Tiande Chemical Holdings Limited
天德化工控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 609)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

RESULTS HIGHLIGHTS

- Revenue increased by 11.2% to approximately RMB1,407.3 million (2016: RMB1,265.4 million).

- Gross profit decreased by 28.7% to approximately RMB282.6 million (2016: RMB396.3 million).

- Gross profit margin decreased to 20.1% (2016: 31.3%), representing a decrease of 11.2 percentage points.

- Profit for the year attributable to owners of the Company decreased by 53.7% to approximately RMB101.6 million (2016: RMB219.6 million).

- EBITDA decreased by 38.6% to approximately RMB250.4 million (2016: RMB407.7 million).

- Basic earnings per share decreased to approximately RMB0.120 (2016: RMB0.259).

- The Directors recommend a final dividend of HK$0.01 per share, including the interim dividend paid of HK$0.04 per share, total dividends for the year ended 31 December 2017 were HK$0.05 (2016: HK$0.12) per share.

The board (the "**Board**") of directors (the "**Directors**") of Tiande Chemical Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017 together with the comparative figures for the corresponding period in 2016 with the selected notes as follows:

CONSOLIDATED INCOME STATEMENT

		FOR THE YEAR ENDED 31 DECEMBER	
		2017	2016
	Notes	**RMB'000**	RMB'000
Revenue	3	**1,407,329**	1,265,389
Cost of sales		**(1,124,684)**	(869,088)
Gross profit		**282,645**	396,301
Other income and gains		**10,660**	16,867
Revaluation gain on investment properties		**1,580**	3,090
Selling expenses		**(44,757)**	(43,694)
Administrative and other operating expenses		**(82,803)**	(50,258)
Finance costs		**(4,089)**	(1,212)
Fair value (loss) / gain on derivative financial instruments		**(2,993)**	10,318
Gain on bargain purchase		**206**	-
Gain on step acquisition		**36**	-
Share of losses of a joint venture		**(5,538)**	(6,734)
Profit before income tax	4	**154,947**	324,678
Income tax expense	5	**(54,433)**	(105,219)
Profit for the year		**100,514**	219,459
Profit / (Loss) for the year attributable to:			
Owners of the Company		**101,562**	219,603
Non-controlling interests		**(1,048)**	(144)
		100,514	219,459
Earnings per share for profit attributable to owners of the Company for the year	7		
- Basic		**RMB0.120**	RMB0.259
- Diluted		**RMB0.119**	RMB0.259

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Profit for the year	**100,514**	219,459
Other comprehensive income		
Items that may be reclassified subsequently to the income statement:		
Exchange gain / (loss) on translation of financial statements of foreign operations	**1,104**	(123)
Share of other comprehensive income of a joint venture	**2,121**	(1,866)
Other comprehensive income for the year	**3,225**	(1,989)
Total comprehensive income for the year	**103,739**	217,470
Total comprehensive income for the year attributable to :		
Owners of the Company	**104,492**	217,615
Non-controlling interests	**(753)**	(145)
	103,739	217,470

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	AS AT 31 DECEMBER 2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**962,383**	652,475
Prepaid land lease payments		**62,831**	59,858
Investment properties		**20,400**	18,820
Goodwill		**17,668**	17,668
Intangible asset		**17,586**	-
Deposits paid for acquisition of property, plant and equipment		**42,544**	11,183
Interests in a joint venture		**-**	22,607
Derivative financial assets		**-**	2,993
Finance lease receivable		**-**	12,617
Deferred tax assets		**19,092**	2,180
		1,142,504	800,401
Current assets			
Inventories		**178,526**	130,707
Trade and bills receivable	8	**286,743**	432,012
Prepayments and other receivables		**88,425**	19,440
Amount due from a joint venture		**-**	52,883
Finance lease receivable		**-**	797
Pledged bank deposits		**34,218**	-
Bank and cash balances		**194,590**	184,320
		782,502	820,159
Current liabilities			
Trade and bills payable	9	**104,703**	39,053
Accruals and other payables		**205,377**	140,107
Provision for a legal claim		**7,085**	-
Bank borrowings		**194,105**	56,816
Amount due to a related company		**-**	1,191
Amount due to a non-controlling shareholder		**5,272**	3,376
Current tax liabilities		**3,584**	30,570
		520,126	271,113
Net current assets		**262,376**	549,046
Total assets less current liabilities		**1,404,880**	1,349,447
Non-current liabilities			
Deferred income		**9,077**	9,918
Deferred tax liabilities		**27,278**	21,902
		36,355	31,820
NET ASSETS		**1,368,525**	1,317,627
EQUITY			
Share capital		**7,831**	7,802
Reserves		**1,331,500**	1,309,968
Equity attributable to the Company's owners		**1,339,331**	1,317,770
Non-controlling interests		**29,194**	(143)
TOTAL EQUITY		**1,368,525**	1,317,627

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("**HKFRS**"), Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited.

On 28 September 2017, the Company completed the acquisition of 45% equity interest in Dekel Investment Holdings Limited ("**Dekel Investment**"), a company incorporated in Hong Kong and its principal activity is investment holding. Dekel Investment is a sole shareholder of Weifang Dekel Innovative Materials Co., Ltd., a company established in the People's of Republic of China (the "**PRC**"), which is engaged in the business of manufacture, marketing and sales of a type of specialty chemical for industrial use. Consideration of the acquisition amounted to approximately RMB29,795,000, details of which have been set out in the Company's announcements dated 30 June 2017 and 28 September 2017. Other than this acquisition, there were no significant changes in the Group's operations during the year.

The functional currency of the Company is Hong Kong Dollars ("**HK$**"). The consolidated financial statements are presented in Renminbi ("**RMB**") because the main operations of the Group are located in the PRC. All values are rounded to the nearest thousand except when otherwise stated.

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of investment properties and derivative financial instruments which are stated at fair values.

2. ADOPTION OF NEW OR AMENDED HKFRSs

(a) New or amended standards adopted by the Group

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2017.

Amendments to HKAS 7 – Disclosure Initiative

These introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the consolidated statement of cash flow in the annual report.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

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

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

Annual Improvements to HKFRSs 2014-2016 Cycle - Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

This is effective for accounting periods beginning on or after 1 January 2018. The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

Annual Improvements to HKFRSs 2015-2017 Cycle

This is effective for accounting periods beginning on or after 1 January 2019. The amendments issued under the annual improvements process include (i) amendments to HKFRS 3 Business Combinations to clarifies that a company re-measures its previously held interest in a joint operation that is a business when it obtains control of the business; (ii) amendments to HKFRS 11 Joint Arrangements to clarifies that a company that participates in but does not have joint control over a joint operation, does not re-measure its previously held interest in the joint operation which is a business when it obtains joint control of the business; (iii) amendments to HKAS 12 Income Taxes to clarifies that a company accounts for all income tax consequences of dividend payments in the same way as the entity recognised the originating transaction or event that generated the distributable profit giving rise to the dividend and (iv) amendments to HKAS 23 Borrowing Costs to clarifies that when a qualifying asset is ready for its intended use or sale and (some of) the related specific borrowing remains outstanding, that borrowing is treated as general borrowings.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

This is effective for accounting periods beginning on or after 1 January 2018. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Amendments to HKAS 40, Investment Property – Transfers of Investment Property

This is effective for accounting periods beginning on or after 1 January 2018. The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

HKFRS 9 - Financial Instruments

This standard is effective for accounting periods beginning on or after 1 January 2018. It introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("**FVTPL**").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Directors made an assessment on the financial impact of the Group's financial statements resulting from the adoption of HKFRS 9. The Directors do not expect the adoption of HKFRS 9 to have a significant impact on the classification and measurement of the Group's financial assets and financial liabilities.

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer by necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognised and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the Directors have preliminarily assessed that the adoption of HKFRS 9 in the future may not result in early recognition of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15 - Revenue from Contracts with Customers

This standard is effective for accounting periods beginning on or after 1 January 2018. The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15) is effective for accounting periods beginning on or after 1 January 2018. The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The Group has performed a preliminary assessment of the potential impact of the application of HKFRS 15 and identified the key areas which might be accounted for differently under this new standard, including but not limited to the identification of separate performance obligations in the contracts with customers and allocation of transaction price, if applicable, which may affect the timing of revenue recognition.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or services in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
(c) the entity's performance does not create an asset with an alternative use to the and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15, the entity recognise revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Directors have assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of fine chemical products.

HKFRS 16 – Leases

This standard is effective for accounting periods beginning on or after 1 January 2019. HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Total operating lease commitment of the Group in respect of land and buildings as at 31 December 2017 amounted to approximately RMB1,425,000. The Directors do not expect the adoption of HKFRS 16 as compare with the current accounting policy would result in a significant impact on the Group's results though certain portion of the lease commitment will be required to be recognised in the form of an asset (for the right-of-use) and a financial liability (for the payment obligation) in the consolidated statement of financial position under HKFRS 16. However, the amount involved would be insignificant to adjust.

HK(IFRIC)-Int 23 – Uncertainty Over Income Tax Treatments

This interpretation is effective for accounting periods beginning on or after 1 January 2019. The interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

3. REVENUE AND SEGMENT INFORMATION

The Group has identified the following reportable segments:

(i) Cyanide and its derivative products: Research and development, manufacture and sale of cyanide and its derivative products;

(ii) Alcohol products: Research and development, manufacture and sale of alcohol products;

(iii) Chloroacetic acid and its derivative products: Research and development, manufacture and sale of chloroacetic acid and its derivative products; and

(iv) Other chemical products: Sale of other chemical products, e.g. steam and fine petrochemical products.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

REVENUE

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Sales of cyanide and its derivative products	**1,299,048**	1,194,336
Sales of alcohol products	**2,173**	19,479
Sales of chloroacetic acid and its derivative products	**36,044**	20,527
Sales of other chemical products	**70,064**	31,047
	1,407,329	1,265,389

SEGMENT INFORMATION

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	2017				
	Cyanide and its derivative products RMB'000	**Alcohol products RMB'000**	**Chloroacetic acid and its derivative products RMB'000**	**Other chemical products RMB'000**	**Total RMB'000**
Revenue:					
From external customers	**1,299,048**	**2,173**	**36,044**	**70,064**	**1,407,329**
Inter-segment revenue	**914**	**13,425**	**204,764**	**6,171**	**225,274**
Reportable segment revenue	**1,299,962**	**15,598**	**240,808**	**76,235**	**1,632,603**
Reportable segment profit / (loss)	**226,433**	**2,990**	**112,254**	**(13,902)**	**327,775**
Depreciation of property, plant and equipment	**56,346**	**106**	**13,213**	**16,502**	**86,167**
Write-down of inventories to net realisable value	**4,635**	**-**	**-**	**2,594**	**7,229**
Write-off of property, plant and equipment	**257**	**-**	**-**	**7,498**	**7,755**
Impairment loss on a trade receivable	**3,647**	**-**	**-**	**3,059**	**6,706**
Reportable segment assets	**1,102,575**	**912**	**100,368**	**118,509**	**1,322,364**
Additions to non-current segment assets	**221,230**	**-**	**22,809**	**17,129**	**261,168**
Reportable segment liabilities	**192,920**	**667**	**12,967**	**52,434**	**258,988**

	2016				
	Cyanide and its derivative products RMB'000	Alcohol products RMB'000	Chloroacetic acid and its derivative products RMB'000	Other chemical products RMB'000	Total RMB'000
Revenue:					
From external customers	1,194,336	19,479	20,527	31,047	1,265,389
Inter-segment revenue	-	1,073	229,114	146	230,333
Reportable segment revenue	1,194,336	20,552	249,641	31,193	1,495,722
Reportable segment profit	355,613	1,913	113,989	6,864	478,379
Depreciation of property, plant and equipment	50,815	107	14,207	12,419	77,548
Write-down of inventories to net realisable value	1,743	-	-	-	1,743
Reportable segment assets	855,813	3,579	72,605	139,884	1,071,881
Additions to non-current segment assets	39,065	-	2,581	15,975	57,621
Reportable segment liabilities	65,165	884	6,412	29,872	102,333

The totals presented for the Group's operating segments reconciled to the Group's key financial figures as presented in the consolidated financial statements are as follows:

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Reportable segment revenue	**1,632,603**	1,495,722
Elimination of inter-segment revenue	**(225,274)**	(230,333)
Consolidated revenue	**1,407,329**	1,265,389

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Reportable segment profit	**327,775**	478,379
Rental income	**785**	792
Revaluation gain on investment properties	**1,580**	3,090
Equity-settled share-based payment expenses	**(1,031)**	(3,793)
Finance costs	**(4,089)**	(1,212)
Fair value (loss) / gain on derivative financial instruments	**(2,993)**	10,318
Gain on bargain purchase	**206**	-
Gain on step acquisition	**36**	-
Unallocated corporate income	**4,918**	12,187
Unallocated corporate expenses	**(63,363)**	(52,553)
Share of loss of a joint venture	**(5,538)**	(6,734)
Elimination of inter-segment profit	**(103,339)**	(115,796)
Consolidated profit before income tax	**154,947**	324,678

	AS AT 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Reportable segment assets	**1,322,364**	1,071,881
Interests in a joint venture	-	22,607
Amount due from a joint venture	-	52,883
Prepaid land lease payments	**64,509**	61,429
Investment properties	**20,400**	18,820
Deferred tax assets	**19,092**	2,180
Finance lease receivable	-	13,414
Pledged bank deposits	**34,218**	-
Bank and cash balances	**194,590**	184,320
Property, plant and equipment	**154,223**	165,421
Derivative financial instruments	-	2,993
Other corporate assets	**115,610**	24,612
Consolidated total assets	**1,925,006**	1,620,560

	AS AT 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Reportable segment liabilities	**258,988**	102,333
Bank borrowings	**194,105**	56,816
Deferred tax liabilities	**27,278**	21,902
Current tax liabilities	**3,584**	30,570
Other corporate liabilities	**72,526**	91,312
Consolidated total liabilities	**556,481**	302,933

The Group's revenue from external customers are divided into the following geographical areas:

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
The PRC (domicile)	**1,058,974**	1,038,684
India	**131,084**	56,805
United States of America	**75,069**	58,832
Ireland	**20,889**	18,774
Germany	**16,046**	14,814
Others	**105,267**	77,480
	1,407,329	1,265,389

The geographical location of customers is based on the location at which the goods are delivered. No geographical location of the non-current assets is presented as the substantial non-current assets are physically based in the PRC.

There was no single customer that contributed to 10% or more of the Group's revenue for the year ended 31 December 2017 (2016: Nil).

4. PROFIT BEFORE INCOME TAX

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Profit before income tax is arrived at after charging/(crediting):		
Directors' remuneration		
- Fees	**354**	326
- Salaries, discretionary bonus and other benefits	**4,049**	3,809
- Retirement benefit scheme contributions	**130**	104
	4,533	4,239
Other employee costs	**114,228**	90,038
Equity-settled share-based payment expenses	**1,031**	3,793
Retirement benefit scheme contributions	**8,126**	6,509
Total employee costs	**127,918**	104,579
Auditors' remuneration	**823**	791
Amortisation of prepaid land lease payments	**1,616**	1,386
Amortisation of an intangible asset	**451**	-
Cost of inventories recognised as an expense (note i), including	**1,103,620**	852,606
- Write-down of inventories to net realisable value	**7,229**	1,743
Depreciation on property, plant and equipment	**89,792**	80,419
Write-off of property, plant and equipment	**7,755**	-
Impairment loss on trade receivables	**6,706**	4
Impairment loss on trade receivables written back	-	(247)
Gain on disposals of property, plant and equipment, net	**(17)**	(110)
Minimum lease payments under operating leases in respect of leasehold land and buildings	**2,090**	1,698
Research costs (note ii)	**5,268**	3,326

Notes:

(i) Cost of inventories recognised as an expenses includes approximately RMB87,032,000 (2016: RMB77,548,000) relating to depreciation expenses and approximately RMB96,866,000 (2016: RMB76,992,000) relating to employee costs. These amounts are also included in the respective total amounts disclosed separately above.

(ii) Research costs include approximately RMB721,000 (2016: RMB705,000) relating to depreciation expenses and approximately RMB2,778,000 (2016: RMB1,090,000) relating to employee costs. These amounts are also included in the respective total amounts disclosed separately above.

5. INCOME TAX EXPENSE

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Current tax - PRC Enterprise Income Tax		
- Tax for the year	**46,497**	83,414
- (Over) / Under-provision in prior year	**(3)**	349
PRC dividend withholding tax	**10,120**	8,919
	56,614	92,682
Deferred tax	**(2,181)**	12,537
Income tax expense	**54,433**	105,219

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor is derived from Hong Kong.

The subsidiaries established in the PRC are subject to the PRC Enterprise Income Tax at the rate of 25% for 2017 (2016: 25%).

Pursuant to the PRC Corporate Income Tax Law and its related regulations, non-PRC-resident enterprises are levied withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from PRC enterprises for profits earned since 1 January 2008. The Group has adopted 10% (2016: 10%) withholding tax rate for PRC withholding tax purpose during the year ended 31 December 2017.

6. DIVIDENDS

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Final dividend paid in respect of prior year HK$0.08 (2016: HK$0.075) per share	**59,070**	54,293
Interim dividend paid in respect of current year HK$0.04 (2016: HK$0.04) per share	**29,010**	29,611
	88,080	83,904

The Directors recommend a final dividend of HK$0.01 (2016: HK$0.08) per ordinary share. The proposed dividends are not reflected as a dividend payable in these audited financial statements.

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	FOR THE YEAR ENDED 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	**101,562**	219,603

	NUMBER OF ORDINARY SHARES	
	2017	2016
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**850,500**	847,575
Effect of dilutive potential ordinary shares - share options	**3,652**	1,162
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**854,152**	848,737

8. TRADE AND BILLS RECEIVABLE

The Group allows credit periods normally ranging from one month to six months to its trade customers (2016: ranging from one month to six months). Bills receivable are non-interest-bearing bank acceptance bills and aged within a year (2016: within a year) upon issuance. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management.

Ageing analysis of trade and bills receivable at the reporting date, based on the invoice date, is stated as follows:

	AS AT 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
0 to 90 days	**237,232**	338,371
91 to 180 days	**31,372**	87,606
181 to 365 days	**10,889**	5,358
Over 365 days	**7,250**	677
	286,743	432,012

9. TRADE AND BILLS PAYABLE

Trade and bills payable normally have the credit periods ranging from 30 to 180 days (2016: 30 to 180 days). Ageing analysis of trade and bills payable at the reporting date, based on the invoice date, is as follows:

	AS AT 31 DECEMBER	
	2017	2016
	RMB'000	RMB'000
0 to 90 days	**81,739**	35,948
91 to 180 days	**21,291**	1,169
181 to 365 days	**784**	1,351
Over 365 days	**889**	585
	104,703	39,053

The carrying amounts of trade and bills payable are denominated in RMB. All amounts are short term and hence the carrying values of trade and bills payable are considered to be a reasonable approximation of their fair values.

DIVIDEND

The Directors recommend a final dividend of HK$0.01 (2016: HK$0.08) per share in respect of the year ended 31 December 2017. Together with the interim dividend paid of HK$0.04 (2016: HK$0.04) per share, total dividends for the year amounted to HK$0.05 (2016: HK$0.12) per share. The proposed final dividend is subject to approval by the shareholders of the Company (the "**Shareholders**") in its forthcoming annual general meeting (the "**2018 AGM**"). The proposed final dividend is expected to be paid to Shareholders on or about Thursday, 28 June 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders who are entitled to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Wednesday, 23 May 2018 to Monday, 28 May 2018, both days inclusive. In order to qualify for the right to attend and vote at the 2018 AGM, all transfers accompanied by the relevant share certificates should be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716 on the 17th Floor of Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 22 May 2018.

For the purpose of ascertaining the Shareholders who qualify for the proposed final dividend in respect of the year ended 31 December 2017, the register of members of the Company will be closed from Wednesday, 13 June 2018 to Friday, 15 June 2018, both days inclusive. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates should be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716 on the 17th Floor of Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 12 June 2018.

BUSINESS REVIEW

In 2017, tightened government policies and unbalanced market supply and demand gave birth to soaring prices for raw material used in the chemical industry, thus posting extreme challenges to the Group's profitability and results. In respect of revenue, despite a slight decrease in downstream demand during the year under review, the revenue of the Group recorded a 11.2% year-on-year growth, reaching approximately RMB1,407.3 million. Such increase was due to the following reasons: (i) a supplement in the production capacity for some of our cyanide products; and (ii) sales contribution from Jiangsu Chunxiao Pharmaceutical & Chemical Co., Ltd. ("**Jiangsu Chunxiao**") and Dekel Investment, which were acquired in 2016 and 2017 respectively. Domestic and overseas sales accounted for 75.2% and 24.8% of total sales of the Group, respectively. In respect of gross profit and gross profit margin, as a result of intense market competition, there was limited room for price increments of the Group's major products. However, in light of the substantial increase in prices of raw material, the Group's gross profit and gross profit margin were under pressure obviously. The Group's gross profit in 2017 was approximately RMB282.6 million, representing a year-on-year decrease of 28.7%, while the Group's gross profit margin was 20.1%, representing a year-on-year decrease of 11.2 percentage points.

Performance of major product segments of the Group during the year under review is discussed as follows:

Cyanide and its derivative products

Cyanide and its derivative products represented the most significant business segment of the Group. During the year under review, the revenue from this segment recorded a year-on-year growth of 8.8%, amounting to approximately RMB1,299.0 million, representing 92.3% of the Group's total revenue for the year.

During the year under review, the Group was dedicated to this segment. The Group strictly observed the government's ever-more demanding regulations and kept on improving the production efficiency and upgrading facilities for environmental protection and safe production for the purpose of ensuring its competitiveness and the compliance with requirements on environmental protection and safe production, thus facilitating the sustainable development of the Group. Since the government tightened its policies on the industry, supervision on environmental protection and safe production was more stringent. As a result, some small and medium enterprises in the downstream had to reduce their production capacity or even suspended their production activities, which in turn exerted negative impact on the sales of this segment. Nevertheless, the Group acquired Jiangsu Chunxiao and Dekel Investment in 2016 and 2017 respectively and the sales of these newly acquired subsidiaries made a great contribution to the revenue of this segment, thus alleviating the unfavourable influence from external environmental factors. This segment still recorded a growth in revenue as compared with that of last year. As the Group's downstream enterprises are improving their production and the consolidation and enhancement of the chemical industry are progressing, the demand from the downstream will gradually increase.

During the year under review, the Group continuously optimised the layout of upstream and downstream vertical integration industry chain to place the Group in a stronger position in the market. The Group increased the production capacity of its foundational products (e.g. sodium cyanide) and further expanded the coverage of its horizontal and downstream product chain, thereby bringing about a more comprehensive industry chain. As a result, the Group was able to achieve satisfactory economy of scale, promising production efficiency, better risk diversification and higher cost efficiency. Given the ever enriching and expanding product chain of the Group, the competitive edges in the cyanide sector are getting stronger as the Group steadily heads towards the leading position of the industry.

Alcohol products

Alcohol products are mainly for internal use, serving the purpose of enhancing the Group's competitiveness in the vertical integration of its product chain. During the year under review, the Group strategically adjusted the production and sales of alcohol products with reference to the price trend in the market. The revenue generated from external customers of this segment accounted for only 0.15% of the Group's total revenue. The Group will continue to adjust its operating strategies in a flexible manner to cater to the market demand in the future.

Chloroacetic acid and its derivative products

Chloroacetic acid and its derivative products are one of the key raw materials in the Group's vertical integration of the industrial chain. Accordingly, the Group attached top priority to the stable and sufficient internal supply of such products, with the remaining to be sold externally. During the year under review, in line with the changes in market supply and demand, the external sales and selling prices of such products recorded a year-on-year increase. The revenue from external sales was approximately RMB36.0 million, accounting for 2.6% of the Group's total revenue. In the future, the Group will continue to optimise its production technologies and efficiency to increase the production capacity of such products. The Group aims to fully utilise the aspect of cost-effectiveness of such products in order to develop the Group's industry chain.

Outlook

Looking ahead, confronted with various unfavourable factors in the business environment and the pressure on profit growth in the near future, the Group's management will act prudently to address the challenges and stick to its established core development strategies. In short, the Group will make use of the vertical industry chain of its existing products and high-barrier platforms to develop horizontal and downstream products or even end products, as well as explore the market opportunities to unleash the Group's business advantages in the downstream sector. Upon the commencement of production of new projects, the range of the Group's product mix will be further expanded. The business scale, revenue and resilience to risks will be strengthened as well. All these serve to maintain the Group's position in the market. In addition, the Group is making continuous effort to support its research and development team, and will work out a well-rounded plan for the long-term business development and growth given its adequate technical proficiency. The Board and the Group will take a proactive role to take on challenges, seize market opportunities and refine the operation to create higher value for Shareholders.

FINANCIAL REVIEW

Revenue

The revenue of the Group for the year ended 31 December 2017 increased by 11.2% to approximately RMB1,407.3 million, as compared with approximately RMB1,265.4 million in 2016. Such growth was mainly attributable to (i) the two newly acquired subsidiaries, in which one was acquired in the second half of 2016 and the other was acquired 45% equity interests of a joint venture in September 2017, having made considerable contribution to the revenue of the Group; and (ii) the expansion of production capacity of certain products with good development potential in the past had provided solid support in the enlargement of the market share and revenue, albeit the shrinking of overall market demand and increasingly demanding operating environment during the year under review.

Gross profit

During the year under review, the Group had used its best endeavours to optimise and improve the efficiency of its overall productivity and implemented a more cost effectiveness production layout to mitigate the adverse impact induced by higher prices of raw materials. However, the gross profit of the Group was affected by the steep increase in raw material costs and had dropped to approximately RMB282.6 million eventually, representing a decrease of approximately RMB113.7 million or 28.7% as compared with approximately RMB396.3 million in 2016 while the gross profit margin also declined to 20.1% when compared with 31.3% in 2016.

Operating income and expenses

The other income was mainly comprised of (i) release of deferred income; (ii) bank interest income; (iii) various grants from the relevant local authorities to encourage the Group's business development; and (iv) other miscellaneous income during the year under review.

The selling expenses slightly increased by approximately RMB1.1 million to approximately RMB44.8 million (2016: RMB43.7 million) during the year under review. Such increase was mainly attributable to the increase in sales commission and staff costs. The selling expenses of the Group's revenue was 3.2% (2016: 3.5%).

During the year under review, the administrative and other operating expenses increased by approximately RMB32.5 million from approximately RMB50.3 million in 2016 to approximately RMB82.8 million in 2017. The increase was mainly attributable to the increase in exchange loss, impairment loss on a trade receivable and write-off of property, plant and equipment. Administrative and other operating expenses of the Group's revenue was 5.9% (2016: 4.0%).

Finance costs

Finance costs mainly represented bank borrowings interest, which increased by approximately RMB2.9 million from approximately RMB1.2 million in 2016 to approximately RMB4.1 million in 2017. The increase was mainly due to an increase in the amount of average bank borrowings and interest borrowings rate during the year under review.

Fair value loss / gain on derivative financial instruments

On 30 June 2011, the Company entered into a joint venture agreement (the "**JV Agreement**") with Henkel Hong Kong Limited ("**Henkel**") to set up Dekel Investment for developing a specialty chemical for an industrial use product. Under the JV Agreement, (i) the Company was granted with a call option to require Henkel to sell or cause the sale of all of the equities of Dekel Investment held by Henkel and/or its affiliates to the Company at the call option price; and (ii) Henkel was granted with a put option to require the Company to purchase or cause the purchase of all of the equities of Dekel Investment held by Henkel and/or its affiliates at the put option price. Such options can only be exercised during the option period set on specified future dates (please refer to the announcement of the Company dated 3 July 2011 for details). Thus, the JV Agreement is deemed to contain embedded derivative which is required to be carried at fair value under Hong Kong financial reporting standards. For the year ended 31 December 2016, the fair value gain on the embedded derivative financial instruments was, determined by an independent valuer adopting a binomial lattice model at, approximately RMB10.3 million. On 30 June 2017, the Company and Dekel Investment entered into a sales and purchase agreement with Henkel to acquire all of the equities of Dekel Investment held by Henkel (please refer to the announcement of the Company dated 30 June 2017 for details). According to the non-default termination provision clauses under the JV Agreement, the derivative financial instruments were no longer applicable. Therefore, the fair value carried forward for the derivative financial instruments of approximately RMB3.0 million was derecognised in the consolidated income statement during the year under review.

Profit for the year attributable to owners of the Company

The profit for the year attributable to owners of the Company has decreased by approximately RMB118.0 million to approximately RMB101.6 million in 2017, representing a decrease of 53.7% as compared with that of approximately RMB219.6 million in 2016.

Trade and bills receivable

As at 31 December 2017, trade receivables increased to approximately RMB196.7 million, representing an increase of approximately RMB12.7 million or 6.9% as compared with approximately RMB184.0 million recorded as at 31 December 2016. About 82.5% of trade receivables were incurred in the last quarter of 2017 and most of them are not yet due and 8.3% of trade receivables were incurred in the third quarter of 2017. Only 9.2% of trade receivables are over due 180 days. Up to the date of this report, over 75.8% of trade receivables have been settled. Thus, the Directors considered that no further bad debt allowance is required on the balance of trade receivables as at 31 December 2017.

As at 31 December 2017, bills receivable amount of approximately RMB90.0 million, decreased by approximately RMB158.0 million or 63.7% as compared with the balance of approximately RMB248.0 million as at 31 December 2016. Since all bills receivable are bank acceptance bills, which are non-interest bearing and most of them have a maximum maturity period of six months, the payments of which were guaranteed by the licensed banks in the PRC. As a result, the default risk is considered minimal. Accordingly, the Directors considered that no allowance for doubtful debt is required.

Short-term bank borrowings

All short-term bank borrowings were at floating interest rates and are denominated in Hong Kong dollars and Renminbi. As at 31 December 2017, short-term bank borrowings increased to approximately RMB194.1 million, representing a net increase of approximately RMB137.3 million or 241.7% as compared with the balance of an approximately RMB56.8 million as at 31 December 2016. Such an increase is mainly attributable to financing (i) the general working capital of the Group; (ii) the acquisition of 45% equity interests in Dekel Investment and; (iii) capital expenditure incurred for construction of production lines for a newly developed product.

Liquidity and financial resources

The Group’s primary source of funding included the net cash inflow generated from operating activities of approximately RMB277.4 million (2016: RMB241.1 million); newly raised bank borrowings of approximately RMB251.4 million (2016: RMB56.8 million); loan from a non-controlling shareholder of approximately RMB2.1 million (2016: RMB3.4 million); net proceed of issue of shares due to exercise of share options of approximately RMB4.1 million

(2016: RMB2.3 millioin); bank interest received of approximately RMB2.6 million (2016: RMB1.8 million); government grants received of approximately RMB2.7 million (2016: RMB1.3 million); no loan repayment from a joint venture (2016: 0.4 million); proceeds on disposals of property, plant and equipment of approximately RMB0.03 million (2016: RMB0.1 million); and capital injection from non-controlling shareholders of approximately RMB30.1 million (2016: RMB2,000). With the financial resources obtained from the Group's operations, the Group had spent approximately RMB276.9 million (2016: RMB82.0 million) in the acquisition of property, plant and equipment; net payment for acquisition of a subsidiary of approximately RMB14.0 million (2016: RMB39.1 million); repayment of shareholders loan to a joint venture partner of approximately RMB25.0 million (2016: Nil); repayments of bank borrowings of approximately RMB111.2 million (2016: RMB33.0 million); acquisition of prepaid land lease payments of approximately RMB4.7 million (2016: Nil); interest paid of approximately RMB4.0 million (2016: RMB1.2 million) and dividend paid of approximately RMB88.1 million (2016: RMB83.9 million) during the year under review. As at 31 December 2017, the Group had bank and cash balances and pledged bank deposits of approximately RMB228.8 million (2016: RMB184.3 million), of which 53.8% was held in Renminbi, 16.0% was held in United States dollars and the remaining balances were held in Hong Kong dollars and euros. During the year under review, the Group did not use any financial instruments for any hedging purposes.

As at 31 December 2017, the Group had recorded net current assets of approximately RMB262.4 million (2016: RMB549.0 million), the current ratio of the Group was approximately 1.5 times (2016: 3.0 times), and total borrowings of approximately RMB199.2 million (2016: RMB60.2 million). The Group still retains a healthy financial position and attained a net cash balance of approximately RMB29.6 million (total cash and cash equivalent plus pledged bank deposits net of total borrowings) as at 31 December 2017 (2016: RMB124.1 million).

The Group had a solid financial position and continued to maintain a steady cash inflow from operating activities, coupled with the available cash resources on hand and undrawn banking facilities from its banks, the Group has sufficient financial resources to meet its present commitments and working capital requirements. The Group will monitor its cash outflow closely and cautiously and dedicate to maintain a sound financial position and improve the equity return to the Shareholders.

Pledge of assets

As at 31 December 2017, a bank deposit approximately RMB30.0 million (2016: Nil) was pledged for bank acceptance bills facilities; a restricted bank deposit approximately RMB2.0 million (2016: Nil) was a security deposit requested by the relevant local authority to assure compliance with local environmental and safety production practices (2016: Nil); and a bank account with a deposit of approximately RMB2.2 million has been frozen to secure a pending litigation case under a PRC court order (2016: Nil).

Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities (2016: Nil).

Commitments

As at 31 December 2017, the Group had commitments which has been contracted but not yet been provided for in the aggregate amount of approximately RMB100.4 million (2016: RMB80.0 million, among which approximately RMB60.7 million relates to the loan commitment for the joint venture project with Henkel), for purchases of property, plant and equipment as well as construction in progress, while the capital commitment for authorised but not contracted for in an aggregate amount of approximately RMB35.1 million (2016: RMB246.6 million) related to the acquisition of property, plant and equipment as well as construction in progress.

FUNDING AND TREASURY POLICIES

The Group adopts a prudent approach on its funding and treasury policies, which aims to maintain an optimal financial position and minimise the Group's financial risks. The Group regularly reviews its funding requirements to ensure adequate financial resources to support its business operations and future investments as and when needed.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's operations are mainly in the PRC and its assets, liabilities, revenues and transactions are mainly denominated in RMB, Hong Kong dollars and United States dollars.

The Group's foremost exposure to the foreign exchange fluctuations was caused by the impact of Renminbi exchange rate movements during the year under review. Most of the Group's income and expenses are denominated in RMB except for export sales which were, in majority, denominated in United States dollars. However, the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of the fluctuations in currency exchange rates during the year under review. Besides, the Group will consider adoption of cost-efficient hedging methods in future foreign currency transactions as and when appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had 1,589 (2016: 1,420) full-time employees. The increase in the number of employees was mainly due to the acquisition of a subsidiary and the expansion in business activities of the Group during the year under review.

For the year under review, the total staff costs incurred including directors' remuneration increased to approximately RMB127.9 million (2016: RMB104.6 million).

The Group has established its human resources policies and scheme with a view to deploying the incentives and rewards of the remuneration system which includes a wide range of training and personal development programs to the employees. The remuneration package offered to the employees was in line with the duties and the prevailing market terms. Staff benefits, including medical coverage and provident funds, have also been provided to the employees of the Group.

The employees would receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals of the Group. The Group also offered rewards or other incentives to the employees in order to motivate their personal growth and career development, such as ongoing opportunities for training to enhance their technical and products knowledge as well as their knowledge of industry quality standards. All new employees of the Group are required to attend an induction course and there are also various types of training courses available to all the Group's employees.

The Company has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. During the year under review, no share option of the Company has been granted (2016: Nil).

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

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the requirements set out in the "Corporate Governance Code and Corporate Governance Report" contained in Appendix 14 of the Listing Rules during the year under review.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his compliance with the Model Code for the financial year ended 31 December 2017. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of inside information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the year under review.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises the three independent non-executive Directors, namely, Mr. Leung Kam Wan, Mr. Liu Chenguang and Mr. Gao Baoyu. Mr. Leung Kam Wan is the chairman of the Audit Committee and he possesses recognised professional qualifications in accounting required by the Listing Rules.

The Audit Committee has reviewed the full year financial statements and reports of the Group for the year ended 31 December 2017. The Audit Committee was satisfied that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practices in Hong Kong. The Audit Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements. The Audit Committee also reviewed the internal control measures adopted by the Group during the year under review.

SCOPE OF WORK OF BDO LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited 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 and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

By order of the Board
Gao Feng
Chairman

Hong Kong, 26 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Gao Feng, Mr. Zheng Mingguo, Mr. Wang Zijiang, Mr. Sun Zhenmin and Mr. Liu Yang; whilst the independent non-executive directors of the Company are Mr. Gao Baoyu, Mr. Leung Kam Wan and Mr. Liu Chenguang.