TSAKER

Tsaker Chemical Group Limited
彩客化學集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1986)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2018, revenue of the Group amounted to approximately RMB1,515.9 million, representing an increase of approximately RMB268.5 million or 21.5% comparing with that in the same period of 2017.
- For the year ended 31 December 2018, gross profit of the Group amounted to approximately RMB524.1 million, representing an increase of approximately RMB161.1 million or 44.4% comparing with that in the same period of 2017.
- For the year ended 31 December 2018, net profit of the Group amounted to approximately RMB222.8 million, representing an increase of approximately RMB86.7 million or 63.7% comparing with that in the same period of 2017.
- For the year ended 31 December 2018, basic and diluted earnings per share of the Group amounted to approximately RMB0.21, representing an increase of approximately RMB0.08 or 61.5% comparing with that in the same period of 2017.
- The Board recommended the declaration of a final dividend of RMB0.064 per share, subject to the Shareholders' approval at the AGM.

The board (the "**Board**") of directors (the "**Director(s)**") of Tsaker Chemical Group Limited ("**Tsaker Chemical**" or the "**Company**" or "**we**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Reporting Period**" or the "**Review Year**") together with the comparative figures for the year ended 31 December 2017 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	4	**1,515,882**	1,247,392
Cost of sales		**(991,789)**	(884,403)
Gross profit		**524,093**	362,989
Other income and gains	4	**11,488**	8,885
Selling and distribution expenses		**(48,462)**	(42,679)
Administrative expenses		**(132,336)**	(121,804)
Other expenses		**(5,528)**	(4,901)
Finance costs	5	**(22,785)**	(15,559)
Exchange losses, net		**(17,555)**	(5,872)
PROFIT BEFORE TAX	6	**308,915**	181,059
Income tax expense	7	**(86,098)**	(44,953)
PROFIT FOR THE YEAR		**222,817**	136,106
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		**7,016**	(11,656)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):			
Equity investments designated at fair value through other comprehensive income		**(1,041)**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**5,975**	(11,656)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**228,792**	124,450
Profit attributable to:			
Owners of the parent		**222,901**	136,131
Non-controlling interests		**(84)**	(25)
		222,817	136,106
Total comprehensive income attributable to:			
Owners of the parent		**228,876**	124,475
Non-controlling interests		**(84)**	(25)
		228,792	124,450
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (expressed in RMB per share)	10	**0.21**	0.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,496,085**	1,119,738
Prepaid land lease payments	12	**76,063**	80,636
Other intangible assets		**3,086**	1,211
Investments in joint ventures		**–**	900
Equity investments designated at fair value through other comprehensive income ("**FVOCI**")		**9,287**	–
Available-for-sale investments	13	**–**	31,251
Deferred tax assets		**23,931**	23,883
Restricted cash	17	**9,598**	7,449
Other non-current assets		**16,045**	13,303
Total non-current assets		**1,634,095**	1,278,371
CURRENT ASSETS			
Inventories	14	**209,998**	114,967
Trade receivables	15	**186,316**	276,438
Notes receivable	16	**68,224**	51,800
Prepayments and other receivables		**266,073**	157,023
Restricted cash	17	**20,170**	17,868
Cash and cash equivalents	17	**124,275**	359,787
Total current assets		**875,056**	977,883
CURRENT LIABILITIES			
Trade payables	18	**345,506**	369,798
Other payables and accruals		**100,910**	125,968
Contract liabilities		**7,755**	–
Interest-bearing bank and other borrowings	19	**230,806**	87,000
Income tax payable		**52,475**	15,000
Current portion of long-term borrowings	19	**134,020**	107,576
Total current liabilities		**871,472**	705,342
NET CURRENT ASSETS		**3,584**	272,541
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,637,679**	1,550,912

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**23,316**	21,555
Deferred tax liabilities		**8,087**	–
Interest-bearing bank and other borrowings	*19*	**286,391**	387,421
Total non-current liabilities		**317,794**	408,976
Net assets		**1,319,885**	1,141,936
EQUITY			
Equity attributable to owners of the parent			
Share capital	*20*	**67,491**	67,491
Treasury shares		**(11,031)**	–
Reserves		**1,262,636**	1,073,800
		1,319,096	1,141,291
Non-controlling interests		**789**	645
Total equity		**1,319,885**	1,141,936

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**308,915**	181,059
Adjustments for:			
Finance costs	5	**22,785**	15,559
Exchange gains, net		**(906)**	(1,161)
Interest income	4	**(999)**	(1,277)
Loss on disposal of items of property, plant and equipment	6	**1,987**	625
Depreciation	11	**60,528**	58,110
Amortisation of prepaid land lease payments	12	**4,573**	4,573
Amortisation of other intangible assets		**74**	4
Amortisation of other non-current assets		**5,272**	–
Amortisation of deferred income		**(2,128)**	(1,973)
Impairment of trade receivables	6	**15**	614
Impairment of property, plant and equipment	6	**719**	–
Write-down of inventories to net realisable value	6	**1,686**	835
		402,521	256,968
Increase in inventories		**(96,717)**	(34,036)
Decrease/(increase) in trade and notes receivable		**73,684**	(43,276)
Increase in prepayments and other receivables		**(86,605)**	(39,067)
(Decrease)/increase in trade payables		**(2,891)**	113,836
Decrease in other payables and accruals		**(10,761)**	(1,470)
(Increase)/decrease in restricted cash		**(95)**	199
Cash generated from operations		**279,136**	253,154
Interest received		**999**	1,277
Interest paid		**(22,901)**	(15,559)
Income tax paid		**(40,583)**	(47,307)
Net cash flows from operating activities		**216,651**	191,565

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of available-for-sale investments		**1,964**	–
Purchases of items of property, plant and equipment		**(464,459)**	(245,968)
Proceeds on disposal of joint ventures		**300**	–
Purchases of other intangible assets		**(1,948)**	(1,103)
Proceeds on disposal of items of property, plant and equipment		**453**	227
Purchases of available-for-sale investments	*13*	**(3,275)**	(12,951)
Proceeds from government grants		**3,892**	2,527
Net cash flows used in investing activities		**(463,073)**	(257,268)
CASH FLOWS FROM FINANCING ACTIVITIES			
Funding to related parties		**–**	(87,933)
Proceeds from bank loans and other borrowings		**254,402**	520,170
(Increase)/Decrease in restricted cash for bank loans and other borrowings		**(4,356)**	46,945
Capital contribution from non-controlling interests		**228**	670
Service fee payment for other borrowings		**–**	(5,000)
Repurchase of own shares		**(11,031)**	–
Repayment of bank loans and other borrowings		**(186,622)**	(503,097)
Dividend paid		**(42,617)**	(38,115)
Proceeds from issue of shares		**–**	93,946
Net cash flows from financing activities		**10,004**	27,586
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(236,418)**	(38,117)
Cash and cash equivalents at beginning of year	*17*	**359,787**	396,743
Effect of foreign exchange rate changes, net		**906**	1,161
CASH AND CASH EQUIVALENTS AT END OF YEAR	*17*	**124,275**	359,787

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were involved in the following principal activities:

- manufacture and sale of pigment intermediates
- manufacture and sale of dye and agricultural chemical intermediates
- manufacture and sale of battery materials
- environmental technology consultancy service

In the opinion of the Directors, the ultimate holding company and parent of the Company is Cavalli Enterprises Inc., a company registered in the British Virgin Islands and controlled by Mr. Ge Yi ("Mr. Ge").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for equity investment which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 2, the amendments to HKFRS 4, the amendments to HKAS 40 and *Annual Improvements to HKFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of HKFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

	Notes	Under HKAS 39	Re-classification	Re-measurement	Under HKFRS 9
Financial assets – amortised cost					
Trade receivables	*(b)*	276,438	–	(131)	276,307
Financial assets – at FVOCI					
Available-for-sale financial assets	*(a)*	31,251	(31,251)	–	–
Financial assets at FVOCI	*(a),(b)*	–	31,251	2,675	33,926
Deferred tax assets	*(b)*	23,883	–	33	23,916
Equity					
Fair value reserve of financial assets at FVOCI	*(b)*	–	–	2,675	2,675
Retained profits	*(b)*	555,277	–	(98)	555,179

(a) Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or FVOCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and notes receivables, financial assets included in prepayments and other receivables, restricted cash, cash and cash equivalents and financial assets included in other non-current assets.

Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Currently the Group does not hold any assets of this category.

Other financial assets are classified and subsequently measured as follows:

Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's equity instruments were classified as available-for-sale financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment on whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the fact and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due 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 asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. 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 receivables included in current and non-current financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payments are 12 months past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained profits.

HKFRS 15 *Revenue from Contracts with Customers* and its amendments

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group elected to adopt HKFRS 15 using the modified retrospective method to all contracts that are not completed at the date of initial application. The Group concluded that the transitional adjustment to be made on 1 January 2018 to retained earnings upon initial adoption of HKFRS 15 is nil. It is because the Group recognises revenue upon the transfer of significant risks and rewards, which coincides with the fulfilment of performance obligations. Under the modified retrospective method, the comparative information has not been restated.

The impact on the Group's consolidated statement of financial position as at 1 January 2018:

	Under HKAS 18	**Reclassification**	**Under HKFRS 15**
Contract liabilities	–	4,485	4,485
Other payables and accrued expenses	125,968	(4,485)	121,483

The Group received short-term advances from customers. Prior to the adoption of HKFRS 15, the Group re-presented these advances in other payables in the consolidated statement of financial position. Upon the adoption of HKFRS 15, the Group reclassified the advances amount to "contract liabilities".

The Group principally derives revenue from sales of products.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. The Group recognises revenue when the specific criteria have been met for each of the Group's activities, as described below.

The Group's contracts with customers for the sales of dye and agricultural chemical intermediates, pigment intermediates and other products generally include one performance obligation. Revenue from the sales of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The Group has insignificant service revenue which is recognised over time when the customer concurrently receives and consumes the benefits as the Group performs.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. Since the Group has the sole discretion in determining the pricing, takes the full responsibility of a good or service provided to the customers, and is also responsible for the risk associated with the goods before change of control over the goods, and the customers' complaints and requests, the Group considers it controls the specified goods or services before their delivery to its customers and is a principal in the transactions. Accordingly, the Group recognises revenues on the gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 4 for the disclosure on disaggregated revenue.

HK(IFRIC)-Int 22 ***Foreign Currency Transactions and Advance Consideration***

HK(IFRIC)-Int 22, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Of those standards, HKFRS 16 will be applicable for the Group's financial year ending 31 December 2019 and is expected to have some impacts upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

HKFRS 16, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease, HK(SIC)*-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group estimated that, due to the fact that all existing operating lease contracts, as lessee, would be terminated within 12 months at the date of initial application, the impact of adoption of HKFRS 16 would be minimal as at 1 January 2019.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has four (2017: five, restated as four) reportable operating segments as follows:

(a) the dye and agricultural chemical intermediates segment produces dye intermediate products for the use in production of dye related products and products for the use in the production of agricultural chemicals;

(b) the pigment intermediates segment produces pigment intermediate products for the use in the production of pigments;

(c) the environmental technology consultancy service segment engages in environmental protection; and

(d) the battery materials segment engages in the manufacture and sale of battery materials.

To improve operating efficiency, the Group combined the dye intermediates segment and agricultural chemical intermediates segment into the dye and agricultural chemical intermediates segment as the new organisational structure during 2018. The corresponding information for the year ended 31 December 2017 has been restated accordingly.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated mainly based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except profit or loss of the Company is excluded from such measurement.

The measurement of segment assets and liabilities is same as total assets and total liabilities for the consolidated statement of financial position, excluding assets and liabilities related to the Company.

	Dye and agricultural chemical intermediates *RMB'000*	Pigment intermediates *RMB'000*	Environmental technology consultancy service *RMB'000*	Battery materials *RMB'000*	Total segments *RMB'000*
Segment revenue:					
Revenues from external customers	**1,212,082**	**262,479**	**38,315**	**3,006**	**1,515,882**
Intersegment sales	**69,836**	**68,521**	**1,315**	**–**	**139,672**
Total revenue	**1,281,918**	**331,000**	**39,630**	**3,006**	**1,655,554**
Reconciliation					
Elimination of intersegment sales					**(139,672)**
Revenue from continuing operations					**1,515,882**
Segment results	**332,926**	**43,522**	**(18,448)**	**(11,145)**	**346,855**
Including:					
Interest income	**928**	**24**	**5**	**14**	**971**
Finance costs	**(3,482)**	**(1,019)**	**–**	**(5)**	**(4,506)**
Reconciliation					
Interest income					**28**
Finance costs					**(18,279)**
Elimination of other income due to unrealised gains					**(7,702)**
Corporate and other unallocated expenses					**(11,987)**
Profit before tax					**308,915**
Segment assets	**1,662,417**	**446,340**	**64,013**	**350,479**	**2,523,249**
Reconciliation					
Elimination of intersegment receivables					**(998,767)**
Corporate and other unallocated assets					**988,065**
Elimination of inventories due to unrealised gains					**(3,396)**
Total assets					**2,509,151**
Segment liabilities	**993,327**	**237,010**	**13,756**	**327,085**	**1,571,178**
Reconciliation					
Elimination of intersegment payables					**(998,767)**
Corporate and other unallocated liabilities					**616,855**
Total liabilities					**1,189,266**
Other segment information					
Impairment losses recognised in profit or loss	**2,421**	**8**	**(12)**	**3**	**2,420**
Depreciation and amortisation	**45,852**	**14,320**	**4,669**	**334**	**65,175**
Capital expenditure	**408,891**	**17,257**	**745**	**13,141**	**440,034**

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2017 (restated)

	Dye and agricultural chemical intermediates *RMB'000*	Pigment intermediates *RMB'000*	Environmental technology consultancy service *RMB'000*	Battery materials *RMB'000*	Total segments *RMB'000*
Segment revenue:					
Revenues from external customers	1,009,891	236,177	526	798	1,247,392
Intersegment sales	3,053	–	198	–	3,251
Total revenue	1,012,944	236,177	724	798	1,250,643
Reconciliation					
Elimination of intersegment sales					(3,251)
Revenue from continuing operations					1,247,392
Segment results	179,698	48,256	(17,938)	(1,005)	209,011
Including:					
Interest income	173	25	–	1	199
Finance costs	(12,053)	(2,706)	–	(2)	(14,761)
Reconciliation					
Interest income					1,078
Finance costs					(798)
Elimination of other income due to unrealised gains					(414)
Corporate and other unallocated expenses					(27,818)
Profit before tax					181,059
Segment assets	1,456,054	312,705	61,688	179,428	2,009,875
Reconciliation					
Elimination of intersegment receivables					(707,416)
Corporate and other unallocated assets					953,445
Elimination of inventories due to unrealised gains					350
Total assets					2,256,254
Segment liabilities	921,785	142,693	2,302	180,953	1,247,733
Reconciliation					
Elimination of intersegment payables					(707,416)
Corporate and other unallocated liabilities					574,001
Total liabilities					1,114,318
Other segment information					
Impairment losses recognised in profit or loss	835	–	–	–	835
Depreciation and amortisation	46,043	11,954	4,685	5	62,687
Capital expenditure	138,143	39,648	2,929	115,978	296,698

Geographical information

(a) Revenue from external customers

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**928,642**	796,431
India	**164,078**	135,920
Germany	**97,556**	65,255
United States	**94,429**	62,370
Taiwan	**70,436**	33,570
Spain	**43,207**	30,012
Indonesia	**36,936**	45,807
Brazil	**28,331**	17,924
Italy	**17,597**	39,227
Japan	**17,240**	13,660
Korea	**7,292**	2,680
Turkey	**4,180**	1,346
Other countries/regions	**5,958**	3,190
	1,515,882	1,247,392

The revenue information above is based on the locations of the customers.

The Group's non-current assets are substantially located in Mainland China.

(b) Information about major customers

In 2018, revenue of RMB219,745,000 (2017: RMB136,548,000) was derived from sales by the dye and agricultural chemical intermediates segment to a single customer.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sales of goods and provision of consultancy and maintenance services	**1,515,882**	1,247,392
	1,515,882	1,247,392

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Dye and agricultural chemical intermediates *RMB'000*	Pigment intermediates *RMB'000*	Environmental technology consultancy service *RMB'000*	Battery materials *RMB'000*	Total *RMB'000*
Types of goods or services					
Sale of chemical intermediates and battery materials	1,212,082	262,479	–	3,006	1,477,567
Sale of environmental technology equipment	–	–	33,294	–	33,294
Provision of consultancy and maintenance services	–	–	5,021	–	5,021
Total revenue from contracts with customers	1,212,082	262,479	38,315	3,006	1,515,882
Geographical markets					
Mainland China	696,320	191,001	38,315	3,006	928,642
India	123,192	40,886	–	–	164,078
Germany	96,958	598	–	–	97,556
United States	82,254	12,175	–	–	94,429
Taiwan	70,436	–	–	–	70,436
Spain	43,207	–	–	–	43,207
Indonesia	36,936	–	–	–	36,936
Brazil	28,331	–	–	–	28,331
Italy	17,597	–	–	–	17,597
Japan	–	17,240	–	–	17,240
Korea	7,292	–	–	–	7,292
Turkey	4,180	–	–	–	4,180
Other countries	5,379	579	–	–	5,958
Total revenue from contracts with customers	1,212,082	262,479	38,315	3,006	1,515,882
Timing of revenue recognition					
Goods transferred at a point in time	1,212,082	262,479	33,294	3,006	1,510,861
Services transferred over time	–	–	5,021	–	5,021
Total revenue from contracts with customers	1,212,082	262,479	38,315	3,006	1,515,882

The following tables shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of chemical intermediates	4,485

(ii) ***Performance obligations***

Information about the Group's performance obligations is summarised below:

Sale of goods, including chemical intermediates, battery materials and environmental technology equipment

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, except for new customers and small-sized customers, where payment in advance is normally required.

Provision of consultancy and maintenance services

Revenue from provision of consultancy and maintenance services is recognised over time and on a straight-line basis throughout the year.

The transaction prices allocated to the remaining performance obligations (partially unsatisfied) as at 31 December 2018 are as follows:

	2018
	RMB'000
Within one year	**7,480**
More than one year	**3,027**
	10,507

The remaining performance obligations expected to be recognised in more than one year relate to consultancy and maintenance services that are to be satisfied within two years.

	2018	2017
	RMB'000	*RMB'000*
Other income and gains		
Bank interest income	**999**	1,277
Government grants*	**5,753**	1,973
Sale of materials and scrap	**4,413**	5,486
Others	**323**	149
	11,488	8,885

* For the year ended 31 December 2018, government grants amounting to RMB5,753,000 (2017: RMB1,973,000) were recognised as income for the year necessary to compensate the costs and facilitate the Group's development. There are no unfulfilled conditions or contingencies attached to the grants.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**38,411**	34,385
Other finance costs	**9,400**	2,512
Less: Interest capitalised	**(25,026)**	(21,338)
	22,785	15,559

The weighted average interest rate of capitalisation for the year ended 31 December 2018 was 6.02% (for the year ended 31 December 2017: 7.51%).

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		2018	2017
	Notes	*RMB'000*	*RMB'000*
Cost of inventories sold		**988,558**	884,403
Cost of services provided		**3,231**	–
Depreciation	*11*	**60,528**	58,110
Research and development costs		**15,404**	8,323
Amortisation of land lease payments	*12*	**4,573**	4,573
Auditor's remuneration		**6,395**	4,045
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and welfare		**99,529**	88,700
Pension and other social insurances		**26,331**	18,763
Exchange losses, net		**17,555**	5,872
Impairment of property, plant and equipment		**719**	–
Loss on disposal of items of property, plant and equipment		**1,987**	625
Impairment of trade receivables	*15*	**15**	614
Write-down of inventories to net realisable value	*14*	**1,686**	835

7. INCOME TAX

Cayman Islands

Under the current income tax laws of the Cayman Islands, the Company is not subject to tax on any income or capital gain.

Hong Kong

Under the current income tax laws of Hong Kong, companies are subject to Hong Kong profits tax at 16.5% on assessable profits arising in or derived from Hong Kong.

Singapore

Under the current income tax laws of Singapore, companies are subject to Singapore profits tax at 17.0% on assessable profits arising in or derived from Singapore.

Mainland China

The Company's subsidiaries in Mainland China are subject to income tax at 25% unless otherwise specified.

Under the prevailing PRC Corporate Income Tax Law and the relevant regulations, any dividends paid by the Company's PRC subsidiaries from their earnings derived after 1 January 2008 to the Company's Hong Kong subsidiary are subject to a 5% or 10%, depending on the applicability of the Sino-Hong Kong tax treaty, PRC dividend withholding tax. For the Group, the historical applicable rate is 5%. The Group is therefore liable for withholding taxes on retained earnings distributable by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008.

	2018	2017
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**74,953**	41,340
Current – Elsewhere	**3,073**	1,333
Deferred	**8,072**	2,280
Total tax charge for the year	**86,098**	44,953

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for Mainland China, in which the majority of the Company's subsidiaries are domiciled, to the tax expense at the effective tax rate is as follows:

	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**308,915**	181,059
Tax at the statutory income tax rate (25%)	**77,229**	45,265
Effect of different tax rates	**735**	(897)
Non-deductible expenses	**3,110**	1,083
Income not subject to tax	**(172)**	(824)
Additional deduction of research and development costs	**(2,677)**	–
Tax losses utilised from previous periods	**(789)**	–
Temporary differences (including tax losses) not recognised DTA	**575**	1,126
Withholding tax	**8,087**	(800)
Total income tax expense	**86,098**	44,953

8. ARRANGEMENTS WITH CHINA NATIONAL OFFSHORE OIL SALE (BEIJING) CO., LTD.

The Group entered into various arrangements with China National Offshore Oil Sale (Beijing) Co., Ltd. ("CNOOC"), an unrelated party, for the sale of products and purchase of raw materials. Based on these arrangements, CNOOC is considered as the agent for and on behalf of the Group in the respective sale and purchase transactions.

In the sale arrangements, the Group has latitude in establishing prices and the primary responsibility for providing the goods to the customer, and bears inventory risk during shipment and credit risk for the amount receivable from end customers. Accordingly, the Group recognises revenue from the sale of products based on the respective amounts billed to end customers. Under all the above-mentioned arrangements, CNOOC provides certain administrative work and financing service (on improving the Group's working capital management) in return for service and interest charges, respectively. The financing service under the arrangements of sale of products is related to expediting settlement of receivables while the financing service under the arrangement of purchase of raw materials is related to delaying settlement of payables. The service charges paid on administrative work relating to the sale of products from part of selling and distribution expenses of the Group while those relating to the purchase of raw materials are considered as part of the purchase cost of the related raw materials. Financing charges are recognised during the years ended 31 December 2018 and 2017 as other finance costs in profit or loss.

9. DIVIDENDS

The directors recommend a final dividend of RMB0.064 (2017: RMB0.039) per ordinary share in respect of the year ended 31 December 2018. The proposed dividend was not recognised as a liability as at the end of the reporting period, since it is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,044,197,000 (2017: 1,028,383,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
Earnings		
Profit for the year attributable to ordinary equity holders of the parent *(RMB'000)*	**222,901**	136,131
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *('000)*	**1,044,197**	1,028,383

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2018						
At 31 December 2017 and 1 January 2018:						
Cost	**332,925**	**496,659**	**13,051**	**2,821**	**582,758**	**1,428,214**
Accumulated depreciation and impairment	**(71,219)**	**(224,408)**	**(10,678)**	**(2,171)**	**–**	**(308,476)**
Net carrying amount	**261,706**	**272,251**	**2,373**	**650**	**582,758**	**1,119,738**
At 1 January 2018, net of accumulated depreciation and impairment						
Additions	**–**	**6,967**	**691**	**45**	**432,331**	**440,034**
Disposals	**–**	**(2,438)**	**(2)**	**–**	**–**	**(2,440)**
Depreciation provided during the year	**(14,960)**	**(42,564)**	**(2,697)**	**(307)**	**–**	**(60,528)**
Impairment	**–**	**(719)**	**–**	**–**	**–**	**(719)**
Transfers	**70,739**	**41,457**	**717**	**–**	**(112,913)**	**–**
At 31 December 2018, net of accumulated depreciation and impairment	**317,485**	**274,954**	**1,082**	**388**	**902,176**	**1,496,085**
At 31 December 2018:						
Cost	**403,664**	**537,158**	**14,431**	**2,866**	**902,176**	**1,860,295**
Accumulated depreciation and impairment	**(86,179)**	**(262,204)**	**(13,349)**	**(2,478)**	**–**	**(364,210)**
Net carrying amount	**317,485**	**274,954**	**1,082**	**388**	**902,176**	**1,496,085**

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2017						
At 31 December 2016 and 1 January 2017:						
Cost	326,173	449,461	10,074	2,900	346,645	1,135,253
Accumulated depreciation and impairment	(56,118)	(189,111)	(6,242)	(1,780)	–	(253,251)
Net carrying amount	270,055	260,350	3,832	1,120	346,645	882,002
At 1 January 2017, net of accumulated depreciation and impairment	270,055	260,350	3,832	1,120	346,645	882,002
Additions	936	5,913	861	221	288,767	296,698
Disposals	(278)	(508)	(27)	(39)	–	(852)
Depreciation provided during the year	(15,215)	(37,744)	(4,499)	(652)	–	(58,110)
Transfers	6,208	44,240	2,206	–	(52,654)	–
At 31 December 2017, net of accumulated depreciation and impairment	261,706	272,251	2,373	650	582,758	1,119,738
At 31 December 2017:						
Cost	332,925	496,659	13,051	2,821	582,758	1,428,214
Accumulated depreciation and impairment	(71,219)	(224,408)	(10,678)	(2,171)	–	(308,476)
Net carrying amount	261,706	272,251	2,373	650	582,758	1,119,738

As at 31 December 2018 and 2017, certain of the Group's buildings, machinery and equipment with aggregate net book values of RMB175,202,000 and RMB172,541,000 were pledged to secure bank loans and other borrowings of RMB190,251,000 and RMB228,287,000, respectively (Note 19).

Included in the property, plant and equipment as at 31 December 2018 and 2017 were certain buildings with net book values of RMB2,471,000 and RMB2,648,000 respectively of which the property certificates have not been obtained.

The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors of the Company are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position for the year.

12. PREPAID LAND LEASE PAYMENTS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Carrying amount at 1 January	**85,002**	89,575
Amortisation during the year	**(4,573)**	(4,573)
Carrying amount at 31 December	**80,429**	85,002
Current portion (included in prepayments and other receivables)	**(4,366)**	(4,366)
Non-current portion	**76,063**	80,636

As at 31 December 2018 and 2017, the prepaid land lease payments amounted to RMB48,072,000 and RMB85,002,000, respectively, have been pledged to secure bank loans granted to the Group (Note 19).

13. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Equity investments designated at fair value through other comprehensive income:		
Quoted equity investments, at fair value	**9,287**	–
Availables-for-sale investments:		
Investment managed by an investment agency ("Agency Investment")	**–**	9,801
Unquoted equity investments, at cost	**–**	21,450
	9,287	31,251

The above equity investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature.

The unquoted equity investment accounted for as available-for-sale investments and were stated at cost less impairment as at 31 December 2017. The unquoted equity investments were reclassified to financial assets at FVOCI due to the adoption of HKFRS 9 as at 1 January 2018.

In July 2018, the Group disposed of the unquoted equity investments as these investments no longer coincided with the Group's investment strategy. The fair value on the date of sale was RMB25,400,000 and the accumulated gain recognised in other comprehensive income of RMB2,675,000 was transferred to retained earnings.

In 2018, the Group recognised a loss of RMB1,041,000 to other comprehensive income regarding the quoted equity investments. In 2017, no gain or loss was recognised since the fair value of the quoted equity investments was approximated to their carrying amount.

14. INVENTORIES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Raw materials	**44,338**	27,938
Work in progress	**26,937**	24,370
Finished goods	**140,409**	63,494
	211,684	115,802
Less: Impairment provision	**(1,686)**	(835)
	209,998	114,967

As at 31 December 2018, none of the Group's inventories was pledged as security for the Group's bank loans (2017: Nil).

15. TRADE RECEIVABLES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables	**187,076**	277,052
Impairment	**(760)**	(614)
	186,316	276,438

The Group's trading terms with its customers are mainly on credit, except for new customers and small-sized customers, where payment in advance is normally required. The credit period is generally one month for domestic customers, extending up to three months for overseas customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control on certain of its outstanding receivables.

Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 1 month	**79,625**	122,253
1 month to 2 months	**50,558**	92,083
2 months to 3 months	**23,283**	26,400
3 months to 4 months	**9,789**	10,760
Over 4 months	**23,061**	24,942
	186,316	276,438

The movement in the loss allowance for impairment of trade receivables is as follows:

	2018	2017
	RMB'000	*RMB'000*
At 1 January 2018 (as previously reported)	**614**	–
Effect of adoption of HKFRS 9 *(Note 2.2)*	**131**	–
At 1 January 2018 (restated)	**745**	–
Impairment provided	**15**	614
At 31 December 2018	**760**	614

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if the Group is satisfied that recovery of the amount is remote.

The Group applies the simplified approach to the provision for expected credit losses prescribed by HKFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. To measure the expected credit loss on trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the ageing.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Within 1 year	**Between 1 and 2 years**	**Between 2 and 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	**0.02%**	**1.21%**	**3.81%**	**100.00%**	
Gross carrying amount *(RMB'000)*	**177,658**	**8,721**	**83**	**614**	**187,076**
Expected credit losses *(RMB'000)*	**38**	**105**	**3**	**614**	**760**

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB614,000 with a carrying amount before provision of RMB614,000. The individually impaired trade receivables relating to customers that were in unexpected financial difficulties and it is expected that these receivables would not be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	31 December 2017 *RMB'000*
Neither past due nor impaired	119,056
Less than 1 month past due	81,505
1 to 3 months past due	52,523
Over 3 months past due	23,354
	276,438

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

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, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances are still considered fully recoverable.

16. NOTES RECEIVABLE

Notes receivable of the Group are all bank acceptance notes and are usually settled within six months from their respective dates of issue. None of the notes receivable as at the end of the years ended 31 December 2018 and 2017 was past due or impaired.

Transferred financial assets that are not derecognised in their entirety:

The Group endorsed certain notes receivable accepted by banks in Mainland China (the "Endorsed Notes") with aggregate carrying amounts of RMB40,221,000 and RMB33,276,000 as at 31 December 2018 and 2017, respectively, to certain of its suppliers in order to settle trade payables due to such suppliers (the "Endorsement"). In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Notes and the associated other payables. Subsequent to the Endorsement, the Group did not retain any rights to the use of the Endorsed Notes, including the sale, transfer or pledge of the Endorsed Notes to any other third parties. None of the Endorsed Notes settled during the year have been recoursed as at the end of the year.

Transferred financial assets that are derecognised in their entirety:

The Group endorsed certain notes receivable accepted by banks in Mainland China (the "Derecognised Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers with aggregate carrying amounts of RMB280,589,000 and RMB221,151,000 as at 31 December 2018 and 2017, respectively. The Derecognised Notes have a maturity from one to six months at the end of the respective reporting periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors of the Company, the Group has transferred substantially all risks and rewards relating to the Derecognised Notes. Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

For the years ended 31 December 2018 and 2017, the Group has not recognised any gain or loss on the dates of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the years ended 31 December 2018 and 2017 or cumulatively.

17. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Notes	**31 December 2018** ***RMB'000***	31 December 2017 *RMB'000*
Cash and bank balances		**154,043**	385,104
Less: Restricted cash-current	*(a)*	**(20,170)**	(17,868)
Restricted cash-non current	*(a)*	**(9,598)**	(7,449)
Cash and cash equivalents		**124,275**	359,787
Denominated in RMB		**75,818**	89,825
Denominated in other currencies		**48,457**	269,962
Cash and cash equivalents		**124,275**	359,787

Notes:

(a) As at 31 December 2018, the Group's bank balances of approximately RMB833,000 were deposited as a guarantee fund for the salary of rural workers pursuant to the related government regulations.

As at 31 December 2018, the Group's bank balances of approximately RMB28,794,000 were deposited as interest reserve for a bank loan amounted to USD50,000,000. Among them, amounted to RMB9,598,000 was reserved to settle bank interest for at least twelve months after the reporting period.

(b) RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the restricted bank deposits approximate to their fair values.

18. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date is as follows:

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
Within 1 month	**128,829**	172,195
1 month to 2 months	**50,580**	21,945
2 months to 3 months	**22,120**	24,377
Over 3 months	**143,977**	151,281
	345,506	369,798

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2018			31 December 2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**4.52-7.20**	**2019**	**309,438**	3.92-7.60	2018	137,000
Other borrowings – secured	**10.83-10.84**	**2019**	**55,388**	10.83-10.84	2018	57,576
			364,826			**194,576**
Non-current						
Bank loans – secured	**5.29**	**2020**	**274,528**	4.5-6.98	2019-2020	326,710
Other borrowings – secured	**10.83-10.84**	**2020**	**11,863**	10.83-10.84	2019-2020	60,711
			286,391			**387,421**
Total			**651,217**			**581,997**
Analysed into:						
Bank loans and other borrowings repayable:						
Within one year			**364,826**			**194,576**
In the second year			**286,391**			**51,420**
In the third year to fifth years, inclusive			**–**			**336,001**
			651,217			**581,997**

Notes:

The Group did not have any unutilized banking facilities as at 31 December 2018 (31 December 2017: RMB16,718,000).

Except for a bank loan of RMB343,160,000 which was denominated in United States dollars and a bank loan of RMB44,600,000 which was denominated in Hong Kong dolloar, all borrowings were in RMB.

20. SHARE CAPITAL

The movements in share capital of the Company are as follows:

Shares	**Number of shares**	**Share capital**	**Issued share capital equivalent of**
		US$	*RMB'000*
Authorised:			
As at 31 December 2017 at US$0.01 each	2,000,000,000	20,000,000	
As at 31 December 2018 at US$0.01 each	2,000,000,000	20,000,000	
Issued and fully paid:			
At 1 January 2017 at US$0.01 each	501,125,000	5,011,250	30,649
Placing of new shares	21,000,000	210,000	1,441
Bonus issue of shares	522,125,000	5,221,250	35,401
As at 31 December 2017 and 31 December 2018 at US$0.01 each	1,044,250,000	10,442,500	67,491

Notes:

On 18 May 2017, the Company completed the placing of new shares under the general mandate, and an aggregate of 21,000,000 shares have been allotted and issued to not less than six placees at a placing price of HK$5.15 per placing share.

Pursuant to the annual general meeting held on 16 June 2017, a bonus issue of shares of the Company (the "**2017 Bonus Issue**") on the basis of 1 bonus share for each existing share held on 30 June 2017 was approved. 522,125,000 bonus shares were issued under the 2017 Bonus Issue on 13 July 2017.

21. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2018 (2017: Nil).

22. OPERATING LEASE ARRANGEMENTS

As lessee

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Within one year	**4,353**	6,813
In the second to fifth years, inclusive	**–**	11,936
	4,353	18,749

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating segment results

For the twelve months ended 31 December 2018

	Dye and agricultural chemical intermediates	**Pigment intermediates**	**Environmental technology consultancy service**	**Battery materials**	**Total**
Revenue *(RMB'000)*	**1,212,082**	**262,479**	**38,315**	**3,006**	**1,515,882**
Cost of sales *(RMB'000)*	**783,496**	**173,564**	**31,871**	**2,858**	**991,789**
Sales volume (tons)	**57,854**	**8,227**	**N/A**	**139**	**66,220**
Gross profit margin	**35.4%**	**33.9%**	**16.8%**	**4.9%**	**34.6%**
Average unit selling price *(RMB/ton)*	**20,951**	**31,905**	**N/A**	**21,626**	**N/A**

For the twelve months ended 31 December 2017

	Dye and agricultural chemical intermediates	Pigment intermediates	Environmental technology consultancy service	Battery materials	Total
Revenue *(RMB'000)*	1,009,891	236,177	526	798	1,247,392
Cost of sales *(RMB'000)*	726,734	156,556	460	653	884,403
Sales volume (tons)	69,177	8,102	N/A	36	77,315
Gross profit margin	28.0%	33.7%	12.5%	18.2%	29.1%
Average unit selling price *(RMB/ton)*	14,599	29,150	N/A	22,167	N/A

The Group produces fine chemicals such as dye, pigment and agricultural chemical intermediates, and ventured into lithium battery cathode materials and additives to lithium batteries and provision of environmental protection technology consulting services in 2017.

The existing main operations of the Group remains stable and enjoys a prominent position in the market. The Group has maintained good business relationships with its main customers which span over ten years in average. In 2018, the top five largest customers of the Group accounted for approximately 41.9% of the revenue for the year (2017: approximately 31.3%).

The Group has a well-established sales network, which covers areas including Asia, Europe, North and South America. For the Review Year, by regional distribution, revenue derived from the Group's sales in Mainland China accounted for approximately 61.3%; India accounted for approximately 10.8%; Germany accounted for approximately 6.4%; and the United States of America, Taiwan and other regions accounted for approximately 6.2%, 4.6% and 10.7% respectively.

PERFORMANCE REVIEW

During the Review Year, total revenue of the Group increased by 21.5% to approximately RMB1,515.9 million (2017: approximately RMB1,247.4 million). The increase in revenue was mainly due to the increase in sales price and increase in revenue from the environmental protection business.

As for gross profit, since the increase in product prices was greater than that of raw materials, the gross profit of the Group increased by approximately 44.4% to approximately RMB524.1 million (2017: approximately RMB363.0 million). The overall gross profit margin of the Group increased to approximately 34.6% in 2018 from approximately 29.1% for the same period in 2017. On the other hand, the net profit of the Group for the whole year increased by approximately 63.7% to approximately RMB222.8 million (2017: approximately RMB136.1 million); net profit margin was approximately 14.7% (2017: approximately 10.9%); and basic earnings per share was approximately RMB0.21 (2017: approximately RMB0.13).

Dye and agricultural chemical intermediates – accounting for approximately 80.0% of total revenue (2017 (restated): approximately 81.0%)

To support business development and strategic planning, the Group decided to combine the dye intermediates segment and agricultural chemical intermediates segment into the dye and agricultural chemical intermediates segment during the Review Year to implement a unified operation model for procurement, production and sales. During the Review Year, the revenue generated from dye intermediates products was approximately RMB938.3 million (2017: approximately RMB660.0 million), representing approximately 61.9% (2017: approximately 52.9%) of the Group's total revenue; the revenue generated from agricultural chemical intermediates products was approximately RMB273.8 million (2017: approximately RMB349.9 million), representing approximately 18.1% (2017: approximately 28.1%) of the Group's total revenue.

During the Review Year, due to the significant increase in the selling price of dye intermediates products, revenue derived from the dye intermediates sector increased by approximately 42.2% to approximately RMB938.3 million as compared to the same period in 2017, and the gross profit margin increased to approximately 40.3% (2017: approximately 30.1%) accordingly. The revenue derived from agricultural chemical intermediates sector decreased by approximately 21.7% to approximately RMB273.8 million as compared to the same period in 2017, which was due to the decrease in sales volume of agricultural chemical intermediates products as a result of the strict environmental protection regulations imposed on the upstream and downstream products and the rise in the selling price of the products as a result of less market supply, and the gross profit margin was approximately 18.6%. The combined two factors have resulted in the increase in approximately approximately RMB202.2 million or 20.0% of overall segment revenue as compared to 2017.

The Group is the world's largest manufacturer of DSD acid. DSD acid is mainly used in the production of optical brightening agents, and its end applications include brightening elements for the bleaching of textiles and brightening of paper and detergents.

The Group is one of the world's three largest mononitrotoluene manufacturers. Mononitrotoluene is the upstream product of DSD acid. It generates three chemical materials through chemical processes, namely PNT, ONT and MNT. PNT is the major raw material for DSD Acid production. After commencing its own production of mononitrotoluene, the Group is able to stabilise the upstream supply of raw materials. Meanwhile, ONT and OT are important agricultural chemical intermediates in the production of agricultural chemicals and herbicides.

During the Review Year, market demand and supply were both affected by the intensified environmental protection measures implemented by the Chinese government. However, relying on the Group's continuous investment in technologies and capital for environmental protection during production processes in the past, the Group was able to gain an advantage in market competition and obtain greater market predominance. In addition, the Group raised product prices, resulting in a significant increase in revenue compared with the same period last year, under an overall difficult market environment. The revenue generated from this segment accounted for approximately 80.0% of the Group's total revenue.

Pigment intermediates – accounting for approximately 17.3% of total revenue (2017: approximately 18.9%)

During the Review Year, with further strengthening of market predominance, the Group raised product prices. The average selling price of pigment intermediates increased by approximately 9.5% from RMB29,150 per ton in 2017 to RMB31,905 per ton. During the Review Year, the sales volume of relevant products of the Group was approximately 8,227 tons, substantially the same as that of last year (2017: approximately 8,102 tons). Revenue of this segment in 2018 was approximately RMB262.5 million, representing an increase of approximately 11.1% compared with the same period last year.

Environmental technology consultancy service – accounting for approximately 2.5% of total revenue (2017: approximately 0.04%)

With mounting pressure for environmental protection in Mainland China and increasing demands from the environmental protection treatment market, we leveraged our long-established edge in environmental protection treatment and proactively cooperated with third parties to conduct environmental protection technology consulting business, focusing on consultation services on environmental protection regarding the atmosphere, sewage, and soil treatment. During the Review Year, the environmental protection business generated revenue of approximately RMB38.3 million (2017: approximately RMB0.53 million), with a gross profit margin of approximately 16.8% (2017: approximately 12.5%).

Battery materials – accounting for approximately 0.2% of total revenue (2017: approximately 0.1%)

During the Review Year, since the Group was planning to implement the application of several new technologies on the production line for 15,000 tons of iron phosphate, mass production has not begun. The Group has begun to supply products downstream and have received favorable feedback from the customers. Due to the overall weakness of the domestic market, we plan to seize this period, explore the potential, upgrade the processes and reduce costs so as to further strengthen the market competitiveness of our products.

EXPORT

In 2018, the export revenue of the Group amounted to approximately RMB587.2 million, representing an increase of approximately RMB136.2 million or 30.2% as compared to the export revenue of approximately RMB451.0 million in 2017. The increase in export revenue of the Group was mainly due to the increase in average sales price of dye intermediates.

In 2018, the export revenue accounted for approximately 38.7% of the total revenue of the Group (2017: approximately 36.2%).

RESEARCH AND DEVELOPMENT

The Group continues to optimize its production processes and improve the quality of existing products, and has developed the green process for DATA products of pigment intermediate by replacing legacy materials with environmentally friendly raw materials to reduce solid waste generation and costs, and enhance product competitiveness. The Group increased investment in the three-waste treatment process, reduced generation of solid waste using the electrocatalytic oxidation technology, and replaced treatment with recycling with respect to VOC treatment, thereby reducing the overall operating costs. To address the rise in environmental protection standards, the Group upgraded and renovated existing facilities and successfully accomplished the tasks assigned by the Chinese government.

Upholding the belief that technology is core competitiveness, the Group will continue to maintain its investment and efforts in research and development to retain the market advantages enjoyed by its products and identify new growth drivers.

OUTLOOK

During the Review Year, the Group promptly seized market opportunities to further consolidate the market position of existing products and expand the production capacity for certain products. By constantly improving the processes of existing products, the Group enhanced product quality, reduced product cost, and strengthened the market competitiveness of the products. The Group attaches great importance to environmental emissions standards and considers advanced environmental technologies as the core competitiveness of the Group.

In 2018, environmental protection supervision continued in Mainland China, which had affected the upstream and downstream suppliers and customers of the Group to a certain extent. As some of our competitors were shut down or suspended, the market supply of DSD acid, a core product of the Group, was further reduced, which led to the continuous rise in the sales price of DSD acid during the Review Year. As at the end of February 2019, the sales price of DSD acid rose to an average of approximately RMB76,000 per ton (excluding tax). The Group sold approximately 2,900 tons of DSD acid from January to February 2019. As at the end of February 2019, the Group achieved a total revenue of approximately RMB304.6 million, and the initially calculated unaudited net profit was approximately RMB111.4 million. Looking ahead to 2019, as the overall demands for DSD acid from the paper and washing industries for terminal application are stable, we are more confident in the Group's performance in 2019.

In early 2019, the Group won the final victory in the anti-dumping lawsuit in Indian government on behalf of its Chinese peers. According to the results of the ruling published by the Indian government, the sunset review of the anti-dumping investigation on the import of DSD acid from China was terminated, and the anti-dumping duty was no longer imposed on the import of DSD acid from Mainland China. At this point, the seven-year-long DSD acid anti-dumping investigation officially met its "sunset". This victory not only represents the Group's fulfillment of social responsibility to seize the ultimate victory on behalf of its Chinese peers, but also enables the Group to further enhance the competitiveness of its core product DSD acid in the Indian market.

During the Review Year, our environmental protection technology consultancy service gradually gained momentum and began to contribute to revenue and profit. As the environmental protection standards become increasingly stringent and the Chinese government begins to fully implement environmental protection projects, we believe that our environmental protection technology consultancy service will be presented with more opportunities.

The Group began to invest in the research and development and manufacturing of iron phosphate, the precursor for new energy anode materials in early 2017, and has broadened its products in the new energy field to include carbon nanotube paste and the precursor for ternary anode materials. During the Review Year, the Group continued to research and develop new production processes for iron phosphate to further reduce production costs, enhance product quality and strengthen the market competitiveness of the products. Looking ahead to 2019, as the iron phosphate industry is affected by the national new energy vehicle policy and downstream customers, the market sales price will continue to fall, leading to a sluggish industry as a whole. The Group will appropriately adjust its strategy according to the current market conditions, focusing on improving the intrinsic competitiveness of its core products for the next stage, and wait for the market to rally. The Group remains confident in the future of the new energy industry as, following new energy vehicles, the energy storage sector will also become an important area of application for iron phosphate products. We believe that with continuous enhancement of product competitiveness through continuous technological improvement, the battery materials business will become an important business segment of the Group in the future.

In the future, we will continue to look for potential acquisitions and mergers and actively explore the overseas markets. In addition to consolidating existing businesses, we will also explore new areas that have synergetic effect with existing businesses and create more value for Shareholders.

FINANCIAL REVIEW

REVENUE AND GROSS PROFIT

In 2018, the revenue and gross profit of the Group amounted to approximately RMB1,515.9 million and approximately RMB524.1 million respectively, representing an increase of approximately RMB268.5 million and approximately RMB161.1 million or 21.5% and 44.4% from approximately RMB1,247.4 million and approximately RMB363.0 million, respectively, in 2017. In 2018, the gross profit margin of the Group was approximately 34.6%, as compared to approximately 29.1% in 2017. The increase in gross profit margin was due to the Group's overall increase in sales prices of products in the second half of 2018, which transferred the adverse impact of higher raw material prices to customers for stable revenue and gross profit.

NET PROFIT AND NET PROFIT MARGIN

In 2018, the net profit of the Group was approximately RMB222.8 million, representing an increase of approximately RMB86.7 million or 63.7%, as compared to approximately RMB136.1 million in 2017. In 2018, the net profit margin of the Group was approximately 14.7%, as compared to approximately 10.9% in 2017.

SELLING AND DISTRIBUTION EXPENSES

In 2018, selling and distribution expenses amounted to approximately RMB48.5 million, representing an increase of approximately RMB5.8 million, as compared to approximately RMB42.7 million in 2017. The increase in selling and distribution expenses was mainly attributable to the increase in the packing expenses and labor costs.

In 2018, selling expenses represented approximately 3.2% of the Group's revenue (2017: approximately 3.4%).

ADMINISTRATIVE EXPENSES

In 2018, administrative expenses amounted to approximately RMB132.3 million, representing an increase of approximately RMB10.5 million, as compared to approximately RMB121.8 million in 2017. The increase in administrative expenses was mainly due to the increase in labor costs and research and development costs.

In 2018, administrative expenses represented approximately 8.7% of the Group's revenue (2017: approximately 9.8%).

FINANCE COSTS

In 2018, finance costs amounted to approximately RMB22.8 million, representing an increase of approximately RMB7.2 million, as compared to approximately RMB15.6 million in 2017, which was mainly due to the increase in the interest expenses and bank charges during the Review Year.

EXCHANGE LOSS

In 2018, exchange loss amounted to approximately RMB17.6 million, representing an increase of approximately RMB11.7 million, as compared to approximately RMB5.9 million in 2017, which was mainly attributable to the significant fluctuation in the exchange rate of RMB against US dollars during the Review Year.

INCOME TAX EXPENSES

The PRC subsidiaries of the Company are generally subject to the enterprise income tax at a rate of 25%. In 2018, income tax expenses amounted to approximately RMB86.1 million, representing an increase of approximately RMB41.1 million, as compared to approximately RMB45.0 million in 2017. The increase in income tax expense was mainly attributable to the increase in profit before tax during the Review Year as compared with 2017.

CASH FLOWS

In 2018, net cash flows from operating activities of the Group amounted to approximately RMB216.7 million, as compared with approximately RMB191.6 million in 2017, representing an increase of approximately RMB25.1 million, which was mainly due to the increase of revenue and profit in 2018 as compared with 2017.

In 2018, net cash flows used in investing activities of the Group amounted to approximately RMB463.1 million, as compared with approximately RMB257.3 million in 2017, representing an increase of approximately RMB205.8 million, which was mainly due to the increase in the expenses on purchasing of machinery and equipment for the new production plant of battery materials and new production line built by Tsaker Chemical (Dongying) Company Limited in 2018.

In 2018, net cash inflows generated from financing activities of the Group amounted to approximately RMB10.0 million, as compared with approximately RMB27.6 million in 2017, representing a decrease of approximately RMB17.6 million, which was mainly due to (i) the repurchase of the Company's shares amounting to approximately RMB11.0 million in December 2018; (ii) the proceeds from the issuance of shares which was approximately RMB93.9 million in 2017; and (iii) a decrease of approximately RMB87.9 million as compared with 2017 in the repayment of funds to related parties.

LIQUIDITY AND CAPITAL STRUCTURE

In 2018, the daily working capital of the Group was primarily derived from internally generated cash flow from operations and bank borrowings. As at 31 December 2018, the Group had (i) cash and cash equivalents of approximately RMB124.3 million, in which approximately RMB75.8 million was denominated in RMB and approximately RMB48.5 million in other currencies (USD, HKD and Singapore dollar) (as at 31 December 2017: approximately RMB359.8 million, in which approximately RMB89.8 million was denominated in RMB and approximately RMB270.0 million in other currencies (USD and HKD)); (ii) restricted cash of approximately RMB20.2 million (as at 31 December 2017: approximately RMB17.9 million); and (iii) interest-bearing bank loans and other borrowings of approximately RMB651.2 million with interest rate of 4.52%-10.84% per annum, in which approximately RMB364.8 million shall be repayable within one year (as at 31 December 2017: approximately RMB194.6 million shall be repayable within one year with interest rate of 3.92%-10.84% per annum). The Group did not have any unutilized banking facilities as at 31 December 2018.

In 2018, the Group did not use any risk hedging instrument or have any borrowing or hedge in its foreign currency investment.

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio was approximately 49.3% as compared to approximately 51.0% as at 31 December 2017, which is calculated at interest-bearing bank loans and other borrowings at the end of the period divided by the total equity.

CURRENT ASSETS

As at 31 December 2018, the total current assets of the Group amounted to approximately RMB875.1 million (as at 31 December 2017: approximately RMB977.9 million), primarily consisting of inventories of approximately RMB210.0 million (as at 31 December 2017: approximately RMB115.0 million), trade receivables and notes receivable of approximately RMB254.5 million (as at 31 December 2017: approximately RMB328.2 million), prepayments and other receivables of approximately RMB266.1 million (as at 31 December 2017: approximately RMB157.0 million), cash and cash equivalents of approximately RMB124.3 million (as at 31 December 2017: approximately RMB359.8 million) and restricted cash of approximately RMB20.2 million (as at 31 December 2017: approximately RMB17.9 million).

INVENTORIES

Inventories of the Group mainly consisted of raw materials, work-in-progress and finished products. The turnover days for inventories increased from 41 days for 2017 to 59 days for 2018. The increase in turnover days is mainly due to the increase in production volume at the end of 2018 as compared to that of the end of 2017 and the decrease in sales volume at the end of 2018 as compared to that of the end of 2017.

TRADE RECEIVABLES AND NOTES RECEIVABLE

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**186,316**	276,438
Notes receivable	**68,224**	51,800
	254,540	328,238

As at 31 December 2018, trade receivables and notes receivable of the Group decreased by approximately RMB73.7 million as compared to those of last year.

The turnover days for trade receivables decreased from 71 days for 2017 to 69 days for 2018, which was mainly due to the Group's intensified efforts to collect receivables and the decrease in sales volume at the end of 2018 as compared to the end of 2017.

PREPAYMENTS AND OTHER RECEIVABLES

As at 31 December 2018, prepayments and other receivables of the Group increased by approximately RMB109.1 million from approximately RMB157.0 million in aggregate as at 31 December 2017 to approximately RMB266.1 million in aggregate, which was mainly due to an increase in the prepaid equipment and construction costs and prepaid material costs.

CURRENT LIABILITIES

As at 31 December 2018, the total current liabilities of the Group amounted to approximately RMB871.5 million (as at 31 December 2017: approximately RMB705.3 million), primarily consisting of trade payables of approximately RMB345.5 million (as at 31 December 2017: approximately RMB369.8 million), other payables and accruals of approximately RMB100.9 million (as at 31 December 2017: approximately RMB126.0 million) and interest-bearing bank loans and other borrowings of approximately RMB364.8 million (as at 31 December 2017: approximately RMB194.6 million).

TRADE PAYABLES

The turnover days for trade payables increased from 129 days in 2017 to 130 days in 2018. The turnover days remained stable.

OTHER PAYABLES AND ACCRUALS

As at 31 December 2018, other payables and accruals of the Group decreased by approximately RMB25.1 million from approximately RMB126.0 million in aggregate as at 31 December 2017 to approximately RMB100.9 million in aggregate, which was mainly due to the payment of arrears to the third parties during the Review Year.

PLEDGE OF ASSETS

As at 31 December 2018, certain of the Group's property, plant and equipment, and prepaid land lease payments with a net carrying amount of approximately RMB223.3 million (as at 31 December 2017: approximately RMB257.5 million) were pledged to secure bank loans and other borrowings granted to the Group.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

There were no material acquisitions, disposals or significant investment of the Group for the year ended 31 December 2018.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the risk of loss caused by fluctuation in the exchange rate. The foreign exchange risk of the Group is mainly related to its operating activities. Along with the continuous expansion of the scale of its export business, the Group's operations may be affected by the future fluctuation in exchange rates. The Group is closely monitoring the impact of fluctuation in currency exchange rates on the foreign exchange risk of the Group.

The Group currently does not have any hedging policy for foreign currencies in place. However, the Board will remain alert to any relevant risks and, if necessary, consider to hedge any material potential foreign exchange risk.

EMPLOYEES AND REMUNERATION POLICIES

The Group has established human resources policies and systems with a view to achieving effective management in all aspects and building a learning-oriented organization by providing motivational rewards through a proper reward system and offering employees various training programs including internal/external training and public courses.

In support of the Group's talent development strategy, we built a talent information system and a succussion system in 2017, and completed the preliminary drawing of a talent map using a competency model.

The remuneration package offered to the employees was in line with their duties and the prevailing market terms. Staff benefits, including pension fund, medical coverage, provident funds etc., were also provided to the employees of the Group.

As at 31 December 2018, the Group had 1,694 employees (2017: 1,716).

For the year ended 31 December 2018, the total staff costs of the Group (including salaries, bonuses, social insurances and provident funds) amounted to approximately RMB142.3 million (2017: approximately RMB118.8 million).

APPLICATION OF PROCEEDS FROM THE LISTING

Trading of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") commenced on 3 July 2015. The net proceeds from the Listing amounted to approximately RMB378.8 million. The proceeds are used for the purposes disclosed in the prospectus of the Company dated 23 June 2015.

Till 31 December 2018, the proceeds of approximately RMB37.9 million, RMB189.4 million, RMB37.9 million, RMB18.9 million and RMB20.6 million have been used as the supplemental working capital, for the expansion of production capacity, for the development of new products, for the rental payment of Phase I and Phase II of Shandong Tsaker Dongao Chemicals Co., Ltd. ("**Tsaker Dongao**"), and for the purchase of the entire equity interest of Tsaker Dongao, respectively.

FINAL DIVIDEND

The Board recommends a final dividend of RMB0.064 per ordinary share for the year ended 31 December 2018. Such final dividend is subject to the approval by the shareholders of the Company ("**Shareholders**") at the annual general meeting (the "**AGM**") to be held on 14 June 2019 and will be paid to the Shareholders on 26 July 2019 whose names appear on the register of members of the Company (the "**Register of Members**") on 28 June 2019.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members will be closed from 11 June 2019 to 14 June 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 10 June 2019.

The Register of Members will also be closed from 25 June 2019 to 28 June 2019, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 24 June 2019.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set forth in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance.

During the Reporting Period, the Company has complied with all the code provisions of the CG Code set out therein, except for code provision A.2.1 of the CG Code. In accordance with code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company deviates from code provision A.2.1 because Mr. Ge Yi performs both the roles of the chairman and the chief executive officer of the Company. Since Mr. Ge Yi has been with the Company for many years, he has a thorough understanding of our business, management, customers and products. With his extensive experience in business operation and management, the Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates effective implementation and execution of our business decisions and strategies, and is beneficial to the business prospects and management of the Company.

Under the leadership of Mr. Ge Yi, the Board works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers and authorities between the Board and the management of the Company. To maintain a high standard of corporate governance practice for the Company, the Board shall nevertheless review the effectiveness of the structure and composition of the Board from time to time in light of the prevailing circumstances.

The Company will continue to review and monitor its corporate governance practices to ensure its compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries to the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2018, as the Board considered that the price of the Company's shares did not reflect their intrinsic value, the share repurchase program could reflect the Board's confidence in the Company's development prospects. The total number of shares repurchased by the Company from the Stock Exchange was 2,404,500 at a total consideration (before expenses) of HK$12,547,310. The 2,404,500 repurchased shares have been subsequently cancelled on 11 January 2019.

The details of repurchase are set out as below:

Month	Number of shares repurchased	Highest purchase price per share *HK$*	Lowest purchase price per share *HK$*	Total Consideration (before expenses) *HK$*
December	2,404,500	5.62	4.60	12,547,310

Save as disclosed above, the Company and its subsidiaries had not purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2018.

AUDIT COMMITTEE AND FINANCIAL STATEMENTS

The audit committee of the Company, together with the Board, had reviewed the accounting standards and practices adopted by the Group and the annual results for the year ended 31 December 2018.

The figures in relation to the results of the Group for the year ended 31 December 2018 in this preliminary announcement have been agreed to the amounts set out in the Group's draft consolidated financial statements for the year by the Group's auditors, Ernst &Young. The work of Ernst & Young, in this respect, did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF THE ANNUAL RESULTS AND 2018 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tsaker.com), and the Company's 2018 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
TSAKER CHEMICAL GROUP LIMITED
GE Yi
Chairman

Beijing, the PRC, 28 March 2019

As at the date of this announcement, the Board comprises Mr. Ge Yi (Chairman), Mr. Bai Kun and Ms. Zhang Nan as executive Directors, Mr. Fontaine Alain Vincent as a non-executive Director, and Mr. Ho Kenneth Kai Chung, Mr. Zhu Lin and Mr. Yu Miao as independent non- executive Directors.

* *For identification purpose only*