capital of HK$5,520,000 divided into 552,000,000 Shares with nominal value of HK$0.01 per share. During the Reporting Period, the Company did not issue any new shares.

## Reserves

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

## Distributable Reserves

The Group's reserves available for distribution to Shareholders was approximately RMB176,191,000 (31 December 2019: approximately RMB167,841,000) as at 31 December 2020.

## Public Float

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

# DIRECTORS' REPORT

## Pre-Emptive Rights

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

## Tax Reduction

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

## Charge on the Assets and Contingent Liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities, guarantees or any litigation against the Group (2019: nil).

## Subsidiaries and Associates

Details on the business performance of the Company's major subsidiaries and associates respectively are set out in notes 20 and 21 to the consolidated financial statement of this annual report.

## Directors

The directors of the Company during the year ended 31 December 2020 were as follows:

| | |
|---|---|
| Chairman and Executive Director | Ms. Xie Yingxia (resigned as Chairman and re-designated from executive Director to non-executive Director on 3 July 2020) |
| | Mr. Liu Dong (appointed as Chairman on 3 July 2020) |
| Chief Executive Officer | Mr. Jin Chungen (resigned on 3 July 2020) |
| | Mr. Wu Junxian (appointed on 3 July 2020) |
| Vice president | Mr. Han Weihua (appointed on 3 July 2020) |
| Executive Directors | Mr. Liu Dong |
| | Mr. Wu Junxian (appointed on 28 May 2020) |
| | Mr. Ling Chao (completed tenure on 28 May 2020) |
| | Mr. Wang Jun (completed tenure on 28 May 2020) |
| | Mr. Chan Ka Wing (completed tenure on 28 May 2020) |
| Non-executive Director | Mr. Tseung Hok Ming |
| | Ms. Xie Yingxia (re-designated from executive Director to non-executive Director on 3 July 2020) |
| | Mr. Chen Xuanlin (appointed on 27 October 2020) |
| Independent Non-executive Directors | Mr. Cao Guoqi (resigned on 27 October 2020) |
| | Mr. Cao Kuangyu |
| | Mr. Lee Ho Yiu Thomas (resigned on 10 January 2020) |
| | Ms. Yu Xiaoying (appointed on 19 February 2020) |
| | Mr. Suo Suo (appointed on 27 October 2020) |

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

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

## Emolument Policy and Long-Term Incentive Plan

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

### *Emolument Policy for Executive Directors*

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

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

3. Factors for defining performance-based remuneration:

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

   (b) Examples of performance indicators:

      (i) share price

      (ii) net earnings figure

### *Emolument Policy for Non-Executive Directors*

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

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

*Principles of Long-Term Incentive Schemes*

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

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

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

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

## Directors' Service Contracts

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

In accordance with the Articles of Association, Ms. Xie Yingxia (re-designated from executive Director to non-executive Director on 3 July 2020), Mr. Tseung Hok Ming and Mr. Cao Kuangyu will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In addition, Mr. Chen Xuanlin (appointed on 27 October 2020) and Mr. Suo Suo (appointed on 27 October 2020) will be subject to election by the Shareholders at the forthcoming annual general meeting.

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

## Directors' Emoluments and Five Highest Paid Individuals of the Company

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

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

For the years of 2020 and 2019, senior management of the Company comprises 7 and 7 individuals, respectively. The emoluments of senior management of the Company fell within the following bands:

| | Number of individuals<br>Year ended 31 December | |
|---|---|---|
| **Emolument band** | **2020** | 2019 |
| Nil to HK$1,000,000 | **5** | 6 |
| HK$1,000,001 to HK$2,000,000 | **2** | 1 |
| | **7** | 7 |

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

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

## Contract of Significance

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

## Directors' Rights to Acquire Shares or Debentures

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

## Directors' Interests in Competing Business

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

## Connected Transactions

During the year ended 31 December 2020, save as disclosed below, the Group did not enter into any connected transactions or continuing connected transactions which need to be disclosed in its annual report pursuant to the provisions in respect of connected transaction disclosure requirements under chapter 14A of the Listing Rules, and details for other connected transactions or continuing connected transactions are set out in note 39 to the consolidated financial statements for the year.

As disclosed in the relevant announcement and circular of the Company dated 6 November 2020 and 15 December 2020,Shanghai Xihua, a wholly-owned subsidiary of the Company, and Orient Hengxin, a connected person of the Company, entered into the Share Purchase Agreement ("**Share Purchase Agreement**"), pursuant to which Shanghai Xihua has conditionally agreed to purchase and Orient Hengxin has conditionally agreed to sell the Sale Shares, which represent the entire issued share capital of Orient Everhealth, at the Consideration of RMB32,500,000 (equivalent to approximately HK$38,025,000). For further details, please refer to the relevant announcement and circular of the Company dated 6 November 2020 and 15 December 2020.

## Pension Scheme

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

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

During the year ended 31 December 2020, the employee benefit scheme contributions made by the Group amounted to approximately RMB3,070,000.

# DIRECTORS' REPORT

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

As at 31 December 2020, the interests of the Directors, chief executive or their respective associates in the Shares and underlying Shares of the Company and its associated corporations as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO are as follows:

| Name | Capacity | Long position/Short position | Number of Shares held | Approximate percentage of shareholding interest |
|---|---|---|---|---|
| Mr. Tseung Hok Ming *(note 1)* | Interest of a controlled corporation | Long position | 297,500,000 | 53.89% |
| Mr. Chen Xuanlin | Beneficial owner | Long position | 25,650,000 | 4.65% |

*note:*

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

Save as disclosed in the above, as at 31 December 2020, so far as is known to the Directors, no Directors or chief executive of the Company or their respective associates had or were deemed to have any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations by virtue of Part XV of the SFO which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code, or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein.

As at 31 December 2020, none of the Directors and chief executive of the Company (including their respective spouses and children under the age of 18) had or were granted any rights to subscribe for the securities and share options of the Company and its associated corporations, nor had they exercised any such rights.

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

As at 31 December 2020, so far as is known to the Directors, the person(s), not being the Directors or chief executive of the Company, who had any interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register kept under section 336 of the SFO are set out below:

| Name | Capacity | Long position/Short position | Number of Shares held | Approximate percentage of shareholding interest |
|---|---|---|---|---|
| Goldview[1] | Beneficial owner | Long position | 297,500,000 | 53.89% |
| Mr. Huang Yingbiao | Beneficial owner | Long position | 67,130,000 | 12.16% |

*note:*

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

Save as disclosed in the above, as at 31 December 2020, so far as is known to the Directors, no other persons had any interests or short positions in the Shares and underlying Shares of the Company which had to be disclosed to the Company or the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register kept by the Company under section 336 of the SFO.

## Share Option Scheme

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

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

Pursuant to the terms of the Share Option Scheme, the Board shall have the right to determine and select all directors (whether executive or non-executive and whether independent Director or not), any employee (whether full time or part-time), any consultant or adviser (whether an employment or contractual or honorary basis and whether paid or unpaid) of the Company or the Group, who, in the absolute opinion of the Board, have contributed to the Company or the Group ("**Eligible Persons**") to whom the options may be granted. Any of the Eligible Persons to an offer for the grant of options under the Share Option Scheme shall be determined by the Board from time to time on the basis of the contribution to the development and growth of the Group. Unless otherwise determined by the Board in the relevant offer letter to a grantee, there is no minimum period for which any option must be held before it can be exercised and no performance target which need to be achieved by the grantee before it can be exercised. The maximum number of Shares which may be issued pursuant to the Share Option Scheme on the Adoption Date will be 55,200,000 Shares, which represents 10% of the issued share capital of the Company as at the date of approval of the proposed adoption of Share Option Scheme by the Shareholders at the AGM held on 28 May 2015 and represents 10% of the total issued share capital of the Company as at the date of this report.

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

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

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

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

No options under the Share Option Scheme have been granted and no options remain outstanding and unexercised during the year ended 31 December 2020.

As of the Latest Practicable Date, the remaining life of the Share Option Scheme is about 4 years and 2 months.

## Purchase, Sale or Redemption of Listed Securities

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

## Management Contracts

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

## Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers of the Group respectively during the year ended 31 December 2020 is as follows:

| | **Percentage of the Group's total sales (%)** | | **Percentage of the Group's total purchases (%)** |
|---|---|---|---|
| The largest customer | 8.93 | The largest supplier | 16.27 |
| Five largest customers in aggregate | 33.72 | Five largest suppliers in aggregate | 49.5 |

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

# DIRECTORS' REPORT

## Auditor

The consolidated financial statements of the Company for the year ended 31 December 2020 have been audited by BDO Limited ("**BDO**"), who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution on re-appointment of BDO as the external auditor of the Company will be proposed at the forthcoming annual general meeting for Shareholders' approval.

## Material Litigation and Arbitration

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

## Permitted Indemnity Provisions

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

*Chairman*
**Liu Dong**

25 March 2021

# CORPORATE GOVERNANCE REPORT

## Compliance with the Corporate Governance Code

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

During the Reporting Period and up to the Latest Practicable Date, the Company has complied with the code provisions of the Corporate Governance Code, saved as the deviations disclosed below.

Reference is made to the Company's announcements dated 10 January 2020 and 19 February 2020. Following the resignation of Mr. Lee Ho Yiu Thomas as an independent non-executive Director with effect from 10 January 2020, the Company failed to meet the requirements of having: (i) at least three independent non-executive Directors on the Board under Rule 3.10(1) of the Listing Rules; (ii) independent non-executive Directors who represent at least one-third of the Board under Rule 3.10A of the Listing Rules; (iii) at least one of the independent non-executive Directors who must have appropriate professional qualifications or appropriate accounting or related financial management expertise (the "**Qualification**") under Rule 3.10(2) of the Listing Rules; and (iv) the Audit Committee comprising only non-executive Directors with a minimum of three members and chaired by an independent non-executive Director, and at least one of the members is an independent non-executive Director who possesses the Qualification under Rule 3.21 of the Listing Rules. Upon the appointment of Ms. Yu Xiaoying became effective on 19 February 2020, the Company has re-complied with the requirements of the above Listing Rules and met the terms of reference and procedures of the Company's Remuneration Committee and Nomination Committee regarding having a minimum of three members.

## Compliance with the Model Code

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

# CORPORATE GOVERNANCE REPORT

## Board of Directors

***Duties and Divisions***

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

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

During the Reporting Period and up to the Latest Practicable Date, the Board had, among other things, considered and approved the annual budget, management performance and the latest performance as compared with the annual budget as well as the business reports of the management, the annual results for the year ended 31 December 2020, monitored the operation of our Group's key business and assessed the internal control and financial matters of the Group.

***Board Composition***

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

### *Board Meetings*

The Board shall meet regularly and hold at least four Board meetings each year, so as to discuss the overall strategies and operational and financial performances of the Group. For the year ended 31 December 2020, the Board held 8 meetings in accordance to the operational and business development of the Group, including 2 regular meetings and 6 provisional meetings. The attendance of each Director is detailed as follows:

| | Attended meetings/ Meetings required to attend | Attendance rate |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Liu Dong | 8/8 | 100% |
| Mr. Wu Junxian (Appointed on 28 May 2020) | 4/4 | 100% |
| Mr. Ling Chao (The term of office expired on 28 May 2020) | 4/4 | 100% |
| Mr. Wang Jun (The term of office expired on 28 May 2020) | 4/4 | 100% |
| Mr. Chan Ka Wing (The term of office expired on 28 May 2020) | 1/4 | 25% |
| ***Non-executive Director*** | | |
| Mr. Tseung Hok Ming | 8/8 | 100% |
| Ms. Xie Yingxia (Resigned as Chairlady on 3 July 2020 and re-designated from executive director to non-executive director) | 8/8 | 100% |
| Mr. Chen Xuanlin (Appointed on 27 October 2020) | 2/2 | 100% |
| ***Independent Non-executive Directors*** | | |
| Mr. Cao Guoqi (Resigned on 27 October 2020) | 7/7 | 100% |
| Mr. Cao Kuangyu | 8/8 | 100% |
| Mr. Lee Ho Yiu Thomas (Resigned on 10 January 2020) | N/A | N/A |
| Ms. Yu Xiaoying (Appointed on 19 February 2020) | 8/8 | 100% |
| Mr. Suo Suo (Appointed on 27 October 2020) | 2/2 | 100% |

During the Reporting Period, the Board held each regular meeting with prior notices of 14 days, to ensure that all Directors have the opportunity to propose matters to be discussed into the agenda. Reasonable notice were given for provisional Board meetings, to enable all Directors to attend in their conveniences.

## Appointment and Re-election of Directors

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

In accordance with the Articles of Association, Ms. Xie Yingxia (re-designated from executive Director to non-executive Director on 3 July 2020), Mr. Tseung Hok Ming and Mr. Cao Kuangyu will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In addition, Mr. Chen Xuanlin (appointed on 27 October 2020) and Mr. Suo Suo (appointed on 27 October 2020) will be subject to election by the Shareholders at the forthcoming annual general meeting.

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

## Chairman and Chief Executive Officer

Mr. Liu Dong serves as the Chairman of the Company.

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

Mr. Wu Junxian serves as the Chief Executive Officer of the Company.

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

### *Independent Non-executive Director*

During the Reporting Period and up to the Latest Practicable Date, the Company had complied with the provisions of the Listing Rules regarding independent non-executive directors, except for the deviations as disclosed below.

References are made to the Company's announcements dated 10 January 2020 and 19 February 2020, following the resignation of Mr. Lee Ho Yiu Thomas as an independent non-executive Director on 10 January 2020, the Company failed to meet the requirements of having: (i) at least three independent non-executive Directors on the Board under Rule 3.10(1) of the Listing Rules; (ii) independent non-executive Directors who represent at least one-third of the Board under Rule 3.10A of the Listing Rules; (iii) at least one of the independent non-executive Directors who must have appropriate professional qualifications or appropriate accounting or related financial management expertise (the "Qualification") under Rule 3.10(2) of the Listing Rules; and (iv) the Audit Committee comprising only non-executive Directors with a minimum of three members and chaired by an independent non-executive Director, and at least one of the members is an independent non-executive Director who possesses the Qualification under Rule 3.21 of the Listing Rules. Upon the appointment of Ms. Yu Xiaoying which became effective on 19 February 2020, the Company has re-complied with the requirements of the above Listing Rules and met the terms of reference and procedures of the Company's Remuneration Committee and Nomination Committee regarding having a minimum of three members.

The independent non-executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision.

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

### *Time Commitment of the Directors*

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

### *Directors' Continuous Training*

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

During the Reporting Period, each of the Directors (being Mr. Liu Dong, Mr. Wu Junxian, Mr. Tseung Hok Ming, Ms. Xie Yingxia, Mr. Chen Xuanlin, Mr. Cao Kuangyu, Ms. Yu Xiaoying and Mr. Suo Suo) has (i) attended the directors' training held by competent professionals engaged by the Company, in relation to, among other things, responsibilities of directors, continuous responsibilities of the listed company on information disclosure, corporate governance and the latest amendment to the Listing Rules; and (ii) went through information on the Listing Rules and other latest information on regulatory requirements. The training records of each Director are kept and updated by the company secretary of the Company.

### *Directors' Insurance*

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

## Board Committees

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

## Audit Committee

The Company established the Audit Committee on 28 May 2012 in accordance with the requirements of Rule 3.21 of the Listing Rules and the Corporate Governance Code. The written terms of reference of the Audit Committee were formulated in compliance with the Corporate Governance Code. The Audit Committee is comprised of three members, namely, Ms. Yu Xiaoying, Mr. Suo Suo and Mr. Cao Kuangyu, all of whom are independent non-executive Directors. Ms. Yu Xiaoying is the chairlady of the Audit Committee. The primary duties of the Audit Committee include reviewing and supervising the Company's financial reporting processes and internal control systems, nominating and monitoring external auditors and providing advice and comments to the Directors.

For the year ended 31 December 2020, the Audit Committee held 3 meetings to discuss with the management the accounting standards and practices adopted by the Group, and to approve the results and financial statements of the Company for the year ended 31 December 2019 as well as the interim results and financial statements of the Company for the six months ended 30 June 2020, respectively.

The attendance of the meetings is as follows:

| | **Attended meetings/ convened meetings** | **Attendance rate** |
|---|---|---|
| Ms. Yu Xiaoying *(chairman)* | 2/2 | 100% |
| Mr. Suo Suo | N/A | N/A |
| Mr. Cao Kuangyu | 3/3 | 100% |

## Remuneration Committee

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

For the year ended 31 December 2020, the remuneration committee held 5 meetings to consider and review the employee's salary and benefit, as well as the remuneration policies and structure of Directors and senior management of the Company.

The attendance of the meetings is as follows:

| | **Attended meetings/ convened meetings** | **Attendance rate** |
|---|---|---|
| Mr. Suo Suo *(Chairman)* | 1/1 | 100% |
| Ms. Yu Xiaoying | 5/5 | 100% |
| Mr. Cao Kuangyu | 5/5 | 100% |

## Nomination Committee

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

For the year ended 31 December 2020, the nomination committee held 5 meetings to consider and review the structure and composition of the Board, assess the independence of independent non-executive Directors, nominate the Directors to be retired by rotation and review the board diversity policy.

The attendance of the meetings is as follows:

| | Attended meetings/ convened meetings | Attendance rate |
|---|---|---|
| Mr. Suo Suo *(Chairman)* | 1/1 | 100% |
| Ms. Yu Xiaoying | 5/5 | 100% |
| Mr. Cao Kuangyu | 5/5 | 100% |

## Board Diversity Policy

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

## Company Secretary

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

According to Rule 3.29 of the Listing Rules, Ms. Sun Xin took no less than 15 hours of relevant professional training for the year ended 31 December 2020.

## Shareholders' Rights

### *Procedures for Shareholders to convene an extraordinary general meeting*

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

### *Procedures for making enquiries to the Board*

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

### *Procedures for putting forward proposals at general meetings*

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

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

# CORPORATE GOVERNANCE REPORT

### *General Meeting*

During the Reporting Period, the Company convened an annual general meeting and an extraordinary general meeting on 28 May 2020 and 31 December 2020, respectively. The annual general meeting was convened to approve (among others) the audited consolidated financial statements of the Group for the year ended 31 December 2019, the reports of Directors and auditor and the re-election of Directors who subject to retirement by rotation. The extraordinary general meeting was convened to approve the Share Purchase Agreement dated 6 November 2020 and the transactions contemplated thereby entered into between Shanghai Xihua and Orient Hengxin and to authorise any one or more Directors of the Company to do all such acts and things as they consider necessary and to sign and execute all such documents, and to take all such steps which in their opinion may be necessary, appropriate, desirable or expedient for the purpose of giving effect to the Share Purchase Agreement and completing the transactions contemplated thereby. Except for Tseung Hok Ming was not able to attend the annual general meeting held on 28 May 2020 due to business engagement, other Directors of the Company have attended the annual general meeting. The attendance of each Director is detailed as follows:

| | Attended general meetings/convened meetings | Attendance rate |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Liu Dong | 2/2 | 100% |
| Mr. Wu Junxian (appointed on 28 May 2020) | 2/2 | 100% |
| Mr. Ling Chao (completed tenure on 28 May 2020) | 1/1 | 100% |
| Mr. Wang Jun (completed tenure on 28 May 2020) | 1/1 | 100% |
| Mr. Chan Ka Wing (completed tenure on 28 May 2020) | 1/1 | 100% |
| ***Non-executive Director*** | | |
| Mr. Tseung Hok Ming | 1/2 | 50% |
| Ms. Xie Yingxia (resigned as the Chairlady on 3 July 2020 and has been re-designated from executive Director to non-executive Director) | 2/2 | 100% |
| Mr. Chen Xuanlin (appointed on 27 October 2020) | 1/1 | 100% |
| ***Independent Non-executive Directors*** | | |
| Mr. Cao Guoqi (resigned on 27 October 2020) | 1/1 | 100% |
| Mr. Cao Kuangyu | 2/2 | 100% |
| Mr. Lee Ho Yiu Thomas (resigned on 10 January 2020) | N/A | N/A |
| Ms. Yu Xiaoying (appointed on 19 February 2020) | 2/2 | 100% |
| Mr. Suo Suo (appointed on 27 October 2020) | 1/1 | 100% |

### *Nomination of Director*

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

## Internal Control

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

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

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

For the year ended 31 December 2020, the Board considered the internal control system of the Company was adequate and effective, save as described below, the Company complied with the Corporate Governance Code provisions in relation to internal control as set out in the Corporate Governance Code. The Audit Committee will constantly review and assess the effectiveness of the internal control system of the Group, and report the results to the Board. The Board would conduct review and assessment of the internal control system of the Group at least once a year, so as to ensure that it is free from any major supervisory deficiency.

Pursuant to Corporate Governance Code, the Company shall have sufficient number of independent non-executive directors. The Company failed to comply with the relevant Corporate Governance Code provisions during the reporting period. However, the Company in the end of the Reporting Period and currently has sufficient independent non-executive directors to comply with the relevant Corporate Governance Code provisions.

# CORPORATE GOVERNANCE REPORT

***Directors' Responsibilities in Respect of Financial Statements***

The Directors acknowledge that they are responsible for giving honest, clear, and plain assessment on the performance, position and prospect of the consolidated financial statements as set out in annual and interim reports of the Group in accordance with the statutory requirements and the applicable accounting standards. The Directors also acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2020. Having made all reasonable enquiries, the Directors confirm, to the best of their knowledge, information and belief, that they were unaware of any significant uncertainties relating to the events or situations that may seriously cause doubt on continuing operation of the Company on an ongoing basis. To prepare the financial statements for the year ended 31 December 2020, the Directors have adopted appropriate accounting policies and applied consistently, and made prudent and reasonable judgments and estimates.

***Risk Management and Internal Control***

In order to ensure efficient operation and efficiency of our business as well as compliance with relevant laws and regulations, the Group emphasizes the importance of establish a sound internal control system. Further, the system is an integral part in mitigating the risks borne by the Group. The Group's internal control system is designed to provide reasonable but not absolute assurance against material misstatement or loss; to manage but not eliminate risks of failure in operational systems or failure to achieve business objectives; and to achieve business objectives. The Board continues to review the internal control system, enabling it an effective and viable system that can provide reasonable assurance, protect our important assets and identify business risks. According to the information available to the Board and its observation, the Board believes that the Group's existing internal control is satisfactory. The Group strives to identify, control and manage risks related to its business activities and implement effective and viable control system, including management structure with specific written terms of reference, sound cash management system as well as regular review on the Group's performance carried out by the Audit Committee and the Board. The Board has reviewed the effectiveness of the internal control system of the Group. It is of the opinion that the internal control system adopted during the year ended 31 December 2020 was sound and effective, and is sufficient to safeguard the investment benefits of the Shareholders and the Company's assets.

***Main features of the risk management and internal control systems***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Procedures on identifying, assessing and management material risks***

The risk management procedures of the Group are as follows:

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

Risk identification – to identify the current risk exposure.

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

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

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

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

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

***Procedures on handling and disseminating inside information and internal control measures***

The Group handles and disseminates inside information in accordance with the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information. In addition, the Company keeps the Directors, senior management and employees appraised of the latest regulatory updates. The Company shall prepare or update appropriate guidelines or policies to ensure the compliance with regulatory requirements. The Board has reviewed the risk management and internal control systems for the year ended 31 December 2020 to ensure the effectiveness and adequacy of the systems. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of Company for the year ended 31 December 2020 were effective and adequate.

## Auditor's Remuneration

BDO Limited was the independent auditor of the Company. For the year ended 31 December 2020, the remuneration payable by the Company to BDO Limited is set out below:

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

## Investor Relationship

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

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## About this Report

This report is the fifth Environmental, Social and Governance ("ESG") Report of Dongwu Cement International Limited (the "Company" or "Dongwu Cement", together with its subsidiaries, the "Group" or "We"), which presents the Group's management approach and performance in ESG during the reporting period from 1 January 2020 to 31 December 2020, to facilitate stakeholders' further understanding of the Group's sustainability strategies.

The Board acknowledges its responsibility for ensuring the integrity of this report. To the best of its knowledge, this report covers all relevant material issues and makes objective and accurate disclosure on ESG performance. The Board has reviewed this report and confirmed its content is true and complete.

### *Reporting Guidelines and Principles*

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Main Board Listing Rules of Hong Kong Exchanges and Clearing Limited ("HKEX"), fulfilling the reporting obligation of "Comply or Explain" and adhering to the reporting principles of "Materiality", "Quantitative", "Balance" and "Consistency". The data in this report have been reviewed to present a year-on-year comparison for stakeholders' review.

### *Reporting Boundary and Scope*

This report mainly discloses the environmental and social performance of the Group's cement related business. The information and data in the report cover "Suzhou Cement Co., Ltd.", a subsidiary of the Group's cement segment. For the corporate governance section, please refer to pages 41 to 56 of the Annual Report. For an overview of the disclosure of various indicators, please refer to the content index at the end of this report. The Group will continue to improve the data collection and gradually expand the scope of the disclosure.

### *Feedback*

This report is published in both Chinese and English. In case of any discrepancy between the two versions, the Chinese version shall prevail. Your comments and suggestions play an important role in our continuous improvement of the disclosure. We welcome your feedback at any time through the following methods:

**Dongwu Cement International Limited**
Address: Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong
Tel: (852) 2520 0978
Fax: (852) 2520 0696
Email: admin@dongwucement.com

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Message from the Chairman

Dear Stakeholders,

In 2020, the world was struggling with the impact of the COVID-19 pandemic. While maintaining the sound operation, the Group strives to make contributions by donating a total of RMB300,000 to fight against the pandemic. As the pandemic in China is gradually under control, the Group is resuming operation in an orderly manner, as well as continuing to follow the path of sustainability.

The Group is well aware that build up the foundation for sustainability with excellent product quality is the key to stand out in the fierce market competition. During the year, both the quality conformity rate and the strength conformity rate of our ex-factory cement were 100%. Customer satisfaction increased slightly to 96.1% from last year, maintaining a target customer satisfaction rate of over 90%.

The Group adheres to the environmental management policy of "prevent pollution, save energy, lower consumption and comply with relevant laws and regulations" to continuously reduce the impact of production and operation on the environment. During the year, the Group invested in a number of energy conservation and emission reduction projects, including technical upgrading of raw mill grinding circulating fan and the coal grinding system, which can effectively save 3,000,000 kWh of electricity per year. By adopting the new dry process cement production process and utilizing the residual heat of waste gas from cement kilns, the use of fossil fuels is reduced. During the year, the Group's total energy consumption decreased by approximately 9% as compared to last year. After the efforts, the Group fully implemented the ultra-low emission of nitrogen oxides during the year, striving to control the emission concentration below 100mg/$m^3$.

Employee health and safety is a solid foundation for our business operations. During the year, the Group successfully obtained the certification of ISO 45001: 2018 Occupational Health and Safety Management System through the efforts of various departments. We recorded the performance of zero major casualties and less than 1% of minor work-related accidents. We will continue to carry out occupational health and safety improvement measures to provide employees with a pleasant, high-quality and safe working environment.

We understand the principles of taking from society and giving back to society. Therefore, we would spare no effort to adhere to social investment, develop together with the community, and make positive contributions. During the year, we continued to donate RMB60,000 to poor mountainous areas in Guizhou to support local development and poverty alleviation.

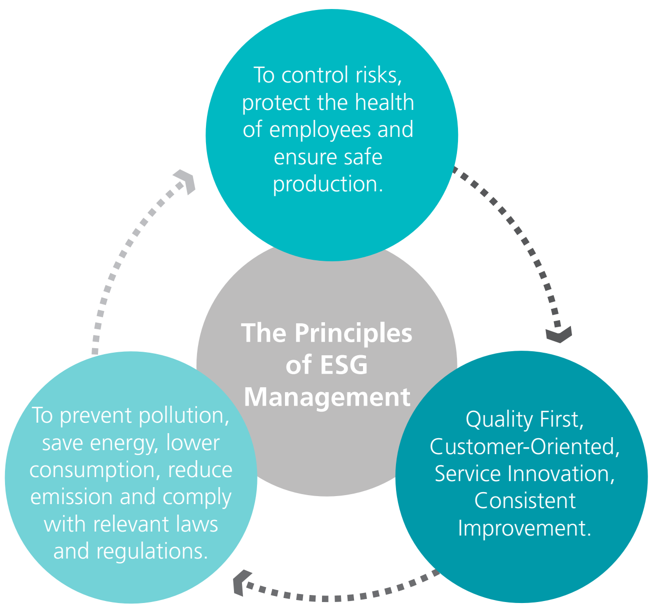
While looking forward, the pandemic has not reached the end, and the Group will continue to cooperate with the national pandemic prevention work. At the same time, we must adhere to integrating ESG-related risks into the major decision-making process, so that the Group can effectively monitor such risks and promote the sustainable development of the industry and society while expanding the business. On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all stakeholders for your attention and support to the Group.

**Liu Dong**
*Chairman of the Board*
**Dongwu Cement International Limited**

## ESG Management Approach

Sustainability is the goal that the Group pursues. The ESG management approach of the Group provides effective guidance for our daily operations.

The Group strictly complies with relevant ESG laws and regulations and international requirements, accordingly formulated the "Quality, Environmental and Occupational Health and Safety Management Handbook" (the "Management Handbook") to regulate the Group's quality, environmental and occupational health and safety management related work. To ensure the implementation of the work, the Group has established a management structure headed by the general manager and supplemented by various functional departments. Each department is responsible for its own production and management to a high standard, always operating around objectives, targets and regulations, sparing no effort to achieve quality, environmental and occupational health and safety goals.




The Quality, Environmental and Occupational Health and Safety Management System

At the same time, the Group continues to improve its ESG management measures by relying on various domestic and international management system certifications. During the year, the Group's occupational health and safety management system has migrated to the more stringent ISO 45001 certification, and our quality and environmental management system had already obtained ISO 9001 and ISO 14001 certifications.

To continuously improve and enhance the ESG management ability during operation, the Group has established a mechanism for self-identification and self-correction, and evaluate the quality, environmental and occupational health and safety management system through various inspections, internal audits and management reviews. During the year, the Group has revised the Management Handbook and other relevant documents and required relevant departments to implement the study and requirements of the documents. For one non-conformity factor identified during the internal audit, the relevant departments have timely rectified the non-compliance after receiving the report.

### *Stakeholder Engagement*

The Group understands the importance of understanding the needs and expectations of stakeholders. We maintain regular communication with stakeholders and strive to fully understand and identify ESG opportunities and risks that are closely related to the Group, based on which we optimize and improve our management and operation methods.

| Major Stakeholder | Communication Channel | Related Topic | Work and Achievement in 2020 | Corresponding Section |
|---|---|---|---|---|
| Government Authorities | • Participate in government meetings<br>• Actively report to relevant departments<br>• Actively accept supervision | • Operational compliance<br>• Environmental emissions compliance<br>• Legality of products | • Complying with relevant laws and regulations<br>• Accepting environment supervision and evaluation to ensure emission meeting relevant standards | Operational Excellence, Environmental Protection |
| Investors and Shareholders | • General meetings<br>• Listing information disclosure<br>• Activities such as annual or interim results press conference | • Corporate governance<br>• Business operation<br>• Information disclosure | • Releasing annual ESG report | Operational Excellence |
| Customers | • Customer complaint mechanism<br>• Customer satisfaction survey<br>• Privacy protection | • Customer satisfaction<br>• Product quality and safety | • The comprehensive customer satisfaction reached 96.1%<br>• Customer complaint handling rate was 100%<br>• The quality conformity rate of ex-factory cement was 100% | Operational Excellence |

| Major Stakeholder | Communication Channel | Related Topic | Work and Achievement in 2020 | Corresponding Section |
|---|---|---|---|---|
| Employees | • Regular and irregular employee interviews<br>• Staff training<br>• Employee activities | • Training and development<br>• Remuneration and benefits<br>• Occupational health and safety | • Obtained ISO 45001 Occupational Health and Safety Certification<br>• Zero incident rate of major casualty | People-Oriented |
| Suppliers | • Supplier meetings<br>• Telephone inquiry<br>• Site inspection | • Supplier Communication<br>• Third-party risk management | • Visting suppliers on a regular basis and holding supplier meeting<br>• All suppliers are qualified in the annual review | Operational Excellence |
| Media | • Press conference<br>• Email communication<br>• Telephone interviews | • Information disclosure | • Releasing annual ESG report | Operational Excellence |
| Community Public | • Community involvement<br>• Social donations | • Environmental protection<br>• Social contribution | • Identifyinf environmental factors and risk assessment<br>• Donating RMB300,000 in total to fight against the pandemic<br>• Donating RMB60,000 to poor mountainous areas in Guizhou | Environmental Responsibility, People-Oriented |

## Operational Excellence

Facing the growing market competition, the Group understands that excellent product quality and customer satisfaction are the foundation for the Group to achieve sustainability. The Group is committed to providing customers with quality and safe products and becoming a brand that customers can rely on.

### *Product Quality Management*

The Group strictly controls product quality and improves service standards. The Group has passed the certification of ISO 9001:2015 Quality Management System and the review of GB 175-2007 "Common Portland Cement" standards during the year. At the same time, we have established relevant internal policies such as the "Product Inspection and Measurement Control Procedures" to manage the quality inspection process in compliance with the laws and regulations such as the "Quality Management Procedures for Cement Enterprises" and the "Basic Conditions of Cement Enterprises Laboratory" to implement internal management procedures, and equip with basic facilities.

The Group has established the Production Technology Department, which is responsible for ensuring that the strength of semi-finished products (clinker) meets the standard in accordance with GB/T 21372-2008 "Portland Cement Clinker", monitoring the product quality during the production stage, and conducting regular inspection, maintenance and timely repair of production equipment.

Cement Laboratory is an important department for controlling the key product quality. It holds the Certificate of "Cement Enterprise Laboratory" and is responsible for the inspection, control, statistics, certification of ex-factory cement and conducting experimental research. The Cement Laboratory will allocate instruments and professional technicians according to the requirements, implement scientific operation, conduct quality inspection on incoming goods, semi-finished products and finished products, screen out and classify unqualified products, and properly handle them in accordance with the control procedures for non-compliance and corrective and preventive measures. Unqualified products are not allowed to be delivered to the market until they pass the quality inspection.

Our products are sold in bulk cement or under the registered brand “ ” with Ex-factory Cement Quality Certificate, which includes the requirements of the Common Portland Cement standards. We also prudently comply with the relevant laws and regulations such as the “Advertising Law of the People’s Republic of China”, carry out advertising, regulate advertising activities, and prohibit false or misleading content. During the year, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling, and privacy matters relating to products and services provided and methods of redress.

| Relevant Responsible Departments | Quality Management Objectives | Progress of the Year |
|---|---|---|
| Laboratory | 100% of quality conformity rate of our ex-factory cement | Achieved |
| | 100% of strength conformity rate of our ex-factory cement | Achieved |

***Customer Satisfaction***

The Group attaches great importance to customer satisfaction and is committed to enhancing customers’ recognition of our products and services. During the year, the Group’s Sales Department conducted a customer satisfaction survey, received feedback in a timely manner and made some improvement. The satisfaction questionnaire was rated based on four dimensions, namely product quality, service quality, product price and delivery time. During the year, the Group achieved a customer satisfaction rate of 96.1% from a questionnaire with a recovery rate of 100% and achieved the target customer satisfaction rate of more than 90%, which was of 0.3% increase comparing to the previous year. In particular, the Group’s delivery capability was well-received with an average score of 99. At the same time, the Group actively handled customer complaint cases, with a 100% customer complaint handling rate achieving the handling goal.

| Relevant Responsible Departments | Customer Service Management Objectives | Progress of the Year |
|---|---|---|
| Sales Department | Customer satisfaction rate over 90% | Achieved |
| | Customer complaint handling rate reaches 100% | Achieved |

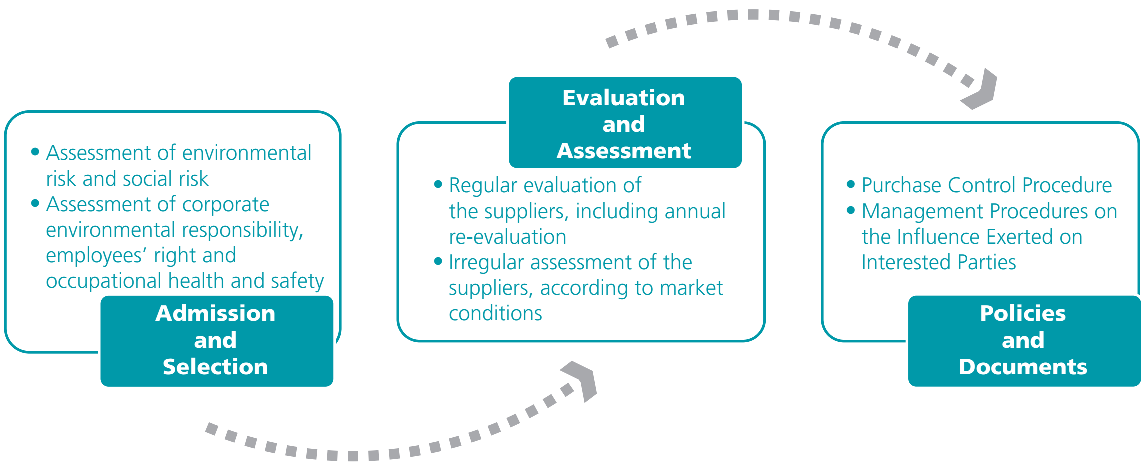
### *Supply Chain Management*

A stable supply chain is the foundation for the Group's operation. The Group actively maintains close communication with the suppliers through visits, telephone consultation, supplier meetings etc., establishes procurement rules and regulations, and conducts annual review on suppliers to ensure supply quality and stable production.

### Supplier Selection and Assessment

The Group has formulated relevant internal documents such as the "Purchase Control Procedures" to clarify the standardized operation of screening, assessment, tracking and evaluation, and select suppliers who comply with national laws and regulations, perform above industry standards, and meet the Group's requirements.

As the main coordination department for supplier selection and evaluation, the Supply Department and the Procurement Department not only carry out regular tracking and evaluation of suppliers, but also conduct irregular assessment of suppliers based on the actual situation. We conduct regular audits on suppliers, such as sample testing and quality management capability assessment, and also strictly review compliance reports such as employee rights protection, occupational health and safety of newly-introduced suppliers to ensure that their operations are in compliance with laws and regulations, have no child or forced labor issues.




Only suppliers that pass the review can be included in the "List of Qualified Suppliers". During the year, the Group had 22 qualified suppliers, all of which had passed the annual re-evaluation.

**Supply quality control**

The Group has formulated the "Internal Control Standards for Quality of Raw Materials", under which the Laboratory will conduct inspection on the raw materials purchased. In case of quality problems, the Supply Department will communicate with the suppliers and follow up the records, and conduct on-site inspection if necessary. The Supply Department is also required to verify the suppliers in a timely manner in accordance with the "Control Procedure for Inspection and Measurement of Products". In the event of non-conforming products, the relevant materials will be returned, and we will discontinue our cooperation with them when there are two or more non-conforming cases.

**Sustainable procurement**

The Group actively implements green procurement, promotes the concept of green and low-carbon, prioritises the procurement and use of raw materials that are conducive to environmental protection, and promotes the sustainability of the country and the enterprise. In order to promote the sustainable procurement of the Group, We prohibit the purchase of obsolete and eliminated products and equipment specified in the "Catalogue for the Elimination of Obsolete Production Capacity, Technology and Products", the "Catalogue for the Elimination of Obsolete Mechanical and Electrical Equipment (Products) with High Energy Consumption", and the "Industrial Structure Guidance Catalogue". We prioritize the use of energy-saving and consumption-reducing products and equipment with high efficiency or encouraged by the state, so as to reduce the impact on the environment.

***Privacy and Intellectual Property Protection***

Privacy security is an important part of the Group's daily operation. We strictly abide by the "Personal Data Privacy Ordinance" of Hong Kong and other relevant laws and regulations, and implement the privacy protection within the stakeholders and the Group. We require our internal employees to sign confidentiality agreements to avoid leakage of important information including the Group's technology-related information. For customers' documents and confidential information, we limit the access rights to the employees responsible for the relevant customers, and we handle customer information carefully and protect customer privacy. In case of any information leakage within or outside the Group, we will take remedial measures in a timely manner to minimize the impact.

The Group attaches equal importance to intellectual property protection. We implement relevant intellectual property protection measures in accordance with the "Hong Kong Intellectual Property Law". We also add relevant intellectual property protection provisions to the contractual terms, and the Legal Department of the Group handles all operational contracts to avoid any possible infringement of the ownership of the intellectual achievement of individuals or enterprises and to reduce losses to customers, suppliers and the Group.

As far as we know, the Group was not aware of any non-compliance with relevant laws and regulations[1] that have a significant impact on the Group relating to health and safety, privacy matters relating to products and services provided or infringement of intellectual property rights by the Group during the year.

### *Honest Operation*

In carrying out operational activities and internal control, the Group always adheres to the operating principles of honesty, integrity, fairness, and justice, to create a corporate culture of integrity and compliance. We strictly implement the internal "Prevention of Commercial Bribery Management Policy" to ensure that all employees are accurately aware of the regulations and operation measures of the system, and timely disclose and prevent improper or illegal acts.

**Project Management**

- Open tender for large value projects
- Management approves the amount of different service contracts by level

**Supplier Management**

- Consolidated review and evaluation of qualified vendors by multiple related departments
- Verification, approval and signatures required prior to procurement

**Personnel Management**

- Set up an audit team and a reporting channel for all business partners and employees to report in a timely manner
- WeChat work groups are established to encourage employees to report information to their supervisors in a timely manner
- Employees are required to report potential conflict of interest situations to management in a timely manner

The Group strictly complies with relevant anti-corruption laws and regulations[2]. During the year, we were not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud, and money laundering, nor were we involved in any corruption cases.

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Environmental Protection

Efficient use of various resources and efforts to reduce the impact of operations on the environment are necessary ways for the Group to improve production efficiency and maintain long-term sustainable development.

### *Environmental Management*

The cement production process consumes a large number of various resources and generates a series of wastes and pollutants, which in turn affects the environment. Since the establishment, the Group has been making continuous efforts to reduce environmental pollution in the course of production and operation of products and services under the management principle of "prevent pollution, save energy, lower consumption, reduce emission and comply with relevant laws and regulations".

### Management Structure

We have set up an environmental protection leading group led by the general manager, guided by the deputy general managers and the management representatives, and coordinated among various departments, workshops, and offices to contribute to the sustainable development of the Group. At the same time, we continue to carry out various inspections, internal audits and management reviews, clarify the division of labour among personnel at all levels, focus on environmental protection management, strive to produce high-quality, high-yield and low-energy products, and create value for the Group. Under the effective management of the environmental protection leading group, the Group continues to update the environmental management system standard certification and has passed the ISO 14001: 2015 certification.


Environmental Protection Leading Group

The Group has set a number of environmental targets and implemented 8 related management programmes to ensure the achievement of the targets, including the energy-saving renovation of several barrels of coal mills, the replacement of new energy-saving oil guns and the energy-saving technical improvement of circulating fans, etc., to take forward the energy saving and emission reduction programme. In addition, the Safety and Environment Department implemented pollutant emission measurement and monitoring to provide timely online feedback.

| Relevant Responsible Departments | Environmental Management Objective | Progress of the Year |
|---|---|---|
| Office, Supply department, Sales department, Laboratory | 100% solid waste classification and collection rate | Achieved |
| Production Technology Department (including workshops) | 100% pollutant emission compliance rate | Achieved |
| | 100% dust and noise emission compliance rate | Achieved |
| Safety and Environmental Department | 100% solid waste treatment rate | Achieved |

### Inspection of dangerous factors

The Group conducted a comprehensive investigation of environmental factors and hazards and has identified a total of 1,292 environmental factors and 29 key environmental factors. In turn, we conducted irregular inspections on the operation of dust collection equipment, equipment noise operation, wastewater and waste oil, solid waste and other pollutants disposal, and confirm that they meet the standards. In the future, we will continue to inspect and rectify equipment and environmental hygiene, strengthen the management of hazardous chemicals, and strictly follow the relevant systems to ensure that risk management and control comply with the requirements of laws and regulations.

During the year, the Group was not aware of any non-compliance with laws and regulations[3] that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

### *Resources Conservation*

### Energy Management

Based on the "Energy Conservation Law of the People's Republic of China", we have established the "Energy Management Handbook" to earnestly implement the key tasks of energy conservation and low-carbon action, and successfully passed the national energy system certification and evaluation in 2015. We insist on promoting the research of new processes with high energy efficiency and low environmental load, improving the scientific management of production sites, taking energy conservation and consumption reduction as the basic planning goal, strengthening the monitoring and management of energy, forming a comprehensive and systematic energy management system, improving energy utilization rate, and implementing energy conservation goals.

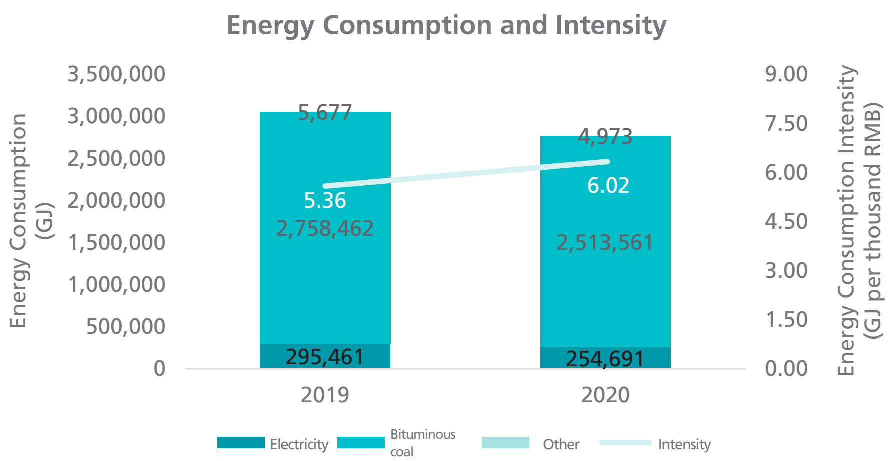
[3] *Please refer to the Relevant Laws and Regulations section of this report for environmental-related laws and regulations*

The Group has set up an Energy Leadership Group, which is composed of the deputy general manager of the Company and responsible personnel of various departments. It is required to work with various energy use departments to compile the "Energy Objectives and Targets Management Plan" for the following year in December each year, and determine the key policies and measures for the following year, the resources required for the project, the implementation process and the verification method of the results of the energy-saving projects by conducting feasibility studies and reviewing and evaluating management measures for energy management projects. In addition, the group is not only required to report the operational information and energy performance of the energy management system quarterly to the Group, so that all employees are jointly involved in the monitoring and inspection of the energy control system, but also responsible for receiving the energy management policies, standards and requirements from higher authorities, and communicating applicable and effective information to all employees to ensure the smooth operation of energy management and control.

| | |
|---|---|
| **Energy Leadership Group Priorities in 2020** | Technical upgrading of raw mill grinding circulating fan<br>Technical upgrading of the coal grinding system<br>Strengthen production site management to prevent emissions and leakages |

*Energy Consumption*

During the year, the Group's main energy consumption came from the use of electricity, bituminous coal, petrol and diesel. The total energy consumption was 2,773,225 GJ, and the energy consumption intensity was 6.02 GJ per thousand RMB revenue, of which the energy consumption of bituminous coal accounted for 91%. The total energy consumption decreased by approximately 9% compared with the previous year, of which electricity consumption decreased by 14% with the highest drop.

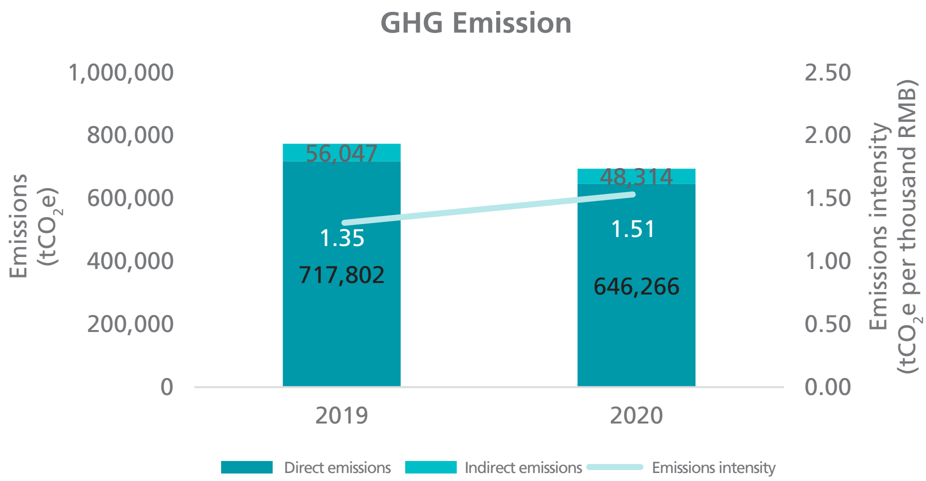


The decrease in energy consumption was attributable to the Group's effective energy conservation and consumption reduction measures in recent years. We will continue to implement various management methods and improve energy efficiency, so as to promote sustainable development strategy.

*Greenhouse Gas Emissions (GHG)*

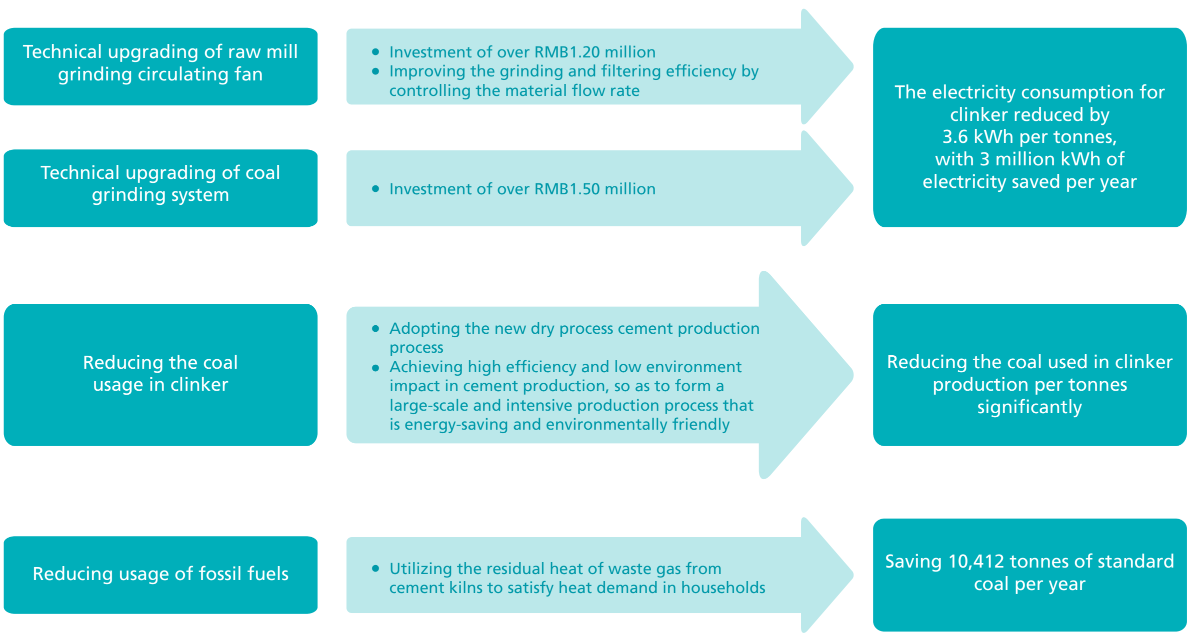
In accordance with the Interim Measures for the Administration of Carbon Emission Trading, the Notice on the Organization of Greenhouse Gas Emission Reporting for Key Enterprises and Public Institutions Issued by NDRC and other documents, the Group follows the accounting methods and guidelines for corporate greenhouse gas to calculate and report the annual greenhouse gas emissions, which provides a scientific reference for the Group's energy conservation and emission reduction work.

During the year, the Group's greenhouse gas emissions amounted to 694,580 $tCO_2e$, representing a year-on-year decrease of approximately 10%. Direct emission (Scope 1) was 646,266 $tCO_2e$, which were generated from fuel combustion emissions, raw material decomposition emissions, non-fuel carbon calcination emissions and vehicles' fuel combustion in the production process. Indirect emission (Scope 2) amounted to 48,314 $tCO_2e$, representing a year-on-year decrease of approximately 14%. The emission intensity was 1.51 $tCO_2e$/per thousand RMB revenue.



*Improvement of Energy Conservation and Emission Reduction Process*

The Group is well aware of the energy consumption in the cement manufacturing process, and the cement industry has always been the key management and control target of the country to promote energy conservation and emission reduction work. To this end, we have adopted new production processes to minimize the use of necessary resources in cement production, such as reducing the use of bituminous coal, thereby reducing the impact on the environment and striving to improve productivity by improving energy efficiency and promoting sustainable development strategies.




**Certain Innovative Production Process of the Group**

### Water Resources Management

The water resources consumed by the Group are mainly cement production and office operations, which were sourced from urban tap water. During the year, our water consumption was 18,347 tonnes, representing a year-on-year decrease of 26%, with an intensity of 0.040 tonnes per thousand RMB revenue, and there was no issue in water sourcing.

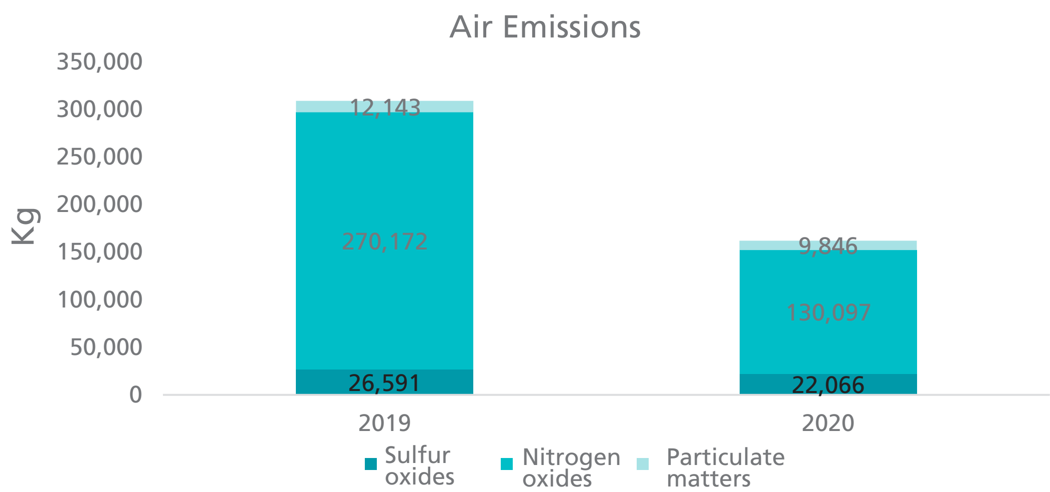
### *Emission Control*

### Air Emissions

The air pollutants emitted by the Group's daily operations is mainly sulfur oxides ($SO_x$), nitrogen oxides ($NO_x$) and particulate matter (PM) from kiln and vehicles. During the year, due to the technological transformation of emission reduction, the Group's air emission decreased significantly. Among which, the emission of nitrogen oxides was 130,097 kg, representing a decrease of approximately 52% as compared with 2019, and successfully achieved the emission reduction target.

**$NO_x$ Emission Target:**
50% decrease over
the previous year

| Air Emissions | Unit | Stationary Source Emission (Kiln Exhaust) | Mobile Source Emission (Vehicle Exhaust) | Total |
|---|---|---|---|---|
| Sulfur oxides ($SO_x$) | Kg | 22,066 | 0.43 | 22,066 |
| Nitrogen oxides ($NO_x$) | Kg | 129,980 | 116 | 130,097 |
| Particulate matter (PM) | Kg | 9,835 | 11 | 9,846 |



Every year, the Group obtains third-party approved quarter report on kiln waste testing covering particulate matter, sulfur dioxide, nitrogen oxides, fluoride, mercury and its compounds and ammonia. Through the purification of the electrostatic precipitator and the removal device, the treated gases meet the national and industrial emission standards such as the "Integrated Emission Standard for Air Pollutants" and the "Air Pollution Emission Standards from Cement Plants". In order to reduce air emissions, the Group carried out a transformation of the deep emission reduction technology of nitrogen oxides in 2019 and started to fully implement ultra-low emission during the Year, striving to control the emission concentration below 100mg/$m^3$.

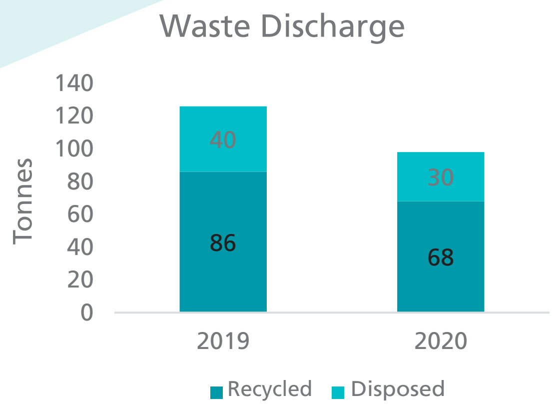
- Store low sulfur and ash bituminous coal
- Strengthen inspection of exhaust treatment facilities
- Increase the frequency of watering on the road in the factory area and the spraying water by machine at dust areas
- Prohibit the use of National IV and below heavy goods vehicles
- Inspect exhaust gas of vehicles annually
- Formulate the Short-term and In-depth Measures to Reduce Air Emissions in Autumn and Winter

Major Air Emissions Reduction Measures

### Waste Disposal

The Group's cement production and operation processes do not generate any hazardous waste, but only non-hazardous waste, including solid waste[4] and domestic waste. In particular, we engage with qualified third-party waste disposal companies to recycle and dispose industrial waste, while domestic waste is collected and disposed of by Management Office for Environmental Health. The amount of non-hazardous waste produced by the Group decreased year by year from 126 tonnes to 98 tonnes, representing a decrease of over 20%, and the amount recycled accounted for approximately 69% of the total waste. Adhering to the principle of repairing and utilizing old or discarded things, we strengthen the daily repair and maintenance of production equipment to extend the useful life of consumables to achieve the goal of waste reduction.

[4] *Including waste refractory bricks and scrap metals etc.*




The Group's production and operation also require the use of plastic film woven bags as packaging materials, and the consumption during the year was 125 tonnes, representing a decrease of approximately 13% as compared to the previous year.

### Wastewater Management

Based on the Group's business characteristics and water usage situation, we try our best to reduce sewage discharge and recycle all sewage generated. During the year, we generated approximately 7,600 liters of wastewater, representing a year-on-year decrease of approximately 11%. In order to achieve zero sewage discharge, we have adopted a closed-circuit water recycling system, in which the water used in the workshop has reached 100% recycling rate in the circulating pool, while the domestic sewage treatment device treats the unrecyclable sewage and then uses it for greening in the plant area after purification.

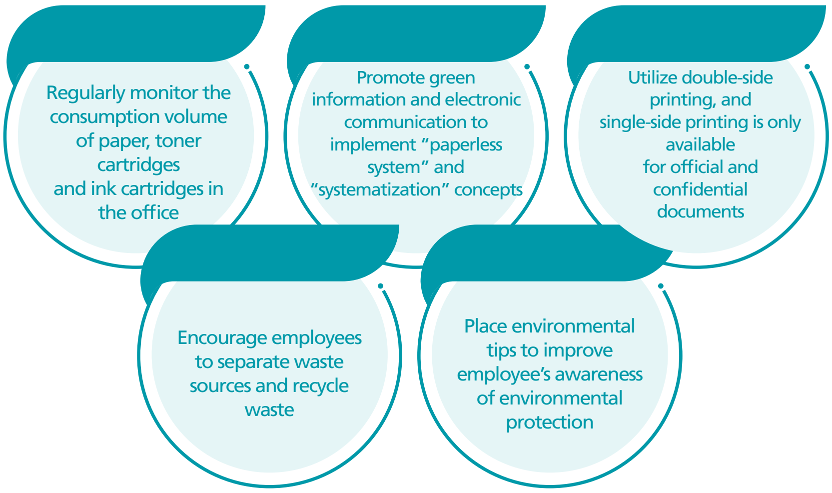

Closed-circuit circulating water system

### Noise Management

In order to create a low-noise production and living environment for employees and surrounding residents, the Group uses qualified sound-absorbing equipment to reduce its impact on the surrounding environment during noise transmission. Meanwhile, we strictly comply with the "Emission Standard for Industrial Enterprises Noise at Boundary Sound-absorbing Equipment", to ensure that the noise is always below the permitted limit, and regularly check the use of the equipment used and equipment to maintain them. During the year, the Group met the noise emission goals target.

### *Green Office*

In addition to green conservation in the office and factory areas, we take various measures to encourage employees to save resources and energy in the office, practice the concept of saving resources, protecting the environment, and promoting sustainability.




### *Response to Major Environmental Accidents*

The Group strictly complies with the "Environmental Protection Law of the People's Republic of China" and the "Emergency Management Measure for Environmental Emergencies" and is equipped with internal procedural documents such as the "Emergency Preparation and Corresponding Control Procedures" and the "Accident Handling and Control Procedures" to manage emergency environmental incidents in a timely manner and conduct prevention and control. During the year, the Group organized all employees to carry out fire, water and oil pollution accident at the terminals to enhance safety awareness, understand emergency handling procedures, strengthen coordination and cooperation ability, improve emergency response-ability and ensure employee safety.

## People-Oriented

The Group places the rights, health, and safety of its employees as its first priority and strives to create a fair, just, humanized, and dynamic working environment.

### *Health and Safety*

Employees' health and safety is a solid foundation for our business operations. In September, we obtained the ISO 45001: 2018 Occupational Health and Safety Management System Certification, through the efforts of various departments during the year. We will continue to carry out occupational health and safety improvement measures to enhance internal operational efficiency and provide a pleasant, high-quality, and safe working environment for our employees.

The Group has established a set of comprehensive operation procedures, including procurement, emergency preparation and response, accident handling, flammable and explosive products' fire control, non-compliance and corrective preventive measures, and waste management, supervised by the Safety and Environment Department to reduce occupational safety and health risks in all aspects of business operations. In order to control occupational health and safety hazards, we conducted risk identification and assessment during the year, identified a total of 1,002 hazards and 26 key hazards, and strived to control risks and enhance management.

During the year, the Group was not aware of any non-compliance with laws and regulations[5] that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

### Safe Production

We conduct regular inspections and maintenance on our production equipment to ensure a good working condition and reduce employees' occupational injuries risks. During the year, we organized monthly inspections on equipment, safety, environmental hygiene, occupational health, labour discipline, lubricants of special equipment and main engine, and timely organised rectification of any problem related to equipment, environment and safety problem. The warehouses hazardous chemicals management is carried out in strict accordance with relevant policies. We strictly strengthen the safety production measures, standardize the necessary products for safety production, and strengthen the distribution and use of labour protection supplies.

| Relevant Responsible Departments | Safety Management Objectives | Progress of the Year |
|---|---|---|
| Safety and Environmental Department | Zero incident rate of major casualty | Achieved |
| | Zero fire incident rate | Achieved |
| | Zero occupational disease incident rate | Achieved |
| | Less than 1% minor work-related injury | Achieved |
| | 100% protective equipment distribution rate | Achieved |
| | 100% certificates rate for special type of work | Achieved |

### Safety Education

The Group attaches great importance to employees' safety education, and conducts quarterly internal and external safety training on operational knowledge, laws and regulations, personal protection, emergency measures, and occupational disease prevention for incoming and current employees and special personals. We also actively promote safety manuals to spread safety awareness to the public. During the year, we recorded a total of 462 participants in safety training with a total of 194 training hours.

In order to improve employee's emergency response ability, the Group's Safety and Environment Department regularly organizes safety accident drills every year, with a series of safety education focusing on drowning, ammonia leakage accidents, etc., to improve employees' safety awareness and emergency response ability.

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

***Employment Practices***

The Group strives to create a fair and respectful working environment and prohibits discrimination in any form. We treat all employees equally, regardless of their identity, race, and gender, and provide equal treatment and promotion opportunities. The Group strictly complies with the "Labor Law of the People's Republic of China" and other relevant laws and regulations[6], and has formulated policies such as the "Human Resources Procedures" and the "Human Resources Management System" to protect the legitimate rights and interests of employees.

The Group attaches great importance to the legal compliance of the recruitment process, and attracts outstanding talents in line with the Group's development strategy through a fair and rigorous selection process and comprehensive evaluation and assessment. When there is an internal job vacancy, we give priority to internal recommendation and provide clear promotion path for internal employees, so as to enhance their work enthusiasm. If internal candidates are not suitable, we select elite talents with development potential through external recruitment. Employees are free to leave the Group, and the relevant departments will conduct exit interviews to understand the employees' views on the Group and formulate improvement measures to rectify unreasonable areas.

The Group provides employees with remuneration packages that are higher than the industry average. Remuneration consists of three parts, basic salary, overtime pay and performance bonus, which are determined based on the year-end appraisal results of each employee. We provide employees with five social insurances and one housing fund in accordance with the law, including pension insurance, medical insurance, unemployment insurance, maternity insurance, and housing provident fund. Employees are entitled to paid leaves such as marriage leave, maternity leave, and statutory holidays, as well as other subsidies such as festival allowance and high temperature allowance in accordance with the Group's policies.

In addition, the Group seriously states that only employees aged 16 or above are employed and strictly prohibit child labor and forced labor. During recruitment, we carefully check whether the applicant's identity card is consistent with the information in the application form.

During the year, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, anti-discrimination, prevention of child and forced labor, and other benefits and welfare. There were no cases of child labor and forced labor during the year.

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

### *Staff Training*

The Group places great emphasis on staff training, especially in environment, quality, and occupational safety and health training, as well as training for special positions. During the year, we carried out different monthly training activities for employees from different departments, such as chemical analysis training for laboratory personnel, anti-internet fraud training for all employees, and cement central control operation training for central control room personnel. According to statistics, we carried out 7 targeted trainings[7], covering 368 person-time, with a total of 942 hours, and achieve 100% coverage in internal and external training during the year. Each training assessment takes the form of on-site questions and evaluations as well as hands-on exercises for employees to learn and apply.

#### Key Training Types and Contents in 2020

| **Type of Training** | General training | Special position training | Specific training regarding cement |
|---|---|---|---|
| **Training Group** | • Induction training for all new and current employees | • For employees in special positions, such as laboratory inspectors and central control room operators | • For all employees |
| **Training Purpose** | • Assisting new and current employees to familiarize themselves with the Company's business processes and work matters | • Skills training and training on the use of production equipment in special departments | • Learning and enhancement of professional knowledge |
| **Key Training Contents in 2020** | • Training on the new management manual and documents<br>• Conduct anti-internet fraud training to understand how to identify internet fraud | • Collective training for employees in special positions, strictly requiring them to master the latest technical operation and emergency methods, and further enhance the production and inspection of key areas | • Learning the latest general cement standards and strictly control product quality.<br>• Understanding the latest cement-related expertise and improving quality inspection |

[7] *Excluding occupational safety and health training*

In addition, the Group conducts monthly and annual assessments to evaluate employees' work efficiency, operating ability, work attitude, and professional knowledge. We offer employees with outstanding year-end assessment results with higher priority in promotion and better benefits and welfare. We actively listen to employees' opinions and provide them with diversified trainings that are suitable for their career and in line with the Group's development path, so as to grow together with employees.

### *Community Investment*

In 2020, the whole society and various industries were struggling with the impact of the COVID-19 outbreak. The Group strives to make the greatest contribution to the fight against the pandemic while maintaining its sound operation. We donated a total of RMB300,000 to fight against the pandemic in the society.

At the same time, we continued to make donations to poor mountainous areas in Guizhou, with a total donation of RMB60,000 during the year, contributing to local development and poverty alleviation. We understand that the Company's operation needs to contribute to society and generate positive impacts, so we will do our best to adhere to social investment and develop together with the community.

## Relevant Laws and Regulations

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

| ASPECTS | LAWS AND REGULATIONS | RELEVANT SECTIONS |
|---|---|---|
| **Emissions** | Environmental Protection Law of the People's Republic of China<br>Water Pollution Prevention and Control Law of the People's Republic of China<br>Atmospheric Pollution Prevention and Control Law of the People's Republic of China<br>Law of the People's Republic of China on Prevention and Control of Pollution from Environment Noise<br>Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes<br>Ambient Air Quality Standard<br>Integrated Emission Standards for Air Pollutants<br>Integrated Wastewater Discharge Standard<br>Emission Standard for Industrial Enterprise Noise at Boundary | Environmental Protection – Environmental Management |
| **Use of Resources** | Energy Conservation Law of the People's Republic of China | Environmental Protection – Resource Conservation |

| ASPECTS | LAWS AND REGULATIONS | RELEVANT SECTIONS |
|---|---|---|
| **The Environment and Natural Resources** | Environmental Protection Law of the People's Republic of China<br>Emergency Response Law of the People's Republic of China | Environmental Protection – Response to Major Environmental Accidents |
| **Health and Safety** | Production Safety Law of the People's Republic of China<br>Law of the People's Republic of China on the Prevention and Control of Occupational Diseases<br>Special Equipment Safety Law of the People's Republic of China<br>Regulation of the People's Republic of China on Prevention and Control of Pneumoconiosis<br>Fire Control Law of the People's Republic of China<br>Regulations of Jiangsu Province on Firefighting and Prevention<br>Regulation on work-related Injury Insurance of Jiangsu Province | People-Oriented – Health and Safety |
| **Employment Labor Standards** | Labour Law of the People's Republic of China<br>Labour Contract Law of the People's Republic of China<br>Provisions on the Prohibition of Using Child Labor of the People's Republic of China<br>Social Insurance Law of the People's Republic of China<br>Law of the People's Republic of China on the Protection of Women's Rights and Interest<br>Law of the People's Republic of China on the Protection of Disabled Persons | People-Oriented – Employment Practices |
| **Product Responsibility** | Quality Management Procedures of Cement Enterprise<br>Basic Conditions of Cement Enterprise Laboratory<br>Product Quality Law of the People's Republic of China<br>Advertising Law of the People's Republic of china<br>Patent Law of the People's Republic of China<br>Trademark Law of the People's Republic of China<br>Copyright law of the People's Republic of China<br>Personal Data (Privacy) Ordinance<br>Hong Kong Intellectual Property Law | Operational Excellence – Product Quality Management<br>Operational Excellence – Privacy and Intellectual Property Protection |
| **Anti-corruption** | Criminal Law of the People's Republic of China<br>Anti-Unfair Competition Law of the People's Republic of China | Operational Excellence – Honest Operation |

## Performance Data Summary

| | | 2020 | 2019 |
|---|---|---|---|
| **Environment** | Resource consumption | | |
| | Energy consumption (GJ) | 2,773,225 | 3,059,600 |
| | Energy consumption intensity (GJ per thousand RMB revenue) | 6.02 | 5.36 |
| | Electricity (kWh) | 70,747,582 | 82,072,420 |
| | Bitumite (Tonnes) | 119,160 | 130,770 |
| | Petrol (Liters) | 18,686 | 21,372 |
| | Diesel (Liters) | 122,255 | 139,521 |
| | Water resource (Tonnes) | 18,347 | 24,702 |
| | Water recourses consumption internsity (Tonnes per thousand RMB revenue) | 0.040 | 0.043 |
| | Emission | | |
| | Greenhouse gas emission ($tCO_2e$) | | |
| | Scope 1: direct carbon emission | 646,266 | 717,802 |
| | Scope 2: indirect carbon emission | 48,314 | 56,047 |
| | Total | 694,580 | 773,849 |
| | Greenhouse gas emission intensity ($tCO_2e$ per thousand RMB revenue) | 1.51 | 1.35 |
| | Exhaust emission (Kg) | | |
| | $NO_x$ | 130,097 | 270,172 |
| | $SO_x$ | 22,066 | 26,591 |
| | PM | 9,846 | 12,143 |
| | Mercury | 65.98 | 6.92 |
| | Ammonia | 6,038 | 6,617 |
| | Fluoride[8] | 1,566 | 1,765 |
| | Waste (Tonnes) | | |
| | Hazardous waste from the operation of the Group. | No hazardous waste was generated from the operation of the Group. | |
| | Non-hazardous waste | | |
| | Generated | 98 | 126 |
| | Recycled | 68 | 86 |
| | Disposed | 30 | 40 |
| | Sewage (Liters) | | |
| | Generated | 7,600 | 8,500 |
| | Recycled | 7,600 | 8,500 |
| | Packaging materials (Tonnes) | | |
| | Compound plastic bags | 125 | 143 |

8 *Including dust and gas fluoride*

| | | 2020 | 2019 |
|---|---|---|---|
| **Employee** | Total headcount | | |
| | By geographical distributions | | |
| | Hong Kong | 0 | – |
| | Mainland China | 215 | – |
| | By age | | |
| | ≤30 | 18 | – |
| | 31-50 | 101 | – |
| | ≥51 | 96 | – |
| | By gender | | |
| | Male | 166 | – |
| | Female | 49 | – |
| | By employment type | | |
| | Full-time | 215 | – |
| | Part-time | 0 | – |
| | By function | | |
| | Management | 35 | – |
| | General employees | 180 | – |
| | Employee turnover (%) | | |
| | By geographical | | |
| | Hong Kong | 0 | – |
| | Mainland China | 15 | – |
| | By age | | |
| | ≤30 | 5 | – |
| | 31-50 | 5 | – |
| | ≥51 | 5 | – |
| | By gender | | |
| | Male | 13 | – |
| | Female | 2 | – |
| | Employee new hire (%) | | |
| | By geographical | | |
| | Hong Kong | 0 | – |
| | Mainland China | 13 | – |
| | By age | | |
| | ≤30 | 2 | – |
| | 31-50 | 6 | – |
| | ≥51 | 5 | – |
| | By gender | | |
| | Male | 9 | – |
| | Female | 4 | – |

| | | 2020 | 2019 |
|---|---|---|---|
| **Occupational Safety and Health** | Performance of occupational safety and health | | |
| | Number of work-related accidents | 0 | – |
| | Number of work-related injuries | 0 | – |
| | Number of work-related death | 0 | – |
| | Lost days due to work-related injury | 0 | – |
| | Training on Occupational Safety and Health | | |
| | Total person-times training | 462 | – |
| | Total training hours | 194 | – |
| **Development and Training** | Average training hours per employee | | |
| | By gender | | |
| | Male | 4.07 | – |
| | Female | 5.45 | – |
| | By Function | | |
| | Management | 5.31 | – |
| | General employees | 4.20 | – |
| | Percentage of employees trained (%) | | |
| | By gender | | |
| | Male | 100 | – |
| | Female | 100 | – |
| | By Function | | |
| | Management | 100 | – |
| | General employees | 100 | – |
| **Suppliers** | Suppliers distribution | | |
| | Hong Kong | 0 | 0 |
| | Mainland China | 22 | 14 |
| **Society** | Community investment | | |
| | Donation | 430,000 | 280,000 |

## ESG Content Index

| Key Performance Indicator | HKEX ESG Reporting Guide Requirements | | Section/Remark |
|---|---|---|---|
| **A. Environmental** | | | |
| **Aspect A1:** | | | |
| **Emissions** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer.<br><br>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | | Environmental Protection – Environmental Management, Emission Control |
| | KPI A1.1 | The types of emissions and respective emissions data. | Environmental Protection – Emission Control |
| | KPI A1.2 | Greeenhouse gas emission (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility). | Environmental Protection – Emission Control |
| | KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | The Group's operations do not involve the generation of hazardous waste |
| | KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Environmental Protection – Emission Control |
| | KPI A1.5 | Description of emissions target(s) set and steps taken to achieve them. | Environmental Protection – Emission Control |
| | KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Environmental Protection – Emission Control |

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

| Key Performance Indicator | HKEX ESG Reporting Guide Requirements | | Section/Remark |
|---|---|---|---|
| **B. Social** | | | |
| **Aspect B1:** | | | |
| **Employment** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | | People-Orientated– Employment Practices |
| | KPI B1.1 | Total workforce by gender, employment type (for example, full– or part-time), age group and geographical region. | Performance Data Summary |
| | KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Performance Data Summary |
| **Aspect B2:** | | | |
| **Health and Safety** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to providing a safe working environment and protecting employees from occupational hazards. | | People-Orientated – Health and Safety |
| | KPI B2.2 | Lost days due to work injury. | Performance Data Summary |
| | KPI B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | People-Orientated – Health and Safety |

| Key Performance Indicator | HKEX ESG Reporting Guide Requirements | | Section/Remark |
|---|---|---|---|
| **Aspect B3:** | | | |
| **Development and Training** | **General Disclosure**<br><br>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | | People-Oriented – Staff Training |
| | KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Performance Data Summary |
| | KPI B3.2 | The average training hours completed per employee by gender and employee category. | Performance Data Summary |
| **Aspect B4:** | | | |
| **Labour Standards** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to preventing child and forced labour. | | People-Oriented – Employment Practices |
| | KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | People-Oriented – Employment Practices |
| | KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | No non-compliance during the year |

| Key Performance Indicator | HKEX ESG Reporting Guide Requirements | | Section/Remark |
|---|---|---|---|
| **Aspect B5:** | | | |
| **Supply Chain Management** | **General Disclosure**<br><br>Policies on managing environmental and social risks of the supply chain. | | Operational Excellence – Supply Chain Management |
| | KPI B5.1 | Number of suppliers by geographical region. | Performance Data Summary |
| | KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | Operational Excellence – Supply Chain Management |
| | KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | Operational Excellence – Supply Chain Management |

| Key Performance Indicator | HKEX ESG Reporting Guide Requirements | | Section/Remark |
|---|---|---|---|
| **Aspect B6:** | | | |
| **Product Responsibility** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | | Operational Excellence – Product Quality Management, Customer Satisfaction, Privacy and Intellectual Right Protection |
| | KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | There were no recall due to safety and health reasons during the year |
| | KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Operational Excellence – Privacy and Intellectual Right Protection |
| | KPI B6.4 | Description of quality assurance process and recall procedures. | Operational Excellence – Product Quality Management |
| | KPI B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | Operational Excellence – Privacy and Intellectual Right Protection |

| Key Performance Indicator | HKEX ESG Reporting Guide Requirements | | Section/Remark |
|---|---|---|---|
| **Aspect B7:** | | | |
| **Anti-corruption** | **General Disclosure**<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to bribery, extortion, fraud and money laundering. | | Operational Excellence – Honest Operation |
| | KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | There were no corruption lawsuits during the year. |
| | KPI B7.2 | Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored. | Operational Excellence – Honest Operation |
| **Aspect B8:** | | | |
| **Community Investment** | **General Disclosure**<br><br>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | | People-Orientated – Community Investment |
| | KPI B8.1 | Focus areas of contribution. | People-Orientated – Community Investment |
| | KPI B8.2 | Resources contributed to the focus area. | People-Orientated – Community Investment |

# INDEPENDENT AUDITOR'S REPORT

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

## Opinion

We have audited the consolidated financial statements of Dongwu Cement International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 96 to 174, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

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

## Key Audit Matters *(Continued)*

***Impairment assessment of trade and loan receivables***

Refer to Notes 5(c) and 24 to the consolidated financial statements.

The gross carrying amounts of the Group's gross trade and loan receivables as at 31 December 2020 were approximately RMB65,949,000 and RMB25,000,000, respectively, and provisions for impairment losses thereon were approximately RMB1,116,000 and RMB1,673,000, respectively.

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

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

***Our response:***

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

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

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

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

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

## Key Audit Matters *(Continued)*

***Our response:*** *(Continued)*

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

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

## Other Information in the Annual Report

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

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

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

## Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Hong Kong, 25 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| Revenue | 7 | **460,970** | 571,150 |
| Cost of sales | | **(359,913)** | (432,826) |
| **Gross profit** | | **101,057** | 138,324 |
| Distribution expenses | | **(4,855)** | (4,219) |
| Administrative expenses | | **(31,237)** | (30,229) |
| Other income | 8 | **9,015** | 12,413 |
| Other gain | 9 | **84** | 7 |
| **Operating income** | | **74,064** | 116,296 |
| Finance income | | **3,158** | 988 |
| Finance expenses | | **(1,814)** | (3,245) |
| Finance income/(expenses) – net | 10 | **1,344** | (2,257) |
| Share of results of an associate | 21 | **3,842** | 4,327 |
| **Profit before income tax expense** | 11(a) | **79,250** | 118,366 |
| Income tax expense | 15 | **(29,101)** | (41,853) |
| **Profit for the year from continuing operations** | | **50,149** | 76,513 |
| **Discontinued operation** | | | |
| Gain/(loss) for the year from a discontinued operation, after tax | | **87** | (15,811) |
| **Profit for the year** | | **50,236** | 60,702 |
| **Other comprehensive income for the year, net of tax** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | 22(a) | **–** | 2,466 |
| Other comprehensive income, net of tax | | **–** | 2,466 |
| **Total comprehensive income for the year** | | **50,236** | 63,168 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **Profit/(loss) for the year attributable to:** | | | |
| Owners of the Company | | | |
| – From continuing operations | | **50,149** | 76,513 |
| – From a discontinued operation | | **113** | (9,844) |
| | | **50,262** | 66,669 |
| Non-controlling interests | | | |
| – From a discontinued operation | | **(26)** | (5,967) |
| | | **50,236** | 60,702 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | | |
| – From continuing operations | | **50,149** | 78,979 |
| – From a discontinued operation | | **113** | (9,844) |
| | | **50,262** | 69,135 |
| Non-controlling interests | | | |
| – From a discontinued operation | | **(26)** | (5,967) |
| | | **50,236** | 63,168 |
| **Earnings per share from continuing and discontinued operations** | | | |
| – Basic and diluted (RMB per share) | *13* | **0.091** | 0.121 |
| **Earnings per share from continuing operations** | | | |
| – Basic and diluted (RMB per share) | *13* | **0.091** | 0.139 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **175,170** | 169,102 |
| Goodwill | 18 | **11,590** | – |
| Intangible assets | 19 | **7,421** | 403 |
| Deposit paid for purchase of machineries | 24 | **8,388** | – |
| Investment in an associate | 21 | **34,029** | 30,187 |
| Financial assets at fair value through profit or loss | 22(b) | **–** | 110,000 |
| Total non-current assets | | **236,598** | 309,692 |
| **Current assets** | | | |
| Inventories | 23 | **29,833** | 27,906 |
| Trade and other receivables | 24 | **138,259** | 272,053 |
| Short-term bank deposits | 25 | **310,000** | 49,180 |
| Cash and cash equivalents | 26 | **93,015** | 81,826 |
| | | **571,107** | 430,965 |
| Assets of a discontinued operation classified as held for sale | 11(b) | **–** | 63,256 |
| Total current assets | | **571,107** | 494,221 |
| **Current liabilities** | | | |
| Lease liabilities | 17 | **2,898** | 63 |
| Trade and other payables | 27 | **162,059** | 161,039 |
| Income tax payables | | **11,329** | 19,047 |
| Borrowings | 28 | **65,187** | 37,028 |
| | | **241,473** | 217,177 |
| Liabilities of a discontinued operation classified as held for sale | 11(b) | **–** | 33,648 |
| Total current liabilities | | **241,473** | 250,825 |
| **Net current assets** | | **329,634** | 243,396 |
| **Total assets less current liabilities** | | **566,232** | 553,088 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Lease liabilities | 17 | **686** | – |
| Deferred tax liabilities | 29 | **33,636** | 26,559 |
| Total non-current liabilities | | **34,322** | 26,559 |
| **Net assets** | | **531,910** | 526,529 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 30 | **4,490** | 4,490 |
| Reserves | | **529,227** | 514,344 |
| | | **533,717** | 518,834 |
| **Non-controlling interests** | | **(1,807)** | 7,695 |
| **Total equity** | | **531,910** | 526,529 |

On behalf of the Board

**Liu Dong**
*Director*

**Wu Junxian**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | | Equity attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Notes* | **Share capital** *RMB'000* | **Other reserves** *RMB'000* *(Note 31)* | **Fair value through other comprehensive income reserve** *RMB'000* *(Note 31(d))* | **Retained earnings** *RMB'000* | **Total** *RMB'000* | **Non-controlling interests** *RMB'000* | **Total equity** *RMB'000* |
| Balance at 31 December 2018 as originally presented | | 4,490 | 336,971 | (2,466) | 144,759 | 483,754 | 13,662 | 497,416 |
| Initial application of HKFRS 16 | | – | – | – | (9) | (9) | – | (9) |
| As at 1 January 2019 (Re-presented) | | 4,490 | 336,971 | (2,466) | 144,750 | 483,745 | 13,662 | 497,407 |
| Profit/(loss) for the year | | – | – | – | 66,669 | 66,669 | (5,967) | 60,702 |
| Other comprehensive income: | | | | | | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | *22(a)* | – | – | 2,466 | – | 2,466 | – | 2,466 |
| Total comprehensive income | | – | – | 2,466 | 66,669 | 69,135 | (5,967) | 63,168 |
| Appropriations to statutory reserves | *31(a)* | – | 9,532 | – | (9,532) | – | – | – |
| Dividends declared and paid in respect of the previous year | | – | – | – | (34,046) | (34,046) | – | (34,046) |
| As at 31 December 2019 and 1 January 2020 | | 4,490 | 346,503 | – | 167,841 | 518,834 | 7,695 | 526,529 |
| Profit/(loss) for the year | | – | – | – | 50,262 | 50,262 | (26) | 50,236 |
| Total comprehensive income | | – | – | – | 50,262 | 50,262 | (26) | 50,236 |
| Disposal of subsidiaries | *33* | – | – | – | (26) | (26) | (7,669) | (7,695) |
| Acquisition of subsidiaries | *34* | – | – | – | – | – | (1,807) | (1,807) |
| Appropriations to statutory reserves | *31(a)* | – | 6,533 | – | (6,533) | – | – | – |
| Dividend declared and paid in respect of the interim period | *13* | – | – | – | (35,353) | (35,353) | – | (35,353) |
| At 31 December 2020 | | 4,490 | 353,036 | – | 176,191 | 533,717 | (1,807) | 531,910 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax expense from continuing operations | | **79,250** | 118,366 |
| Profit/(loss) before income tax expense from a discontinued operation | 11(b) | **87** | (15,828) |
| | | **79,337** | 102,538 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 16 | **17,920** | 17,752 |
| Depreciation of right-of-use assets | 16 | **3,238** | 1,138 |
| Provision for/(reversal of provision for) impairment on trade receivables, net | 24 | **132** | (2,053) |
| Provision for impairment on other receivables, net | 24 | **189** | 257 |
| Write-off interest derived from loan receivables | | **49** | – |
| Write-off money lenders licence | | **403** | – |
| Exchange gain | | **(1,859)** | – |
| Provision for/(reversal of provision for) impairment on loan receivables, net | 24 | **606** | (2,821) |
| Gain on disposal of property, plant and equipment | 9 | **(84)** | (7) |
| Gain on disposal of subsidiaries | 33 | **(87)** | – |
| Finance income | 10 | **(3,158)** | (988) |
| Finance expenses | 10 | **1,814** | 3,245 |
| Interest from perpetual bond | 22(b) | **(2,455)** | – |
| Share of results of an associate | 21 | **(3,842)** | (4,327) |
| Loss on disposal of construction project | 9 | **–** | 13,617 |
| Interest income from loan receivables | 8 | **(66)** | (3,379) |
| | | **92,137** | 124,972 |
| Operating profit before working capital changes | | | |
| Increase in inventories | | **(1,793)** | (718) |
| Decrease in trade and other receivables | | **60,362** | 63,358 |
| (Decrease)/increase in trade and other payables | | **10,844** | 75,809 |
| | | **161,550** | 263,421 |
| **Cash generated from operating activities** | | | |
| Income tax paid | | **(29,743)** | (31,465) |
| Net cash generated from operating activities | | **131,807** | 231,956 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Interest received | | **3,158** | 988 |
| Acquisition of subsidiary, net of cash acquired | | **(32,076)** | – |
| Disposal of subsidiary, net of cash disposed | | **(23)** | – |
| Proceeds of disposal of financial asset at fair value through other comprehensive income | 22(a) | **–** | 9,000 |
| Purchases of property, plant and equipment | 16 | **(19,296)** | (52,502) |
| Investment in financial assets at fair value through profit or loss | 22(b) | **–** | (110,000) |
| Proceeds of redemption on perpetual bond | 22(b) | **112,455** | – |
| Proceeds from disposal of property, plant and equipment | | **106** | 14 |
| Repayment from third parties (loan receivables) | 24 | **121,000** | 40,000 |
| Loans to third parties (loan receivables) | 24 | **(25,000)** | (10,000) |
| Placement of short-term deposits | 25 | **(350,820)** | (4,780) |
| Release of short-term deposits | 25 | **90,000** | – |
| Deposit paid for purchase of machineries | | **(8,388)** | – |
| Deposit received from disposal of subsidiaries | 27 | **–** | 11,000 |
| Net cash used in investing activities | | **(108,884)** | (116,280) |
| **Cash flows from financing activities** | 40 | | |
| Interest paid | | **(1,814)** | (3,245) |
| Cash dividend paid | 12 | **(35,353)** | (34,046) |
| New Borrowing raised | | **54,390** | 10,700 |
| Repayments of borrowings | | **(26,231)** | (42,225) |
| Repayment of principal portion of the lease liabilities | | **(2,749)** | (737) |
| Net cash used in financing activities | | **(11,757)** | (69,553) |
| **Net increase in cash and cash equivalents** | | **11,166** | 46,123 |
| Cash and cash equivalents at beginning of the year | | **81,849** | 35,726 |
| **Cash and cash equivalents at end of the year** | | **93,015** | 81,849 |
| **Represented by:** | | | |
| Cash and bank balances | | **93,015** | 81,826 |
| Cash and bank balances attributable to a discontinued operation | 11(b) | **–** | 23 |
| | | **93,015** | 81,849 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. General Information

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

The Company is an investing holding company. The Company and its subsidiaries as mentioned in Note 20 are collectively referred to as the "Group". The Group is principally engaged in the production and sales of cement. The principal place of the Group's business is Fenhu Economic Development Zone, Wujiang, Jiangsu Province, People's Republic of China (the "PRC").

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

### *(a) Adoption of new/revised HKFRSs – first effective on 1 January 2020*

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements, except for the adoption of the following new standards and interpretations as of 1 January 2020 and the policies stated in below:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendments to HKAS 39, HKFRS 7 and HKFRS 9, Interest Rate Benchmark Reform

Other than the amendments to HKFRS 3, none of these new or amended HKFRSs 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 HKFRSs that is not yet effective for the current accounting period. Impact on the applications of these amended HKFRSs are summarised below.

**Amendments to HKFRS 3, Definition of a Business**

The amendments clarify the definition of a business and introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

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

### (a) *Adoption of new/revised HKFRSs – first effective on 1 January 2020* *(Continued)*

**Amendments to HKFRS 3, Definition of a Business** *(Continued)*

The Group elected to apply the amendments prospectively to acquisitions for which the acquisition date is on or after 1 January 2020. As described in Note 34, the Group acquired a set of activities and assets in December 2020 and elected to apply the concentration test to that transaction but the transaction failed the concentration test. Based on the assessment of elements of a business, the Group concluded that the acquired set of activities and assets is a business.

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

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

| | |
|---|---|
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current[4] |
| HK Interpretation 5 (2020) | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4] |
| Amendments to HKAS 16 | Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[2] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2[1] |
| Annual Improvements to HKFRSs 2018-2020[2] | |

[1] Effective for annual periods beginning on or after 1 January 2021.

[2] Effective for annual periods beginning on or after 1 January 2022.

[3] Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

[4] 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.

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

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

**Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

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.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

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

**Amendments to HKAS 16, Proceeds before Intended Use**

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

**Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract**

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

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

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

**Amendments to HKFRS 3, Reference to the Conceptual Framework**

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

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

**Amendments to HKFRS 10 and HKAS 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 financial statements in future periods should such transaction arise.

**Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2**

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

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

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

**Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2** *(Continued)*

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

**Annual Improvements to HKFRSs 2018-2020**

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

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

## 3. Basis of Preparation

### (a) Statement of compliance

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

### (b) Basis of measurement

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

### (c) Use of estimates and judgements

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

### (d) Functional and presentation currency

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

## 4. Significant Accounting Policies

### (a) Business combination and basis of consolidation

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

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

## 4. Significant Accounting Policies *(Continued)*

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

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

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

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

### *(b)* ***Subsidiary***

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

In the Company's statement of financial position (Note 32), investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

## 4. Significant Accounting Policies *(Continued)*

### *(c) Associate*

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

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

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

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

In the Company's statement of financial position (Note 32), investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

### *(d) Goodwill*

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree over the fair value of the identifiable assets and liabilities measured as at the acquisition date.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

## 4. Significant Accounting Policies *(Continued)*

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

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

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

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

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

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

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

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

## 4. Significant Accounting Policies *(Continued)*

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

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

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

### *(f) Intangible assets*

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

| | |
|---|---|
| Money lenders licence | indefinite |
| Technical know-how | 10 years |

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

### *(g) Leases*

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

#### Right-of-use assets

The right-of-use assets should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. The useful life of the right-of-use assets is over the term of lease of 2 to 50 years.

## 4. Significant Accounting Policies *(Continued)*

### *(g)* ***Leases*** *(Continued)*

**Right-of-use assets** *(Continued)*

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

**Lease liabilities**

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

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

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

### *(h)* ***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.

## 4. Significant Accounting Policies *(Continued)*

### *(h)* ***Financial instruments*** *(Continued)*

#### (i) Financial assets *(Continued)*

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

*Debt instruments*

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

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

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

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 FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

## 4. Significant Accounting Policies *(Continued)*

### *(h)* ***Financial instruments*** *(Continued)*

#### (i) Financial assets *(Continued)*

*Equity instruments*

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

#### (ii) Impairment loss on financial assets

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

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

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(h)* ***Financial instruments*** *(Continued)*

#### (ii) Impairment loss on financial assets *(Continued)*

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

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

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

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

#### (iii) Financial liabilities

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

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade and other payables, and borrowings 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.

## 4. Significant Accounting Policies *(Continued)*

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

#### (iv) Effective interest method

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

#### (v) Equity instruments

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

#### (vi) Derecognition

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

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(i) Inventories*

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

### *(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.

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 HKFRS 15.

## 4. Significant Accounting Policies *(Continued)*

### *(j) Revenue recognition (Continued)*

#### (i) Sales of cement products

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

#### (ii) Solid waste processing income

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

#### (iii) Other income

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

*Contract assets and liabilities*

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

### *(k) Income taxes*

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(k)* ***Income taxes*** *(Continued)*

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

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

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

### *(l)* ***Foreign currency***

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(l) Foreign currency* *(Continued)*

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

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

### *(m) Employee benefits*

#### (i) Pension schemes

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

#### (ii) Other benefits

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

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

## 4. Significant Accounting Policies *(Continued)*

### *(n) Impairment of non-financial assets*

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

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

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

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

### *(o) Provisions and contingent liabilities*

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

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

### *(p) Government grants*

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

## 4. Significant Accounting Policies *(Continued)*

### *(q) Segment reporting*

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

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

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

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

### *(r) Related parties*

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(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;

## 4. Significant Accounting Policies *(Continued)*

### *(r) Related parties (Continued)*

(b) (Continued)

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

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

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

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

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

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

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

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

### *(s) Non-current assets held for sale and disposal groups*

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

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is highly probable and expected to complete within 12 months from the date of classification.

## 4. Significant Accounting Policies *(Continued)*

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

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

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

- fair value less costs to sell.

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

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

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

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

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

## 5. Critical Accounting Judgements and Key Sources of Estimates Uncertainty

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

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

### *(a) Carrying value of property, plant and equipment*

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

### *(b) Useful lives of machinery*

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

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

The Group maintains a provision for impairment of trade, loan and other receivables arising from the inability of its customers and debtors to make the required repayments. The Group makes its estimates mainly based on the ageing of its trade receivable balances, debtors' creditworthiness, historical default experience and other forward looking factors. If the financial condition of its debtors was to deteriorate so that actual impairment loss might be higher than expected, the Group would revise the basis of making the impairment. As at 31 December 2020, provision for impairment on trade receivables, loan receivables and other receivables amounted to RMB1,116,000 (2019: RMB1,800,000), RMB1,673,000 (2019: RMB1,067,000) and RMB452,000 (2019: RMB263,000) respectively.

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

### *(d) Estimated write-down of inventories*

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

### *(e) Income taxes*

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

### *(f) Impairment of intangible assets with indefinite useful lives*

The Group determines whether the intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the fair value less costs of disposal. Estimating the fair value less costs of disposal requires the Group to make an estimate of the fair value and costs of disposal. Further details are included in Note 19 to the consolidated financial statements.

### *(g) Fair value measurement*

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

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

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

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

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

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

The Group measures a number of items at fair value:

- Financial assets at FVOCI (Note 22(a)); and
- Financial assets at FVTPL (Note 22(b))

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

## 6. Segment Information

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

Continuing reportable segment:

– Production and sale of cement

Discontinued reportable segment:

– Provision of sewage and sludge treatment operations and construction services

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

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

## 6. Segment Information *(Continued)*

**Year ended 31 December 2020**

| | Continuing operations | Discontinued operation | |
|---|---|---|---|
| | Production and sale of cement | Provision of sewage and sludge treatment operation and construction services | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Time of revenue Recognition** | | | |
| At a point in time | 459,361 | – | 459,361 |
| Transferred over time | 1,609 | – | 1,609 |
| Segment revenue | 460,970 | – | 460,970 |
| Segment results | 87,357 | 87 | 87,444 |
| Unallocated expenses | | | (8,107) |
| Income tax expense | (29,101) | – | (29,101) |
| Profit for the year | | | 50,236 |
| **As at 31 December 2020** | | | |
| Segment assets | 760,178 | – | 760,178 |
| Unallocated assets | | | 47,527 |
| Total assets | | | 807,705 |
| Segment liabilities | 205,285 | – | 205,285 |
| Unallocated liabilities | | | 70,510 |
| Total liabilities | | | 275,795 |

## 6. Segment Information *(Continued)*

**Year ended 31 December 2019**

| | Continuing operations | Discontinued operation | |
|---|---|---|---|
| | Production and sale of cement | Provision of sewage and sludge treatment operation and construction services | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | (Re-presented) |
| **Time of revenue Recognition** | | | |
| At a point in time | 569,144 | – | 569,144 |
| Transferred over time | 2,006 | – | 2,006 |
| Segment revenue | 571,150 | – | 571,150 |
| Segment results | 134,706 | (15,828) | 118,878 |
| Unallocated expenses | | | (16,340) |
| Income tax (expense)/credit | (41,853) | 17 | (41,836) |
| Profit for the year | | | 60,702 |
| **As at 31 December 2020** | | | |
| Segment assets | 737,687 | 63,256 | 800,943 |
| Unallocated assets | | | 2,970 |
| Total assets | | | 803,913 |
| Segment liabilities | 210,911 | 33,648 | 244,559 |
| Unallocated liabilities | | | 32,825 |
| Total liabilities | | | 277,384 |

Segment revenue reported above represents revenue generated from external customers and revenue from contracts with customer within the scope of HKFRS 15. There were no inter-segment sales for both years. Revenue derived from the single largest external independent customers amounted to 4.2% of the Group's revenue for the year ended 31 December 2020 (2019: 6.0%).

## 7. Revenue

An analysis of revenue is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sale of Ordinary Portland cement strength class 42.5 | **139,581** | 210,511 |
| Sale of Composite Portland cement strength class 32.5R | **319,780** | 358,633 |
| Solid waste processing income | **1,609** | 2,006 |
| | **460,970** | 571,150 |

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

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Receivables | | |
| – Trade and bills receivables, net *(Note 24)* | **64,833** | 102,628 |
| Contract liabilities *(Note 27)* | **(9,749)** | (16,597) |

The contract liabilities mainly relate to the advance consideration received from customers. RMB16,597,000 (2019: RMB6,084,000) of the contract liabilities as of 1 January 2020 has been recognised as revenue for the year ended 31 December 2020 from performance obligations satisfied in current year.

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

## 8. Other Income

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Tax refund *(note (a))* | **4,170** | 10,105 |
| Government grants *(note (b))* | **397** | 324 |
| Interest income from loan receivables *(Note 24)* | **66** | 3,379 |
| Interest income from perpetual bond *(Note 22(b))* | **2,455** | – |
| Exchange gain/(loss), net | **1,859** | (1,553) |
| Others | **68** | 158 |
| | **9,015** | 12,413 |

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Discontinued operation** | | |
| Sales of construction material | **–** | 414 |
| Others | **–** | 121 |
| | **–** | 535 |

*Notes:*

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

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

## 9. Other Gain/(Loss) – Net

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Gain on disposals of property, plant and equipment | **84** | 7 |
| **Discontinued operation** | | |
| Loss on disposal of construction project | **–** | (13,617) |
| Total | **84** | (13,610) |

## 10. Finance Income/(Expenses) – Net

| | 2020<br>*RMB'000* | 2019<br>*RMB'000* |
|---|---|---|
| **Finance expenses:** | | |
| **Continuing operations** | | |
| – Bank and other loan | **(1,521)** | (3,212) |
| – Lease liabilities *(Note 17)* | **(245)** | (10) |
| – Bill discount | **(48)** | (23) |
| | **(1,814)** | (3,245) |
| **Finance income:** | | |
| **Continuing operations** | | |
| – Bank deposits | **3,158** | 988 |
| Net finance income/(expenses) for continuing operations | **1,344** | (2,257) |
| **Finance expenses:** | | |
| **Discontinued operation** | | |
| – Bank and other loan | **–** | (233) |
| | **–** | (233) |
| **Finance income:** | | |
| **Discontinued operation** | | |
| – Bank deposits | **–** | 5 |
| Net finance expenses for discontinued operation | **–** | (228) |
| Net finance Income/(expenses) | **1,344** | (2,485) |

## 11. Profit Before Income Tax Expense

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold | **359,913** | 429,232 |
| Depreciation of property, plant and equipment | **17,920** | 17,752 |
| Depreciation of right-of-use assets | **3,238** | 1,138 |
| Provision for/(Reversal of provision for) impairment on trade receivables, net | **132** | (2,053) |
| Provision for impairment on other receivables, net | **189** | 257 |
| Provision for/(reversal of provision for) impairment on loan receivables, net | **606** | (2,821) |
| Write-off interest derived from loan receivables | **49** | – |
| Write-off on money lenders licence (note 19(a)) | **403** | – |
| Short term lease expense | **71** | 1,739 |
| Employee expenses (including directors' remuneration) | | |
| – wages and salaries | **20,072** | 24,304 |
| – pension scheme contribution | **3,070** | 3,818 |
| Auditors' remuneration | | |
| – audit services | **1,080** | 1,080 |
| – non-audit services | **140** | 140 |

### *(b) Discontinued operation*

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

The disposal was completed in March 2020 and the Disposal Group's operation was classified as a discontinued operation.

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

### *(b) Discontinued operation*

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

| | **Period from 1 January 2020 to 23 March 2020 (Date of disposal)** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Administrative expenses | – | (2,518) |
| Other income | – | 535 |
| Other loss | – | (13,617) |
| Finance cost – net | **(68)** | (228) |
| **Loss before income tax expenses** | **(68)** | (15,828) |
| Income tax credit | – | 17 |
| Loss for the year from a discontinued operation | **(68)** | (15,811) |
| **Loss for the year from a discontinued operation attributable to:** | | |
| Owner of the company | **(42)** | (9,844) |
| Non-controlling interests | **(26)** | (5,967) |
| | **(68)** | (15,811) |
| Operating cash outflows | – | 1,083 |
| Investing cash inflows | – | (6) |
| Financing cash inflows | – | (2,000) |
| Total cash outflows | – | (923) |

## 12. Dividends

An interim dividend in respect of the six months ended 30 June 2020 of HKD0.0725 per share (tax exclusive), which amounted for HKD40,020,000 (equivalent to approximately RMB35,353,000) was proposed and approved by the Board at the Board meeting on 3 August 2020. The interim dividend was paid on 30 September 2020. No final dividends were declared by the Board for the year ended 31 December 2020.

## 13. Earnings Per Share

***From continuing and discontinued operations***

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of RMB50,262,000 (2019: RMB66,669,000) by the weighted average number of ordinary shares in issue during the year of 552,000,000 (2019: 552,000,000).

As there were no dilutive options and other dilutive potential shares in issue for the years ended 31 December 2020 and 2019, diluted earnings per share is the same as basic earnings per share.

***From a discontinued operation***

Basic and diluted earnings per share for the year from a discontinued operation is RMB0.0002 per share (2019: RMB0.018 loss per share), based on the profit for the year from a discontinued operation of RMB113,000 (2019: loss of RMB9,844,000) attributable to owners of the Company divided by the weighted average number of ordinary shares in issue during the year of 552,000,000 (2019: 552,000,000).

***From continuing operations***

Basic and diluted earnings per share for the year from continuing operations is RMB0.091 per share (2019: RMB0.139), based on the profit for the year from continuing operations of RMB50,149,000 (2019: RMB76,513,000) attributable to owners of the Company divided by the weighted average number of ordinary shares in issue during the year of 552,000,000 (2019: 552,000,000).

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

### *(a) Directors' emoluments*

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

| Name | Fees | Salary, allowance and other benefits | Employer's contribution to pension scheme and discretionary bonus | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2020** | | | | |
| *Executive directors* | | | | |
| Mr. Liu Dong | – | 198 | – | 198 |
| Mr. Ling Chao *(note (iv))* | – | 83 | – | 83 |
| Mr. Wang Jun *(note (iv))* | – | 206 | 6 | 212 |
| Mr. Chan Ka Wing *(note (iv))* | – | 202 | 6 | 208 |
| Mr. Wu Junxian *(note (v))* | – | 169 | – | 169 |
| *Non-executive director* | | | | |
| Mr. Tseung Hok Ming ("Mr. Tseung") | 198 | – | – | 198 |
| Ms. Xie Yingxia *(note (viii))* | 99 | 99 | – | 198 |
| Mr. Chen Xuanlin *(note (vii))* | 83 | – | 2 | 85 |
| *Independent non-executive directors* | | | | |
| Mr. Cao Kuangyu | 149 | – | – | 149 |
| Mr. Cao Guoqi *(note (vi))* | 124 | – | – | 124 |
| Mr. Lee Ho Yiu Thomas *(note (ii))* | 12 | – | – | 12 |
| Ms. Yu Xiaoying *(note (iii))* | 165 | – | – | 165 |
| Mr. Suo Suo *(note (vii))* | 25 | – | – | 25 |
| | 885 | 957 | 14 | 1,826 |

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

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

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

*Notes:*

(i): Resigned on 20 August 2019

(ii): Resigned on 10 January 2020

(iii): Appointed on 19 February 2020

(iv): Resigned on 28 May 2020

(v): Appointed on 28 May 2020

(vi): Resigned on 27 October 2020

(vii): Appointed on 27 October 2020

(viii): Resigned as Chairman and re-designed from executive Director to non-executive Director on 3 July 2020

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2020 (2019: Nil).

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

### *(b) Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 included one of the directors of the Company (2019: two).

Emoluments paid and payable to the remaining four (2019: three) individuals for the year ended 31 December 2020 were as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries and other benefits | **2,468** | 1,998 |
| Employer's contribution to pension scheme | **60** | 41 |
| | **2,528** | 2,039 |

Emoluments paid to the above non-director highest paid individuals three of them fell within the band of Nil – HKD1,000,000, and remaining one fell within the band of HKD1,000,001 to HKD1,500,000 (2019: two within Nil – HKD1,000,000 and one within HKD1,000,001 – HKD1,500,000).

During the year, no emolument was paid by the Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2019: Nil).

## 15. Income Tax Expense

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

Pursuant to the relevant laws and regulations in the PRC, the PRC enterprise income tax rate of the PRC subsidiaries was 25% on their taxable profits for the years ended 31 December 2020 and 2019 except for Shanghai Biofit Environmental Technology Co. Ltd ("Shanghai Biofit") charged at 15% as it successfully obtained the "National High Technology Enterprise" status and the applicable PRC enterprise income tax rate was 15% for the year ended 31 December 2020 (2019: 15%).

## 15. Income Tax Expense *(Continued)*

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and the BVI during the year ended 31 December 2020 (2019: Nil). No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2019: Nil).

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Continuing operations** | | |
| Current tax | | |
| – Current year | **22,024** | 32,312 |
| Deferred tax *(Note 29)* | **7,077** | 9,541 |
| Income tax expense from continuing operations | **29,101** | 41,853 |
| **Discontinued operation** | | |
| Deferred tax *(Note 29)* | **–** | (17) |
| Income tax credit from discontinued operation | **–** | (17) |
| Income tax expense | **29,101** | 41,836 |

## 15. Income Tax Expense *(Continued)*

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit/(loss) before income tax expense | | |
| – Continuing operations | **79,250** | 118,366 |
| – Discontinued operation | **87** | (15,828) |
| | **79,337** | 102,538 |
| Tax calculated at the PRC profits tax rate of 25% (2019: 25%) | **19,834** | 25,635 |
| Effect of different tax rates in other jurisdictions | **682** | 1,328 |
| Tax effect of expenses not deductible for tax purposes | **185** | 1,774 |
| Tax effect of tax loss not recognised | **1,323** | 6,358 |
| Tax effect of income not assessable for tax purposes | **–** | (1,348) |
| Deferred taxation on withholding tax | **7,077** | 8,089 |
| Income tax expense | **29,101** | 41,836 |

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

## 16. Property, Plant and Equipment

| | Properties and plant RMB'000 | Machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fittings and equipment RMB'000 | Right-of-use assets RMB'000 (note (a)) | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | | |
| Opening net book amount originally presented | 73,350 | 43,289 | 1,038 | 1,763 | – | 119,440 |
| Initial application of HKFRS 16 | – | – | – | – | 16,093 | 16,093 |
| Restated balance as at 1 January 2019 | 73,350 | 43,289 | 1,038 | 1,763 | 16,093 | 135,533 |
| Additions | 28,222 | 23,582 | 187 | 511 | – | 52,502 |
| Disposals | – | – | (7) | – | – | (7) |
| Depreciation | (8,262) | (8,538) | (283) | (669) | (1,138) | (18,890) |
| Attributable to a discontinued operation *(Note 11(b))* | – | (5) | (8) | (17) | – | (30) |
| Exchange differences | – | – | – | – | (6) | (6) |
| Closing net book amount | 93,310 | 58,328 | 927 | 1,588 | 14,949 | 169,102 |
| **At 31 December 2019** | | | | | | |
| Cost | 196,283 | 237,825 | 3,105 | 11,072 | 21,640 | 469,925 |
| Accumulated depreciation | (102,973) | (179,497) | (2,178) | (9,484) | (6,691) | (300,823) |
| Net book amount | 93,310 | 58,328 | 927 | 1,588 | 14,949 | 169,102 |
| **Year ended 31 December 2020** | | | | | | |
| Opening net book amount | 93,310 | 58,328 | 927 | 1,588 | 14,949 | 169,102 |
| Additions | 1,855 | 13,014 | 720 | 3,707 | 5,833 | 25,129 |
| Disposals | – | – | (22) | – | – | (22) |
| Depreciation | (10,610) | (6,160) | (272) | (878) | (3,238) | (21,158) |
| Addition through business acquisition *(Note 34)* | 968 | 592 | – | 122 | 409 | 2,091 |
| Exchange differences | – | – | – | – | 28 | 28 |
| Closing net book amount | 85,523 | 65,774 | 1,353 | 4,539 | 17,981 | 175,170 |
| **At 31 December 2020** | | | | | | |
| Cost | 199,106 | 251,431 | 3,379 | 14,901 | 27,882 | 496,699 |
| Accumulated depreciation | (113,583) | (185,657) | (2,026) | (10,362) | (9,901) | (321,529) |
| Net book amount | 85,523 | 65,774 | 1,353 | 4,539 | 17,981 | 175,170 |

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

Note (a)

| Right-of-use assets | Land use right | Land and buildings | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2019 | 15,296 | 797 | 16,093 |
| Depreciation | (408) | (730) | (1,138) |
| Exchange differences | – | (6) | (6) |
| At 31 December 2019 and 1 January 2020 | 14,888 | 61 | 14,949 |
| Addition | – | 5,833 | 5,833 |
| Depreciation | (404) | (2,834) | (3,238) |
| Addition through business acquisition *(Note 34)* | – | 409 | 409 |
| Exchange differences | – | 28 | 28 |
| At 31 December 2020 | 14,484 | 3,497 | 17,981 |

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

## 17. LEASE LIABILITIES

| | Leasehold land and buildings | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **63** | 806 |
| Addition | **5,833** | – |
| Addition through business acquisition | **409** | – |
| Interest expenses | **245** | 10 |
| Lease payments | **(2,994)** | (747) |
| Exchange differences | **28** | (6) |
| At 31 December | **3,584** | 63 |

## 17. Lease Liabilities *(Continued)*

Future lease payments are due as follows:

| | Minimum lease payments 31 December 2020 RMB'000 | Interest 31 December 2020 RMB'000 | Present value 31 December 2020 RMB'000 |
|---|---|---|---|
| Not later than one year | 3,404 | 506 | 2,898 |
| After one year but within two years | 687 | 1 | 686 |
| | 4,091 | 507 | 3,584 |

| | Minimum lease payments 31 December 2019 RMB'000 | Interest 31 December 2019 RMB'000 | Present value 31 December 2019 RMB'000 |
|---|---|---|---|
| Not later than one year | 64 | 1 | 63 |

## 18. Goodwill

| | 2020 |
|---|---|
| | *RMB'000* |
| **Gross carrying amount** | |
| As at 1 January | – |
| Addition through business acquisition (Note 34) | **11,590** |
| As at 31 December | **11,590** |
| **Accumulated impairment losses** | |
| As at 1 January and 31 December | – |
| **Net carrying amount** | |
| As at 1 January | – |
| As at 31 December | **11,590** |

Goodwill arose from a business combination during the year ended 31 December 2020 and it was solely allocated to the CGU, namely Orient Everhealth and Suzhou Everhealth (see Note 34 for details).

The recoverable amounts of the CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.6%, which does not exceed the long-term growth rate for the biotechnology industry in the PRC. Discount rate used of 19.0% is pre-tax and reflect specific risks relating to the relevant CGU. Operating margin and growth rate within the five-year period was based on past experience.

## 19. Intangible Assets

| | Money lenders licence RMB'000 note (a) | Technical know-how RMB'000 note (b) | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| As at 1 January 2019, 31 December 2019 and 1 January 2020 | 403 | – | 403 |
| Additions through business acquisition *(Note 34)* | – | 7,421 | 7,421 |
| Write-off | (403) | – | (403) |
| As at 31 December 2020 | – | 7,421 | 7,421 |
| **Amortisation and impairment** | | | |
| As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | – | – | – |
| **Net book value** | | | |
| As at 31 December 2020 | – | 7,421 | 7,421 |
| As at 31 December 2019 | 403 | – | 403 |

*Note:*

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

On 9 October 2020, the Company deregistered its subsidiary, Golden Stars Assets Management Limited, which is principally engaged in provision of money lending and financial services, and written off the related money lenders license.

(b) Technical know-how are recognised during the acquisition of subsidiaries (see Note 34 for details). They represent the intellectual property rights which have finite useful life and are amortised on a straight-line basis over its estimated useful life of 10 years respectively.

## 20. Particulars of Subsidiaries

The particulars of the Company's subsidiaries as at 31 December 2020 and 2019 are as follows:

| Name | Place and date of incorporation | Place of operation, principal activities and type of entity | Particulars of issued and paid-in capital/ registered capital | Equity interest held Direct | Equity interest held Indirect |
|---|---|---|---|---|---|
| Dongwu International Investment Limited ("Dongwu Investment") | British Virgin Islands ("BVI"), 29 November 2011 | Investment holding in Hong Kong, a limited liability company | USD50,000 | 100% (2019:100%) | – |
| Asia Jumbo Limited ("Asia Jumbo") | British Virgin Islands ("BVI"), 6 January 2016 | Investment holding in Hong Kong, a limited liability company | USD100 | 100% (2019:100%) | – |
| Times Premium International Limited ("Times Premium") | British Virgin Islands ("BVI"), 23 October 2017 | Investment holding in Hong Kong, a limited liability company | USD1 | 100% (2019:100%) | – |
| Dongwu Cement (Hong Kong) Limited ("Dongwu HK") | Hong Kong, 16 December 2011 | Investment holding in Hong Kong, a limited liability company | HKD1 | – | 100% (2019: 100%) |
| Glory Metro Limited ("Glory Metro") | Hong Kong, 15 November 2016 | Investment holding in Hong Kong, a limited liability company | HKD100 | – | 100% (2019: 100%) |
| 蘇州東吳水泥有限公司 (Suzhou Dongwu Cement Co., Ltd.*,"Dongwu Cement") | PRC, 5 June 2003 | Production and sales of cement in the PRC, a limited liability company | USD29,000,000 | – | 100% (2019: 100%) |
| Dongwu Science & Technology Investment Company Limited ("Dongwu Technology") | Hong Kong, 2 October 2013 | Science and technology investment in Hong Kong, a limited liability company | HKD1 | – | 100% (2019: 100%) |
| 熙華(上海)投資管理有限公司 (Xihua Shanghai Investment Management Co., Ltd.*, "Xihua Investment") | PRC, 19 November 2014 | Investment management and consultation in the PRC, a limited liability company | USD10,000,000 | – | 100% (2019: 100%) |
| 東方恒康生命科學有限公司 (Orient Everhealth Biomedical Company Limited*,"Orient Everhealth") | PRC, 21 June 2018 | Investment holding in the PRC, a limited liability company | RMB27,500,000 | – | 100% (2019: nil) |
| 蘇州恒康生命科學有限公司 (Suzhou Everhealth Biomedical Company Limited, "Suzhou Everhealth") | PRC, 25 December 2018 | Research and development in biotechnology in the PRC, a limited liability company | RMB30,000,000 | – | 65% (2019: nil) |

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

## 21. Investment in an Associate

| | **2020** | 2019 |
| --- | --- | --- |
| | ***RMB'000*** | *RMB'000* |
| Unlisted equity investment: | | |
| Cost of investment | **24,000** | 24,000 |
| Share of results of an associate | **10,029** | 6,187 |
| | **34,029** | 30,187 |

The Group has a 43.2% (31 December 2019: 43.2%) interest in an associate, Suzhou Dongtong Environment and Technology Company Limited（蘇州東通環保科技有限公司, "Dongtong Environment and Technology"), which was incorporated in the PRC. The principal activity of Dongtong Environment and Technology is research and development on environmental technology and provision of related services.

## 22. Financial Assets

### *(a) Financial assets at FVOCI*

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

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

## 22. Financial Assets *(Continued)*

### *(b) Financial assets of FVTPL*

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

The investment is classified as FVTPL. In May 2020, the issuer had fully redeemed the bond and repaid approximately RMB112,455,000 to the Group.

## 23. Inventories

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **15,523** | 12,787 |
| Work-in-progress | **8,349** | 8,001 |
| Finished goods | **5,961** | 7,118 |
| | **29,833** | 27,906 |

## 24. Trade and Other Receivables

| | 2020 *RMB'000* | 2019 *RMB'000* |
|---|---|---|
| Trade and bills receivables from third parties | **65,949** | 104,428 |
| Less: Provision for impairment *(note (iv))* | **(1,116)** | (1,800) |
| **Trade and bills receivables, net *(note (i))*** | **64,833** | 102,628 |
| Prepayments *(note (ii))* | **20,206** | 23,490 |
| Loans to 蘇州東通建設發展有限公司 (Suzhou Dongtong Construction and Development Co., Ltd.*,"Dongtong") | **–** | 66,400 |
| Loan receivables *(note (iii))* | **25,000** | 61,000 |
| Consideration receivable *(Note 33)* | **11,000** | – |
| Other receivables | **27,733** | 19,865 |
| Less: Provision for impairment on other receivables *(note (iv))* | **(452)** | (263) |
| Less: Provision for impairment on loans receivables *(note (iv))* | **(1,673)** | (1,067) |
| **Prepayments, deposits and other receivables** | **81,814** | 169,425 |
| **Total trade and other receivables** | **146,647** | 272,053 |
| Less: Non-current portion | | |
| Deposit paid for purchase of machineries | **(8,388)** | – |
| **Current trade and other receivables** | **138,259** | 272,053 |

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

## 24. Trade and Other Receivables *(Continued)*

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

Credit terms given to its customers generally range from 30 to 90 days (2019: 30 to 90 days). For major customers, depending on their business relationships with the Group and their creditworthiness, the Group may grant them the following credit terms: (i) a revolving credit limit of between RMB1,000,000 and RMB50,000,000 with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days.

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

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 90 days | **52,757** | 55,195 |
| From 91 days to 180 days | **8,062** | 34,308 |
| From 181 days to 1 year | **1,433** | 10,789 |
| From 1 year to 2 years | **2,312** | 1,990 |
| Over 2 years | **269** | 346 |
| | **64,833** | 102,628 |

## 24. Trade and Other Receivables *(Continued)*

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

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired *(note (a), (b))* | **57,225** | 84,874 |
| 1 to 90 days past due | **3,646** | 4,629 |
| 91 to 180 days past due | **1,381** | 10,789 |
| 181 to 1 year past due | **2,312** | 1,990 |
| More than 1 year past due | **269** | 346 |
| | **64,833** | 102,628 |

*Notes:*

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

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

### *(ii)* ***Prepayments***

As at 31 December 2020, included in the Group's prepayments were amounts of RMB11,818,000 and RMB8,388,000 (2019: RMB23,490,000 and nil) paid to suppliers for raw material purchases and a deposit paid for purchase of machineries, respectively.

### *(iii)* ***Loan receivables***

As at 31 December 2020, the Group's loan receivables represent unsecured loan receivables of RMB25,000,000 (2019: RMB22,000,000) from one independent third party with interest at a fixed rate of 6% per annum repayable in December 2021. During the year, unsecured loans to another three independent third parties, with balance of RMB39,000,000 as at 31 December 2019 and carried interest at a fixed rate of 7% to 8.59% per annum, were fully repaid in December 2020.

## 24. Trade and Other Receivables *(Continued)*

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables: | | |
| Beginning of year | **1,800** | 3,853 |
| Provision for the year | **724** | 896 |
| Balance recovered for the year | **(592)** | (2,949) |
| Write off | **(816)** | – |
| End of year | **1,116** | 1,800 |

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Other receivables: | | |
| Beginning of year | **263** | 6 |
| Provision for the year | **189** | 257 |
| End of year | **452** | 263 |

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loan receivables: | | |
| Beginning of year | **1,067** | 3,888 |
| Provision for the year | **1,673** | 1,067 |
| Balance recovered for the year | **(1,067)** | (3,888) |
| End of year | **1,673** | 1,067 |

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

## 25. Short-Term Bank Deposits

The balances as at 31 December 2020 and 2019 are all short-term bank deposits with original maturities exceeding three months. These deposits are all denominated in RMB, with an interest rate from 1.21% to 3.20% (2019: 1.21% to 3.45%) per annum.

## 26. Cash and Cash Equivalents

RMB27,077,000 of the Group's cash and cash equivalents was denominated in RMB as at 31 December 2020 (2019: RMB19,486,000). RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

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

As at 31 December 2020, bank deposit of RMB21,155,000 (2019: RMB13,000,000) are pledged as security for bill payables (Note 27).

## 27. Trade and Other Payables

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **63,271** | 72,311 |
| Bill payables | **33,755** | 40,000 |
| Contract liabilities *(note (b))* | **9,749** | 16,597 |
| Salary and bonus payables | **4,459** | 3,964 |
| VAT payables *(note (a))* | **5,115** | 2,916 |
| Amounts due to related parties *(Note 39)* | **37,416** | 4,005 |
| Other payables | **8,294** | 10,246 |
| Deposit received for sale of Biofit Group *(Note 33)* | **–** | 11,000 |
| | **162,059** | 161,039 |

The credit period granted by the Group's principal suppliers in cement segment is ranged from 30 to 90 days (2019: 30 to 90 days).

As at 31 December 2020, bank deposit of RMB21,155,000 (2019: RMB13,000,000) (Note 26) are pledged as security for bill payables.

## 27. Trade and Other Payables *(Continued)*

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 30 days | **34,315** | 47,293 |
| From 31 to 90 days | **24,139** | 18,362 |
| From 91 days to 180 days | **1,438** | 4,177 |
| From 181 days to 1 year | **1,099** | 1,170 |
| From 1 year to 2 years | **1,104** | 571 |
| Over 2 years | **1,176** | 738 |
| | **63,271** | 72,311 |

*Notes:*

(a) Domestic sales of self-manufactured products made by the PRC subsidiary are subject to VAT at 13% (2019: 13%). Input VAT on purchases of raw materials, fuel, utilities, other production materials and certain purchased equipment can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

(b)

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Advance from customers arising from: | | |
| – Sales of cement products | **9,749** | 16,597 |

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

**Sales of cement products**

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

## 27. Trade and Other Payables *(Continued)*

*Notes: (Continued)*

(b) (Continued)

**Movements in advance from customers**

| | **2020** *RMB'000* | 2019 *RMB'000* |
|---|---|---|
| Balance as at 1 January | **16,597** | 6,084 |
| – Revenue recognised for the balances included in the contract liabilities at the beginning of the year | **(16,597)** | (6,084) |
| – Increase for the cash received for the balances where revenue is not yet recognised during the year | **9,749** | 16,597 |
| | **9,749** | 16,597 |

## 28. Borrowings

| | **2020** *RMB'000* | 2019 *RMB'000* |
|---|---|---|
| Bank borrowings *(note (a))* | **36,400** | 25,000 |
| Other loan *(note (b),(c))* | **27,412** | 13,700 |
| Other loan, unsecured *(note (d))* | **1,375** | 1,328 |
| Less: Attributable to held for sale *(note (b))* | **–** | (3,000) |
| Total borrowings | **65,187** | 37,028 |
| Carrying amount of borrowings repayable: | | |
| On demand or within one year | **65,187** | 37,028 |

*Notes:*

(a) As at 31 December 2020, bank borrowing of approximately RMB36,400,000 (2019: RMB22,000,000) was secured by corporate guarantees from the Company.

(b) As at 31 December 2020, the Group's other loans represented (i) an other loan of RMB8,915,000 (2019: RMB1,769,000) with a fixed interest rate of 9% per annum from one third party was secured by corporate guarantees from the Company; (ii) an interest-free loan of RMB3,000,000 (2019: Nil) from another third party was secured by corporate guarantees from the Company.

(c) As at 31 December 2020, an unsecured interest-free loan of approximately HKD18,600,000 (equivalent to approximately RMB15,497,000) (2019: RMB10,700,000) was secured by personal guarantees from Mr. Tseung.

(d) As at 31 December 2020, unsecured interest-free loan of RMB1,375,000 (2019: RMB1,328,000) provided by Mr. Tseung (Note 39).

## 29. Deferred Tax Liabilities

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

| **Deferred tax liabilities** | **Withholding tax for attributable profit relating to equity holders** *RMB'000* *(note (a))* |
|---|---|
| At 1 January 2019 | 17,018 |
| Charged to profit or loss | 9,524 |
| Attributable to discontinued operation *(Note 11(b))* | 17 |
| At 31 December 2019 and 1 January 2020 | 26,559 |
| Charged to profit or loss | 7,077 |
| At 31 December 2020 | 33,636 |

(a) Pursuant to the PRC Corporate Income Tax Law, effective from 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% upon the PRC tax bureau's approval at the time of dividend claim. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in the PRC in respect of their earnings generated from 1 January 2008.

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

## 30. Share Capital

| | Number of ordinary shares | Nominal value of ordinary shares | Equivalent nominal value of ordinary shares |
|---|---|---|---|
| | | *HKD'000* | *RMB'000* |
| Authorised: | | | |
| Ordinary shares of HKD0.01 each as at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 10,000,000,000 | 100,000 | 81,520 |
| Issued: | | | |
| As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 552,000,000 | 5,520 | 4,490 |

## 31. Other Reserves

| **The Group** | **Share premium** | **Statutory reserves** | **Merger reserve** | **Total** |
|---|---|---|---|---|
| | | *(note (a))* | *(note (b))* | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2019 | 108,090 | 36,870 | 192,011 | 336,971 |
| Appropriation from retained earnings | – | 9,532 | – | 9,532 |
| At 31 December 2019 and 1 January 2020 | 108,090 | 46,402 | 192,011 | 346,503 |
| Appropriation from retained earnings | – | 6,533 | – | 6,533 |
| At 31 December 2020 | 108,090 | 52,935 | 192,011 | 353,036 |

| **The Company** | **Share premium** | **Capital reserve** | **Total** |
|---|---|---|---|
| | | *(note (c))* | |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 108,090 | 207,930 | 316,020 |

## 31. Other Reserves *(Continued)*

### *(a) Statutory reserves*

The Company's subsidiaries in the PRC are required to appropriate 10% of their profit after income tax calculated in accordance with the PRC accounting standards to the statutory reserve until the balance reaches 50% of its registered capital, where further transfers will be at their directors' discretion. The statutory reserve can be used to offset prior years' losses, if any and may be converted into paid-in capital of the PRC subsidiaries in proportion to their existing shareholding after approval from the appropriate authorities, provided that the remaining balance of the statutory reserve after such issue is no less than 25% of paid-in capital for the PRC subsidiaries. For the year ended 31 December 2020, except one of the Company's subsidiaries in the PRC has appropriated RMB5,215,000 (2019: RMB9,532,000), others have reported loss and no appropriation to the statutory reserve (2019: Nil).

### *(b) Merger reserve*

The Company was incorporated on 29 November 2011 and the Group's reorganisation was completed prior to 31 December 2011. This reserve as at 31 December 2019 and 2020 primarily represented the aggregate amount of share capital of the companies now comprising the Group, after elimination of investments in subsidiaries.

### *(c) Capital reserve*

In 2011, Dongwu HK acquired the entire equity interest in Dongwu Cement from Far East International Investment Company Limited ("Far East International", a limited liability company incorporated on 29 September 2003 in Samoa, wholly-owned by the same ultimate shareholder), at a consideration of USD33,000,000 (equivalent to RMB207,930,000). The consideration payable to Far East International was regarded as a deemed distribution to equity holders of the Company. The consideration payable was novated to Goldview Development Limited ("Goldview", a limited liability company incorporated in the British Virgin Islands ("BVI") on 16 March 2004, wholly-owned by the same ultimate shareholder) and Concord Ocean Limited ("Concord", a limited liability company incorporated in the BVI on 25 October 2000, wholly-owned by the controlling shareholder) in proportion to their then respective shareholdings in the Company and subsequently Goldview and Concord gave written confirmations in relation to their unconditional and irrevocable waiver as to the Company's repayment obligation of USD33,000,000 (equivalent to RMB207,930,000). As such, the waived payable was regarded as deemed contribution from shareholders.

## 32. Statement of Financial Position of the Company

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | | **208,246** | 208,246 |
| | | **208,246** | 208,246 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **52,381** | 56,050 |
| Prepayment | | **–** | 10 |
| Cash and cash equivalents | | **257** | 431 |
| Total current assets | | **52,638** | 56,491 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | | **19,920** | 9,850 |
| Other payables | | **–** | 7,091 |
| Borrowings | | **1,701** | 3,094 |
| Total current liabilities | | **21,621** | 20,035 |
| Net current assets | | **31,017** | 36,456 |
| Total assets less current liabilities | | **239,263** | 244,702 |
| **EQUITY** | | | |
| Share capital | *30* | **4,490** | 4,490 |
| Other reserves | *31* | **316,020** | 316,020 |
| Accumulated losses | | **(81,247)** | (75,808) |
| Total equity | | **239,263** | 244,702 |

On behalf of the Board

**Liu Dong**
*Director*

**Wu Junxian**
*Director*

## 33. Disposal of Subsidiaries

During the year ended 31 December 2019, the Group entered into agreement with an independent third party to dispose of its entire interest in Biofit Group, which engaged in business of organic wastewater treatment, sludge treatment and disposal, comprehensive treatment of urban organic waste and other integrated environment services in PRC, at cash consideration of RMB22,000,000. 50% of the cash consideration, being RMB11,000,000, was received on 16 December 2019 and recognised as deposit received for sale of Biofit Group (Note 27) as at 31 December 2019. As at 31 December 2020, the remaining consideration of RMB11,000,000 recognised as consideration receivable (Note 24) and subsequently received on 23 March 2021. The disposal was completed in March 2020 and the Group recognised a gain on disposal of subsidiary of approximately RMB87,000.

Net assets of Biofit Group at the date of disposal are as follows:

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 30 |
| Contract assets, net | 27,692 |
| Trade receivables, net | 2,243 |
| Other receivables | 1,602 |
| Prepayment | 31,649 |
| Cash and cash equivalent | 23 |
| Deferred tax assets | 17 |
| Borrowings | (3,000) |
| Contract liabilities | (6,690) |
| Trade and other payables | (19,649) |
| Income tax payable | (4,335) |
| Non-controlling interests | (7,669) |
| Net assets disposed | 21,913 |
| Consideration received in last year *(Note 27)* | 11,000 |
| Consideration receivable as at 31 December 2020 *(Note 24)* | 11,000 |
| Less: Net assets disposed | (21,913) |
| Gain on disposal of subsidiary | 87 |

## 33. Disposal of Subsidiaries *(Continued)*

An analysis of net cash outflow of bank balances and cash in respect of disposal of subsidiary is as follows:

| **Net cash flow arising on disposal of subsidiaries** | *RMB'000* |
|---|---|
| Bank balances and cash disposed | (23) |

## 34. Business Acquisition

On 31 December 2020, the Group acquired 100% of the equity interests in Orient Everhealth, for a cash consideration of RMB32,500,000 from Orient Hengxin Capital Holding Group Company Limited*（東方恒信資本控股集團有限公司）, a company directly controlled by Mr. Tseung. Orient Everhealth and its 65% held subsidiary, Suzhou Everhealth, are principally engaged in research and development in biotechnology. Upon the completion of above transaction, Suzhou Everhealth became an indirect non-wholly owned subsidiary of the Company.

The acquisition-related costs of RMB933,000 have been expensed and are included in administrative expenses.

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition and goodwill arising from the acquisition were as follows:

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 1,682 |
| Right-of-use assets | 409 |
| Other intangible assets | |
| – Technical know-how | 7,421 |
| Cash and cash equivalents | 424 |
| Inventories | 134 |
| Trade and other receivables | 10,618 |
| Lease liabilities | (409) |
| Trade and other payables | (1,176) |
| Non-controlling interests | 1,807 |
| Net assets acquired | 20,910 |

## 34. Business Acquisition *(Continued)*

| | *RMB'000* |
|---|---|
| Cash consideration paid | 32,500 |
| Less: Fair value of net assets acquired | (20,910) |
| Goodwill | 11,590 |

| **Net cash outflow arising on acquisition:** | *RMB'000* |
|---|---|
| – Cash consideration | 32,500 |
| – Less: Cash and cash equivalents acquired | (424) |
| | 32,076 |

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

The fair value of trade and other receivables at the date of acquisition amounted to RMB10,618,000, which is approximately the contractual amounts of those trade and other receivables acquired.

The non-controlling interests recognised at acquisition was measured at 35% of the net asset of Suzhou Everhealth.

Since the acquisition date, Orient Everhealth has not contributed any revenue and profit or loss to the Group. If the acquisition had occurred on 1 January 2020, Group's revenue and profit would have been RMB460,970,000 and RMB42,550,000, respectively. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is it intended to be a projection of future performance.

## 35. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting periods are as follows:

| | 2020 *RMB'000* | 2019 *RMB'000* |
|---|---|---|
| **Financial assets:** | | |
| Financial assets at FVTPL | | |
| – Investment in a perpetual bond | – | 110,000 |
| Financial assets at amortised cost | | |
| – Trade and other receivables excluding prepayments | **126,441** | 248,563 |
| – Short-term bank deposits | **310,000** | 49,180 |
| – Cash and cash equivalents | **93,015** | 81,826 |
| **Total** | **529,456** | 489,569 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | | |
| Borrowings | **65,187** | 37,028 |
| Trade and other payables excluding non-financial liabilities | **147,195** | 130,526 |
| **Total** | **212,382** | 127,554 |

## 36. Financial Risk Management and Fair Value

The Group has various financial assets and liabilities such as cash and cash equivalents, short-term bank deposits, trade and other receivables, financial assets at FVTPL, borrowings, trade and other payables and balances with related companies and directors.

The main risks arising from the Group's financial instruments are foreign currency risk, cash flow interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(a) Foreign currency risk*

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk is limited to its financial instruments denominated in Hong Kong Dollars ("HKD") as majority of the Group's transactions, monetary assets and liabilities are denominated in RMB.

The carrying amounts of the Group's monetary assets and liabilities that are not denominated in RMB at the end of reporting periods are as follows:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Original currency in HKD** | **Original currency in USD** | Original currency in HKD | Original currency in USD |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Trade and other receivables | **865** | **–** | 841 | – |
| Cash and cash equivalents | **550** | **10** | 1,357 | 5 |
| Trade and other payables | **(37,395)** | **–** | (26,927) | – |
| Borrowings | **(28,787)** | **–** | (5,835) | – |
| Overall net exposure | **(64,767)** | **10** | (30,564) | 5 |

**Sensitivity analysis**

The following table indicates the approximate change in the Group's profit before income tax expense for the year in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. A positive number below indicates an increase in profit or decrease in loss.

| | **Effect on profit for the year** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| HKD to RMB | | |
| Appreciated by 3% | **(1,943)** | (917) |
| Depreciated by 3% | **1,943** | 917 |

The sensitivity analysis has been determined assuming that the change in foreign exchange rate had occurred at the end of reporting period and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(b) Cash flow and fair value interest rate risk*

Other than deposits held in banks, the Group have significant interest-bearing assets. Fluctuation of deposit interest rates to financial assets does not have a significant impact to the Group's performance.

The Group's fair value interest rate risk arises primarily from short-term borrowings as disclosed in Note 28. Borrowings were issued at fixed rates which expose the Group to fair value interest rate risk. The Group has no cash flow interest rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Effective interest rate** *(% per annum)* | **Amount** *RMB'000* | Effective interest rate *(% per annum)* | Amount *RMB'000* |
| **Financial assets** | | | | |
| **Fixed rate receivables** | | | | |
| – Short-term bank deposits | **1.21%-3.20%** | **310,000** | 1.21%-3.45% | 49,180 |
| – Loan receivables | **6%** | **25,000** | 7%-11.95% | 127,400 |
| **Financial liabilities** | | | | |
| **Fixed rate borrowing** | | | | |
| – Bill payables | **0.55%** | **33,755** | 0.61% | 40,000 |
| – Borrowings | **5.72%** | **65,187** | 5.77% | 37,028 |

### *(c) Credit risk*

The carrying amounts of the bank deposits and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2019 and 2020, the Group's bank deposits were placed in the commercial banks with high credit ratings.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(c)* ***Credit risk*** *(Continued)*

The Group has adopted a policy of only dealing with creditworthy counterparties. The credit risk on trade receivable is low. Based on past experience, the customer payment default rate is low. The Group has a significant concentration of credit risk in trade and bills receivables as 15.4% (2019: 14.2%) of the total trade and bills receivables was due from the Group's largest trade debtor and the amounts due from the Group's top five customers is as follows:

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Balance of trade receivables (net of provision) from top five customers | **29,024** | 43,795 |
| Balance of trade and bills receivables (net of provision) *(Note 24)* | **64,833** | 102,628 |
| Percentage | **44.78%** | 42.67% |

It is the Group's policy to receive settlement from customers in the form of cash, cheques or endorsed bank accepted bills. Credit sales are made generally to selected customers with long-term business trading history. The issuing banks of these bank acceptance bills are either state-owned banks with investment grade ratings or local banks with good reputation. The Group considered the default risk from these bank acceptance bills is low. Therefore, the directors consider the Group's bank acceptance bills and trade receivables have no significant exposure to credit risk.

Management reviews the recoverability of the other loan receivable at end of reporting period. In order to minimise the credit risk, the Group has a high concentration of credit risk as the loan receivables was due from one party as at 31 December 2020. The directors consider that the third party have sufficient financial capacity to repay the loan receivable.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(c)* ***Credit risk*** *(Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2020:

| **As at 31 December 2020** | **Expected loss rate** ***(%)*** | **Gross carrying amount** ***(RMB'000)*** | **Loss allowance** ***(RMB'000)*** |
|---|---|---|---|
| Current (not past due) | **0.00** | **57,225** | **–** |
| 1-90 days past due | **0.27** | **3,656** | **10** |
| 91-180 days past due | **5.12** | **1,457** | **76** |
| 181 days –1 year past due | **11.33** | **2,608** | **296** |
| Over 1 year past due | **73.19** | **1,003** | **734** |
| | | **65,949** | **1,116** |

| As at 31 December 2019 | Expected loss rate *(%)* | Gross carrying amount *(RMB'000)* | Loss allowance *(RMB'000)* |
|---|---|---|---|
| Current (not past due) | 0.00 | 84,874 | – |
| 1-90 days past due | 0.28 | 4,642 | 13 |
| 91-180 days past due | 5.47 | 11,413 | 624 |
| 181 days –1 year past due | 11.38 | 2,245 | 255 |
| Over 1 year past due | 72.11 | 1,254 | 908 |
| | | 104,428 | 1,800 |

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(d) Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash flows from operations. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, was less than one year.

### *(e) Fair value*

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

- Level 1: Quoted prices in active markets for identical items (unadjusted);

- Level 2: Observable direct or indirect inputs other than Level 1 inputs;

- Level 3: Unobservable inputs (i.e. not derived from market data).

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

#### (i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, loan receivables, short-term bank deposits, trade and other payables and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, short-term bank deposits, trade and other receivables, trade and other payables and borrowings approximate fair value.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(e) Fair value (Continued)*

#### (ii) Financial instruments measured at fair value

Financial assets at FVOCI and financial assets at FVTPL included in the consolidated financial statements require measurement at, and disclosure of, fair value.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

*Information about level 3 fair value measurements*

For the financial assets at FVTPL

The fair value of the perpetual bonds was determined by the directors with reference to the valuation performed by Graval Consulting Limited. The valuer used discounted cash flow in assessing the fair value of the bonds as at 31 December 2019 and concluded that the fair value of the perpetual bonds as at 31 December 2019 is approximately RMB110,000,000.

Significant unobservable input:

Discount for contractual cash flow of 6.38%

The perpetual bonds issued by an unlisted corporation is measured at level 3 recurring fair value hierarchy.

In May 2020, the issuer had fully redeemed the bond and the Group did not hold any financial assets at FVTPL as at 31 December 2020.

For the financial assets at FVOCI

The fair value of the unlisted equity investment in Dongfang Kangtan was calculated using market approach. The fair value of the unlisted equity investment in Dongfang Kangtan as at 31 December 2018 was approximately RMB9,000,000.

The unlisted equity investment in Dongfang Kangtan is measured at level 3 recurring fair value hierarchy. On 30 December 2019, the investment is sold to an independent third party for a cash consideration of RMB9,000,000 and the Group did not hold any financial assets at FVOCI as at 31 December 2019 and 2020.

There were no changes in valuation techniques during the year.

## 36. Financial Risk Management and Fair Value *(Continued)*

### *(e)* ***Fair value*** *(Continued)*

#### (ii) Financial instruments measured at fair value *(Continued)*

*Information about level 3 fair value measurements (Continued)*

For the financial assets at FVOCI *(Continued)*

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

| **Unlisted equity investment** | **Financial assets at FVTPL 2020** ***RMB'000*** | **Financial assets at FVOCI 2020** ***RMB'000*** |
|---|---|---|
| At 1 January | **110,000** | **–** |
| Dispose | **(110,000)** | **–** |
| At 31 December | **–** | **–** |

| Unlisted equity investment | Financial assets at FVTPL 2019 *RMB'000* | Financial assets at FVOCI 2019 *RMB'000* |
|---|---|---|
| At 1 January | – | 6,534 |
| Purchase | 110,000 | – |
| Total gains or losses: | | |
| – changes in fair value of financial assets | – | 2,466 |
| Dispose | – | (9,000) |
| At 31 December | 110,000 | – |

## 37. Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the year.

Management regards total equity attributable to owners of the Company as capital. The amount of capital as at 31 December 2020 amounted to approximately RMB533,717,000 (2019: RMB518,834,000) which management considers as optimal having considered the projected capital expenditures and the strategic opportunities.

## 38. Capital Commitments

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Commitments for the acquisition of property, plant and equipment | **6,117** | 1,464 |

## 39. Related Party Transactions

### *(a) Key management compensation*

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employees service is shown below:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Basic salaries and benefits in kind | **4,196** | 5,856 |

There are four, nil and one (2019: three, one and one) key management personnel of the Group with remuneration fell within the band of nil to HKD1,000,000, the band of HKD1,000,000 to HKD1,500,000, and the band of HKD1,500,000 to HKD2,000,000 in 2020 respectively.

## 39. Related Party Transactions *(Continued)*

### *(a) Key management compensation* *(Continued)*

As disclosed in Note 28, on 1 November 2018, Mr. Tseung (as the lender) entered into a interest-free loan facility agreement with the Group (as borrower) to grant a loan facility up to HKD 1,500,000 to a subsidiary of the Group and subject to the lender's overriding right of repayment on demand. As at 31 December 2020, borrowing of approximately RMB1,375,000 (2019: RMB1,328,000) was due to Mr. Tseung.

As disclosed in Note 27, other payables included an amount due to Mr. Tseung of approximately RMB4,005,000 (2019: RMB4,005,000) and an amount due to 中國海外礦業服務咨詢有限公司, which is a company under the control of Mr. Tseung, of HKD40,100,000 (2019: Nil) (equivalent to approximately RMB34,365,000). The balances are unsecured, interest-free and repayable on demand.

As disclosed in Note 34, acquisition of 100% equity interests in Orient Everhealth by the Group in December 2020 for a cash consideration of RMB32,500,000 was a related party transaction as the vendor was controlled by Mr. Tseung.

Other than the above disclosed, there are no transactions among the Group and its related parties for the year ended 31 December 2020 (2019: Nil).

### *(b) Significant related party transactions*

Summary of the significant related party transactions carried out by the Group during the year are follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Revenue received from | | | |
| – an associate | *(i)* | **1,609** | 2,006 |

*Note:*

(i) Revenue received in respect of solid waste processing income were mutually agreed by both parties.

## 40. Note Supporting Consolidated Statement of Cash Flows

Reconciliation of liabilities arising from financing activities:

| | Borrowings *(Note 28)* *RMB'000* | Lease liabilities *(Note 17)* *RMB'000* |
|---|---|---|
| **At 1 January 2019** | 71,553 | 806 |
| Changes from cash flows: | | |
| Proceeds from new loans | 10,700 | – |
| Repayment of loans | (42,225) | – |
| Interest paid | (3,212) | (10) |
| Repayment of principal portion of the lease liabilities | – | (737) |
| Total changes from financing cash flows: | (34,737) | (747) |
| Attributable to discontinued operation *(Note 11(b))* | (3,000) | – |
| Financial expenses | 3,212 | 10 |
| Foreign exchange adjustments | – | (6) |
| Total changes | (34,525) | (743) |
| At 31 December 2019 and 1 January 2020 | 37,028 | 63 |
| Changes from cash flows: | | |
| Proceeds from new loans | 54,390 | – |
| Repayment of loans | (26,231) | – |
| Interest paid | (1,521) | (245) |
| Repayment of principal portion of the lease liabilities | – | (2,749) |
| Total changes from financing cash flows: | 26,638 | (2,994) |
| Addition of lease liabilities | – | 6,656 |
| Financial expenses | 1,521 | 245 |
| Foreign exchange adjustments | – | 28 |
| Total changes | 28,159 | 3,521 |
| At 31 December 2020 | 65,187 | 3,584 |

## 41. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board on 25 March 2021.