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 2018

RESULTS HIGHLIGHTS

- Revenue decreased by 16.2% to approximately RMB1,179.3 million (2017: RMB1,407.3 million).
- Gross profit decreased by 76.9% to approximately RMB65.2 million (2017: RMB282.6 million).
- Gross profit margin decreased to 5.5% (2017: 20.1%), representing a decrease of 14.6 percentage points.
- Loss for the year attributable to owners of the Company was approximately RMB61.1 million (2017: profit attributable to owners of the Company was RMB101.6 million).
- EBITDA decreased by 86.4% to approximately RMB34.1 million (2017: RMB250.4 million).
- Basic loss per share was approximately RMB0.072 (2017: basic earnings per share was RMB0.120).
- The Directors do not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: HK$0.01 per share).

The board (the "**Board**") of directors (the "**Directors**") of Tiande Chemical Holdings Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018 together with the comparative figures for the corresponding period in 2017 with the selected notes as follows:

CONSOLIDATED INCOME STATEMENT

		FOR THE YEAR ENDED 31 DECEMBER	
		2018	2017
	Notes	**RMB'000**	RMB'000
Revenue	3	**1,179,300**	1,407,329
Cost of sales		**(1,114,146)**	(1,124,684)
Gross profit		**65,154**	282,645
Other income and gains		**22,415**	10,660
Revaluation gain on investment properties		**2,100**	1,580
Selling expenses		**(52,573)**	(44,757)
Administrative and other operating expenses		**(88,730)**	(82,803)
Finance costs		**(4,628)**	(4,089)
Impairment loss on goodwill		**(17,668)**	-
Fair value loss on derivative financial instruments		-	(2,993)
Gain on bargain purchase		-	206
Gain on step acquisition		-	36
Share of loss of a joint venture		-	(5,538)
(Loss) / Profit before income tax	4	**(73,930)**	154,947
Income tax credit / (expense)	5	**5,214**	(54,433)
(Loss) / Profit for the year		**(68,716)**	100,514
(Loss) / Profit for the year attributable to:			
Owners of the Company		**(61,058)**	101,562
Non-controlling interests		**(7,658)**	(1,048)
		(68,716)	100,514
(Loss) / Earnings per share for (loss) / profit attributable to owners of the Company for the year	7		
- Basic		**RMB(0.072)**	RMB0.120
- Diluted		**RMB(0.072)**	RMB0.119

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	FOR THE YEAR ENDED 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
(Loss) / Profit for the year	**(68,716)**	100,514
Other comprehensive income		
Items that may be reclassified subsequently to the income statement:		
Exchange (loss) / gain on translation of financial statements of foreign operations	**(226)**	1,104
Share of other comprehensive income of a joint venture	**-**	2,121
Other comprehensive income for the year	**(226)**	3,225
Total comprehensive income for the year	**(68,942)**	103,739
Total comprehensive income for the year attributable to :		
Owners of the Company	**(61,030)**	104,492
Non-controlling interests	**(7,912)**	(753)
	(68,942)	103,739

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		AS AT 31 DECEMBER	
	Notes	**2018** **RMB'000**	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**964,300**	962,383
Prepaid land lease payments		**60,742**	62,831
Investment properties		**22,500**	20,400
Goodwill		**-**	17,668
Intangible asset		**15,783**	17,586
Deposits paid for acquisition of property, plant and equipment		**14,093**	42,544
Deferred tax assets		**33,291**	19,092
		1,110,709	1,142,504
Current assets			
Inventories		**139,261**	178,526
Trade and bills receivable	8	**306,517**	286,743
Prepayments and other receivables		**83,050**	88,425
Pledged bank deposits		**2,691**	34,218
Bank and cash balances		**49,105**	194,590
		580,624	782,502
Current liabilities			
Trade and bills payable	9	**45,040**	104,703
Accruals and other payables		**204,923**	205,377
Contract liabilities		**6,917**	-
Provision for legal claims		**17,141**	7,085
Bank borrowings		**20,000**	194,105
Advances from a non-controlling shareholder		**5,546**	5,272
Advances from the ultimate holding company		**67,801**	-
Current tax liabilities		**1,653**	3,584
		369,021	520,126
Net current assets		**211,603**	262,376
Total assets less current liabilities		**1,322,312**	1,404,880
Non-current liabilities			
Deferred income		**7,775**	9,077
Deferred tax liabilities		**22,137**	27,278
		29,912	36,355
NET ASSETS		**1,292,400**	1,368,525
EQUITY			
Share capital		**7,831**	7,831
Reserves		**1,263,287**	1,331,500
Equity attributable to the Company's owners		**1,271,118**	1,339,331
Non-controlling interests		**21,282**	29,194
TOTAL EQUITY		**1,292,400**	1,368,525

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.

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 People's Republic of China (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 which is 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 2018.

HKFRS 9	Financial Instruments
HKFRS15	Revenue from Contracts with Customers
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

HKFRS 9 - Financial Instruments

HKFRS 9 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: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group in these consolidated financial statements.

(i) Classification and measurement of financial instruments

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss ("**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. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group' s accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade, bills and deposits and other receivables (that the trade, bills and deposits and other receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivatives are no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

The following accounting policies have been applied to the Group's financial assets:

Amortised costs	These are subsequently measured using effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt instruments)	These are subsequently measured at fair value. Interest income calculated using effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt instrument is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

The following table summarises the original classification and measurement categories under HKAS 39 and the new classification and measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39**	**Carrying amount as at 1 January 2018 under HKFRS 9**
			RMB'000	RMB'000
Trade receivables	Loans and receivables	Amortised cost (note 2(a)(ii))	196,707	196,707
Bills receivable	Loans and receivables	Debt instruments at FVOCI (note 2(a)(ii))	90,036	90,036
Deposits and other receivables	Loans and receivables	Amortised cost (note 2(a)(ii))	44,737	44,737
Pledged bank deposits	Loans and receivables	Amortised cost (note 2(a)(ii))	34,218	34,218
Bank and cash balances	Loans and receivables	Amortised cost (note 2(a)(ii))	194,590	194,590

Transfer of financial assets previously classified as loans and receivables

In managing the liquidity, the Group endorses part of bills receivable before their maturity, and derecognises the endorsed bills receivable when the Group has transferred substantially all the risks and rewards to its supplier. The Group manages such bills receivable using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets. Therefore, at 1 January 2018, bills receivable amounting to RMB90,036,000 is reclassified from loans and receivables to financial asset measured at FVOCI upon adoption of HKFRS 9, with fair value gains or losses accumulated in reserve and reclassified to profit or loss when they are derecognised. However, the Directors assessed that the fair value of bills receivable approximate their carrying amounts given all bills receivable have a short maturity, and therefore no adjustment was made to the carrying amounts as at 1 January 2018.

As at 1 January 2018 and 31 December 2018, all other financial assets except bills receivable which are at FVOCI, are carried at amortised cost. Other than that, there is no significant financial impact of consolidated financial statements resulting from the adoption of HKFRS 9 on the classification and measurement of the Group's financial instruments.

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". HKFRS 9 requires the Group to recognised ECLs for financial assets at amortised cost (i.e. trade receivables, deposits and other receivables, pledged bank deposits and bank and cash balances) and debt instruments at FVOCI (i.e. bills receivable) earlier than HKAS 39.

Under HKFRS 9, losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. These are measures as 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 assets' original effective interest rate.

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

Other financial assets are measured as 12-month ECLs. The 12-months ECLs is the portion of the 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 ECLs.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due. However, the Group's debt instruments (i.e. bills receivable) at FVOCI are considered to have low credit risk since the issuers' credit rating are high.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 365 days past due. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Impact of ECLs model

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises a lifetime ECLs for trade receivables. To measure ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Other financial assets at amortised cost of the Group includes deposits and other receivables, pledged bank deposits and bank and cash balances. Since there is no increase in credit risk, loss allowance recognised during the year was therefore limited to 12-months expected credit losses. Management considers the probability of default is low on deposits and other receivables since the counterparties are in good credit quality and no historical default is noted. Besides, management considers the probability of default is low on pledged bank deposits and bank balances since they are placed at the financial institutions with good credit rating. The Group has assessed and concluded that impact of HKFRS 9 resulted in adopting ECLs model for impairment assessment on trade receivables, bills receivable, deposits and other receivables, pledged bank deposits and bank and cash balances to their impairment assessment under HKAS 39 are insignificant as at 1 January 2018.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the consolidated financial statements as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The general principle of HKFRS 9 is to apply the standard retrospectively in accordance with HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. For the new classification and measurement requirements, the Group has elected for the exception from the requirement to restate comparative information as set out in the transitional provisions. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

HKFRS15 - Revenue from Contracts with Customers

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 steps 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.

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) when the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(b) when 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) when the entity's performance does not create an asset with an alternative use to the entity 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.

Customers obtain control of the chemical products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the chemical products. There is generally only one performance obligation. Invoices are usually payable within 180 days. In the comparative period, revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

The Group's contracts with customers from the sale of product provides customers a right of return either to exchange the same product or to be refund in cash. The right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. In the comparative period, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made. The Group's obligation to replace faulty products is recognised as a provision.

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using cumulative effect method without practical expedients, which means that the cumulative impact of the adoption, if any, will be recognised in retained profits as of 1 January 2018 and that comparatives will not be restated.

The Group assessed the impacts of adopting HKFRS 15 on its consolidated financial statements and concluded that no significant impact on the Group's revenue recognition. Revenue for sales of chemical products are recognised at point in time as when there is evidence that the control of goods has been transferred to the customer, the customer has adequate control over the goods and the Group has no unfulfilled obligations that affect customer accepting the goods. For the right of returns which gives rise to variable consideration upon the adoption of HKFRS 15, the impact is insignificant to the Group's financial statements.

Upon the adoption of the HKFRS 15, if there is any satisfied performance obligation but where the Group does not have an unconditional right to consideration, the Group should recognise a contract asset. No contract asset is recognised upon transition and at the end of the reporting period.

Adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of the initial application (1 January 2018) as follows:

	HKAS 18 - carrying amount at 31 December 2017	**Reclassification**	**HKFRS 15 - carrying amount at 1 January 2018**
	RMB'000	RMB'000	RMB'000
Accruals and other payables	205,377	(7,188)	198,189
Contract liabilities*	-	7,188	7,188

* Under HKFRS 15, a contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue, or when the Group receives consideration from a customer.

The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18 that was previously in effect before the adoption of HKFRS 15 is as follows:

	As at 31 December 2018			
	Without adoption of HKFRS 15	**Reclassifications under HKFRS 15**	**Effects of adoption of HKFRS 15**	**As reported**
	RMB'000	RMB'000	RMB'000	RMB'000
Consolidated statement of financial position (extract)				
Accruals and other payables	211,840	(6,917)	-	204,923
Contract liabilities	-	6,917	-	6,917
Consolidated statement of cash flows (extract)				
Operating profit before working capital changes:				
Trade, bills and other payables and accruals	(61,170)	-	(6,917)	(68,087)
Contract liabilities	-	-	6,917	6,917

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

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.

The adoption of these amendments has no impact on the financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

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 adoption of these amendments has no impact on the financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this year.

Amendments to HKAS 40 – Transfers of Investment Property

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 adoption of these amendments has no impact on the financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

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

This provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies 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 thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on the financial statements as the Group has not paid or received any consideration, in advance, in a foreign currency.

(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.

HKFRS 16	Leases[1]
HK(IFRIC) – Int 23	Uncertainty Over Income Tax Treatments[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020

HKFRS 16 – Leases

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 2018 amounted to RMB1,872,000. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results though certain portion of these lease commitments 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 is insignificant.

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

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.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

The Group has already commenced a preliminary assessment of the impact of adopting the above standards and amendments to existing standards to the Group. The Directors anticipate that the application of other new and amendments to HKFRSs and an interpretation will have no material impact on the Group's financial performance and positions and/or the disclosures to the Group's financial statements.

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 other chemical 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	
	2018	2017
	RMB'000	RMB'000
Sales of cyanide and its derivative products	**1,115,052**	1,299,048
Sales of alcohol products	**7,550**	2,173
Sales of chloroacetic acid and its derivative products	**36,022**	36,044
Sales of other chemical products	**20,676**	70,064
	1,179,300	1,407,329

SEGMENT INFORMATION

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

	2018				
	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 contracts with customer within the scope of HKFRS15:					
From external customers	**1,115,052**	**7,550**	**36,022**	**20,676**	**1,179,300**
Inter-segment revenue	**-**	**6,865**	**159,377**	**8,299**	**174,541**
Reportable segment revenue	**1,115,052**	**14,415**	**195,399**	**28,975**	**1,353,841**
Reportable segment profit / (loss)	**11,026**	**908**	**17,598**	**(1,900)**	**27,632**
Depreciation of property, plant and equipment	**67,691**	**307**	**12,972**	**14,222**	**95,192**
(Reversal of write-down) / Write-down of inventories to net realisable value, net	**(4,022)**	**-**	**-**	**261**	**(3,761)**
Write-off of property, plant and equipment	**5,323**	**-**	**-**	**17,245**	**22,568**
Write-off of prepaid land lease payments	**421**	**-**	**-**	**-**	**421**
Impairment losses on trade receivables	**1,679**	**-**	**5**	**2,138**	**3,822**
Reportable segment assets	**1,067,685**	**2,416**	**100,339**	**96,511**	**1,266,951**
Additions to non-current segment assets	**88,424**	**-**	**22,823**	**1,039**	**112,286**
Reportable segment liabilities	**172,884**	**1,567**	**11,850**	**25,565**	**211,866**

	2017				
	Cyanide and its derivative products	Alcohol products	Chloroacetic acid and its derivative products	Other chemical products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (note) :					
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

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

Revenue for chemical products are recognised at point in time as when there is evidence that the control of goods has been transferred to the customer, the customer has adequate control over the goods and the Group has no unfulfilled obligations that affect customer accepting the goods.

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	
	2018	2017
	RMB'000	RMB'000
Reportable segment revenue	**1,353,841**	1,632,603
Elimination of inter-segment revenue	**(174,541)**	(225,274)
Consolidated revenue	**1,179,300**	1,407,329

	FOR THE YEAR ENDED 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
Reportable segment profit	**27,632**	327,775
Rental income	**706**	785
Revaluation gain on investment properties	**2,100**	1,580
Equity-settled share-based payment expenses	**-**	(1,031)
Finance costs	**(4,628)**	(4,089)
Impairment loss on goodwill	**(17,668)**	-
Fair value loss on derivative financial instruments	**-**	(2,993)
Gain on bargain purchase	**-**	206
Gain on step acquisition	**-**	36
Unallocated corporate income	**2,648**	4,918
Unallocated corporate expenses	**(70,932)**	(63,363)
Share of loss of a joint venture	**-**	(5,538)
Elimination of inter-segment profit	**(13,788)**	(103,339)
Consolidated (loss) / profit before income tax	**(73,930)**	154,947

	AS AT 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
Reportable segment assets	**1,266,951**	1,322,364
Prepaid land lease payments	**62,409**	64,509
Investment properties	**22,500**	20,400
Deferred tax assets	**33,291**	19,092
Pledged bank deposits	**2,691**	34,218
Bank and cash balances	**49,105**	194,590
Property, plant and equipment	**167,764**	154,223
Other corporate assets	**86,622**	115,610
Consolidated total assets	**1,691,333**	1,925,006

	AS AT 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
Reportable segment liabilities	**211,866**	258,988
Bank borrowings	**20,000**	194,105
Advances from the ultimate holding company	**67,801**	-
Deferred tax liabilities	**22,137**	27,278
Current tax liabilities	**1,653**	3,584
Other corporate liabilities	**75,476**	72,526
Consolidated total liabilities	**398,933**	556,481

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

	FOR THE YEAR ENDED 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
The PRC (domicile)	**871,748**	1,058,974
India	**103,152**	131,084
United States of America	**58,934**	75,069
United Kingdom	**17,633**	15,429
Taiwan	**15,111**	14,178
Others	**112,722**	112,595
	1,179,300	1,407,329

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 2018 (2017: Nil).

4. (LOSS) / PROFIT BEFORE INCOME TAX

	FOR THE YEAR ENDED 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
(Loss) / Profit before income tax is arrived at after charging/(crediting):		
Directors' remuneration		
- Fees	**355**	354
- Salaries, discretionary bonus and other benefits	**2,667**	4,049
- Retirement benefit scheme contributions	**102**	130
	3,124	4,533
Other employee costs	**121,343**	114,228
Equity-settled share-based payment expenses	**-**	1,031
Retirement benefit scheme contributions	**9,727**	8,126
Total employee costs	**134,194**	127,918
Auditor's remuneration	**789**	823
Amortisation of prepaid land lease payments	**1,679**	1,616
Amortisation of an intangible asset	**1,803**	451
Cost of inventories recognised as an expense (note i), including	**1,097,179**	1,103,620
- (Reversal of write-down) / Write-down of inventories to net realisable value, net (note ii)	**(3,761)**	7,229
Depreciation on property, plant and equipment	**99,945**	89,792
Exchange losses, net	**366**	9,857
Write-off of property, plant and equipment	**23,538**	7,755
Write-off of prepaid land lease payments	**421**	-
Impairment loss on trade receivables	**3,822**	6,706
Loss/ (Gain) on disposals of property, plant and equipment, net	**556**	(17)
Minimum lease payments under operating leases in respect of leasehold land and buildings	**2,277**	2,090
Research costs (note iii)	**5,793**	5,268

Notes:

(i) Cost of inventories includes approximately RMB95,192,000 (2017: RMB87,032,000) relating to depreciation expenses and approximately RMB105,682,000 (2017: RMB96,866,000) relating to employee costs. These amounts are also included in the respective total amounts disclosed separately above.

(ii) The reversal arose in 2018 is mainly due to decrease of weighted average production cost of certain finished goods held on hand as at 31 December 2018.

(iii) Research costs include approximately RMB798,000 (2017: RMB721,000) relating to depreciation expenses and approximately RMB2,994,000 (2017: RMB2,778,000) relating to employee costs. These amounts are also included in the respective total amounts disclosed separately above.

5. INCOME TAX (CREDIT) / EXPENSE

	FOR THE YEAR ENDED 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
Current tax - PRC Enterprise Income Tax		
- Tax for the year	**3,142**	46,497
- Under / (Over)-provision in prior year	**197**	(3)
PRC dividend withholding tax paid	**10,787**	10,120
	14,126	56,614
Deferred tax		
- Credit for the year	**(19,340)**	(2,181)
Income tax (credit) / expense	**(5,214)**	54,433

No provision for Hong Kong Profits Tax has been made as no assessable profit derived from Hong Kong.

The subsidiaries established in the PRC are subject to the PRC Enterprise Income Tax at the rate of 25% for 2018 (2017: 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% (2017: 10%) withholding tax rate for PRC withholding tax purpose for the year ended 31 December 2018.

6. DIVIDENDS

	FOR THE YEAR ENDED 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
Final dividend paid in respect of prior year HK$0.01 (2017: HK$0.08) per share	**7,183**	59,070
No interim dividend paid in respect of current year (2017: HK$0.04 per share)	**-**	29,010
	7,183	88,080

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: HK$0.01 per ordinary share and which was not reflected as a dividend payable in the audited financial statements of 2017).

7. (LOSS) / EARNINGS PER SHARE

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

	FOR THE YEAR ENDED 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
(Loss) / Profit for the year attributable to owners of the Company	**(61,058)**	101,562

	NUMBER OF ORDINARY SHARES	
	2018	2017
	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss) / earnings per share	**851,954**	850,500
Effect of dilutive potential ordinary shares - share options	-	3,652
Weighted average number of ordinary shares for the purpose of diluted (loss) / earnings per share	**851,954**	854,152

Diluted loss per share for loss attributable to owners of the Company for the year ended 31 December 2018 was the same as basic loss per share because the impact of the share options is anti-dilutive.

8. TRADE AND BILLS RECEIVABLE

The Group allows credit periods normally ranging from one month to six months to its trade customers (2017: ranging from one month to six months). Bills receivable are non-interest bearing bank acceptance bills and aged within a year (2017: 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 (net of loss allowance) at the reporting date, based on the invoice date, is stated as follows:

	AS AT 31 DECEMBER	
	2018	2017
	RMB'000	RMB'000
0 to 90 days	**260,641**	237,232
91 to 180 days	**31,803**	31,372
181 to 365 days	**2,168**	10,889
Over 365 days	**11,905**	7,250
	306,517	286,743

9. TRADE AND BILLS PAYABLE

Trade and bills payable normally have the credit periods ranging from 30 to 180 days (2017: 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	
	2018	2017
	RMB'000	RMB'000
0 to 90 days	**38,449**	81,739
91 to 180 days	**4,551**	21,291
181 to 365 days	**1,096**	784
Over 365 days	**944**	889
	45,040	104,703

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.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting of the Company (the "**2019 AGM**"), the register of members of the Company will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019, both days inclusive. In order to qualify for the right to attend and vote at the 2019 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 Monday, 27 May 2019.

BUSINESS REVIEW

During the year under review, the business environment of the PRC manufacturing industry had become increasingly tough as the PRC's overall economic growth decelerated markedly and the PRC government further tightened the regulations in respect of safety and environmental protection on the manufacturing industry. Consequentially, certain obsolete production capacities will be eliminated if the enterprises failed to meet the safety and environmental standards laid down by the state and this in turn speed up the industry consolidation. As a result of the industry consolidation, the Group faced the shortage of supply of upstream raw materials and the weakened demand from downstream customers as well as the intensified market competition. For these reasons, both of the Group's selling prices and sales volume decreased significantly as compared with last year and the raw material prices stood at a high level persistently. The gross profit of the Group also inevitably declined sharply. In addition, in order to meet progressively extensive and stringent regulations imposed by the PRC government on safety and environmental protection, the Group continued to increase spending on upgrading its production facilities and optimising its production process which causing an increase in operating costs. Besides, the production plant of Jiangsu

Chunxiao Pharmaceutical & Chemical Co., Ltd. (江蘇春曉醫葯化工科技有限公司) (“**Jiangsu Chunxiao**”), a wholly-owned subsidiary of the Company, is located in a highly polluted area. Jiangsu Chunxiao was subject to temporary suspension of all production activities and pending environmental improvement works. Certain properties, plant and equipment of Jiangsu Chunxiao were written-off in the first half of the year due to deterioration and obsolescence. Furthermore, an additional investment on acquiring safety and environmental protection facilities as well as upgrading the existing production facilities are required before resumption of production of Jiangsu Chunxiao, as a result, a loss on goodwill impairment was made for the year. In combination of the forgoing unfavourable factors, the Group recorded a net loss for the year.

Facing the tough business environment, the Board has immediately adjusted business operation strategies and carried out a series of improvement measures in the second half of the year, which included imposing a strict cost control on operating expenses, adjusting marketing strategy to expand market share and enhance revenue, optimising production process to enhance production efficiency of certain products with good market potential, and strengthening the communication with all stakeholders of the Group to facilitate the deployment of future business plans etc. Among of them, the implementation of strict cost control and adjustment of marketing strategy have brought improvements gradually in the second half of the year. In addition, the Group has actively promoted the approval procedures for the two production lines which were constructed in 2017. As at the date of this announcement, one of the new production lines is approved by the relevant local authorities and has started the trial production. The Group believes that following the commercial production of the new product, the product portfolio of the Group will be further enriched. Furthermore, it can enhance the advantages of vertically integrated production and circular economy production of the Group. Notwithstanding the results of the Group was disappointing during the year under review, the Group believes that the implementation of aforesaid improvement measures would yield on its future results positively.

As at the date of this announcement, Jiangsu Chunxiao still has suspended its production and is carrying out the rectification works regarding safety and environmental protection. The management of Jiangsu Chunxiao is keeping close communication with the relevant local authorities to ensure that the rectification works can meet the specific requirements and be approved by the relevant local authorities as early as possible, so that the production can be resumed soon.

Cyanide and its derivative products

Cyanide and its derivative products are core products of the Group which accounted for 94.6% of the total revenue of the Group. During the year under review, both the revenue and profit of this segment dropped significantly as compared with last year. The decrease was due to: (i) shrinking market demand and intensified market competition; (ii) persistently high costs of raw materials; and (iii) increased production cost in relation to the compliance with the higher standards of environmental protection. In the second half of the year, the Group has adjusted the marketing strategies according to the future potential market development of its products. The market shares of this segment of products have improved gradually in the second half of the year. As there is room for further growth of this segment in the future after the consolidation of the chemical industry, the Group will spare no effort to deepen market penetration as well as explore and capture more business development opportunities leveraged by its competitive advantages of the existing business model.

Alcohol products and chloroacetic acid and its derivative products

The other two segment of products of the Group comprised alcohol products and chloroacetic acid and its derivative products, mainly played a supporting role to enhance the cost effective of cyanide and its derivative products. The external market demands of these segments have remained relatively stable. During the year under review, the revenue of aforesaid two segment of products were increased and remained unchanged respectively as compared with last year, and in total accounted for 3.7% of the total revenue of the Group. In the future, the Group will continue to optimise the production process of these segments to improve their productivities with an aim to further strengthen the cost advantages of cyanide and its derivative products.

Outlook

Looking ahead, the business environment of the PRC manufacturing industry will remain challenging. The deepening of supply-side reform and the more stringent policies regarding environmental protection will continuously affect the market development of the chemical industry. Besides, there is no sign of alleviation of intense market competition. To cope with the severe business environment, the Board will prudently implement new business plans, which included planning ahead for upgrading the existing production facilities and introducing advanced production technologies and facilities effectively to ensure future product development can meet even higher standards of safety and environmental protection requirements. On the other hand, the Group will maintain close communication with its stakeholders to facilitate for mapping out future business development plans effectively.

The Directors anticipated that the two new products which developed in 2017 would be launched to the market in the coming financial year and generate new revenue contribution to the Group. Besides, in order to effectively improve the quality of atmospheric environment and enhance the protection level of ecological environment, the Weifang municipal government issued the Implementation Plan for Comprehensive Rectification of Atmospheric Ecological Environment (the "**Plan**") during the year under review, pursuant to which the relocation of enterprises away from the central urban area is mandatory. The production plant of Weifang Parasia Chem Co., Ltd. ("**Weifang Parasia**"), a wholly-owned subsidiary of the Company, is located in the area specified in the Plan and falls within the scope of the Plan. Therefore, Weifang Parasia should be relocated within a reasonable time. The Directors have discussed with the relevant local authorities regarding the relocation but not yet finalised the detailed demolition and resettlement plan. Nevertheless, the Directors have initially intended to relocate the production facilities of Weifang Parasia to the production plant of Weifang Binhai Petro-Chem Co., Ltd., a wholly-owned subsidiary of the Company, by phases, with a view to enhancing the effectiveness of resource allocation as well as further promoting circular economy production, and reducing the overall operating costs in the long run. The Directors believe that the relocation of Weifang Parasia's production plant will be carried out orderly and will not materially and negatively affect the Group's overall production and operation.

Though the journey ahead remains difficult, the Group believes that with its proper business strategies, solid business foundation, effective business model and wealth of industry experience, the Group is capable to seize business opportunities and maintain sustainable development in the future.

FINANCIAL REVIEW

Revenue

The revenue of the Group for the year ended 31 December 2018 decreased by 16.2% to approximately RMB1,179.3 million, as compared with approximately RMB1,407.3 million in 2017. Such decrease was mainly attributable to the reduction in sales volume and selling prices of the Group's key products, namely the cyanide and its derivative products which was caused by the shrinking of overall market demand and intensified market competition in the demanding operating environment.

Gross profit

The gross profit of the Group also dropped to approximately RMB65.2 million, representing a decrease of approximately RMB217.4 million or 76.9% as compared with approximately RMB282.6 million in 2017. The decrease of gross profit was mainly due to the decrease in sales volume and selling price, higher raw material costs and higher production overheads which was caused by additional spending in optimising of production process and improving of production facilities to uphold environmental standards of manufacturing plants. The gross profit margin also declined to 5.5% when compared with 20.1% in 2017.

Operating income and expenses

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

The selling expenses increased by approximately RMB7.8 million to approximately RMB52.6 million (2017: RMB44.8 million) during the year under review. Such increase was mainly attributable to (i) the increase in cost in hiring of qualified and specialised transportation companies for distribution of dangerous products to meet the relevant safety and environmental requirements; (ii) increase in sales commission expenses; and (iii) increase in credit insurance expenses. The selling expenses to the Group's revenue was 4.5% (2017: 3.2%).

During the year under review, the administrative and other operating expenses increased by approximately RMB5.9 million from approximately RMB82.8 million in 2017 to approximately RMB88.7 million in 2018. The increase was mainly attributable to the write-off of property, plant and equipment of Jiangsu Chunxiao during the year under review. For further details, please refer to the announcement of the Company dated 10 August 2018. Administrative and other operating expenses to the Group's revenue was 7.5% (2017:5.9%).

Finance costs

Finance costs mainly represented bank borrowings interest and interest for advances from the ultimate holding company, which increased by approximately RMB0.5 million from approximately RMB4.1 million in 2017 to approximately RMB4.6 million in 2018. The increase was mainly due to an increase in bank borrowings interest rate and increase in the amount of advances from the ultimate holding company during the year under review.

Impairment loss on goodwill

Goodwill is entirely related to the acquisition of Jiangsu Chunxiao in 2016. Under the Group's accounting policies, the goodwill is tested for impairment annually. On 18 June 2018, the government of Jiangsu province issued the Work Plan for Rectification of Coastal Chemical Industry Parks (Concentrated Areas) in the Province (《全省沿海化工園區（集中區）整治工作方案》) (the "**Directive**") to deal with environmental pollution problems arising from the chemical industrial parks. The production plant of Jiangsu Chunxiao is located in one of the chemical industrial parks under the Directive and subject to stringent environmental improvement works according to the requirements of the Directive (please refer to the announcement of the Company dated 10 August 2018 for further details). In light of the supplemental notice of the Directive issued by the government of Jiangsu province on 3 February 2019 and taking into account of the discussions with the relevant local authorities, the management of the Group affirmed that it is inevitable to make addition capital expenditure on Jiangsu Chunxiao for improving and upgrading the existing production facilities and increasing environmental facilities in order to comply with the Directive. Based on the valuation prepared by an independent valuer, the estimated additional capital expenditure will deprive the recoverable amount and it was below the carrying value of the cash-generating unit of Jiangsu Chunxiao. Therefore, a full impairment loss of goodwill was made for the year under review.

Loss for the year attributable to owners of the Company

Loss for the year attributable to owners of the Company reached approximately RMB61.1 million (2017: profit attributable to owners of the Company was RMB101.6 million). Such loss included the recognition of a one-off write-off of property, plant and machinery and an impairment loss on goodwill due to safety and environmental problems of Jiangsu Chunxiao in the financial statements. Excluding the impacts of such one-off items, the loss attributable to owners of the Company will be reduced to approximately RMB29.7 million.

Trade and bills receivable

As at 31 December 2018, trade receivables slightly increased to approximately RMB198.7 million, representing an increase of approximately RMB2.0 million or 1.0% as compared with approximately RMB196.7 million recorded as at 31 December 2017. About 84.5% of trade receivables were incurred in the last quarter of 2018 and most of them are not yet due and 8.5% of trade receivables were incurred in the third quarter of 2018. Only 7.0% of trade receivables are overdue for 180 days. Up to the date of this announcement, over 48.0% 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 2018.

As at 31 December 2018, bills receivable amount of approximately RMB107.8 million, increased by approximately RMB17.8 million or 19.8% as compared with the balance of approximately RMB90.0 million as at 31 December 2017. 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 and advances from the ultimate holding company

All bank borrowings were at floating interest rates and are denominated in Hong Kong dollars and Renminbi. As at 31 December 2018, bank borrowings decreased to approximately RMB20.0 million, representing a net decrease of approximately RMB174.1 million or 89.7% as compared with the balance of approximately RMB194.1 million as at 31 December 2017. The decrease was mainly due to an increase in bank borrowings interest rate that the Group shifted its financing support from banks to its ultimate holding company to reduce the overall finance costs. Thus, during the year under review, an increase in advances from the ultimate holding company amount to approximately RMB67.5 million to finance (i) the general working capital of the Group; and (ii) capital expenditure incurred for upgrading of production lines to meet the safety and environmental regulations required by the relevant local authorities.

Liquidity and financial resources

The Group's primary source of funding included the net cash inflow generated from operating activities of approximately RMB16.8 million (2017: RMB277.4 million), advances from the ultimate holding company of approximately RMB67.5 million (2017: Nil), newly raised bank borrowings of approximately RMB20.0 million (2017: RMB251.4 million), bank interest received of approximately RMB1.7 million (2017: RMB2.6 million) and proceeds on disposals of property, plant and equipment of approximately RMB0.2 million (2017: RMB0.03 million). During the year under review, there was no loan from a non-controlling shareholder (2017: RMB2.1 million), no proceed of issue of Shares due to exercise of share options (2017: RMB4.1 million), no government grants received (2017: RMB2.7 million), and no capital injection from non-controlling shareholders (2017: RMB30.1 million). With the financial resources obtained from the Group's operations, the Group had spent approximately RMB77.6 million (2017: RMB276.9 million) in the acquisition of property, plant and equipment; repayments of bank borrowings of approximately RMB196.4 million (2017: RMB111.2 million); interest paid of approximately RMB4.3 million (2017: RMB4.0 million) and dividends paid of approximately RMB7.2 million (2017: RMB88.1 million) during the year under review. There was no payment for acquisition of a subsidiary (2017: RMB14.0 million), no repayment of shareholder loan to a joint venture partner (2017: RMB25.0 million) and no payment for acquisition of prepaid land lease payments (2017: RMB4.7 million). As at 31 December 2018, the Group had bank and cash balances and pledged bank deposits of approximately RMB51.8 million (2017: RMB228.8 million), of which 72.4% was held in Renminbi, 23.7% was held in United States dollars and the remaining balances were held in Hong Kong dollars and euros.

As at 31 December 2018, the Group had recorded net current assets of approximately RMB211.6 million (2017: RMB262.4 million), the current ratio of the Group was approximately 1.6 times (2017: 1.5 times). The total amount of outstanding borrowings of the Group was approximately RMB92.9 million (2017: RMB199.2 million). The gearing ratio (which is represented by the ratio of net debts (total borrowings net of bank and cash balances and pledged bank deposits) to total shareholders' equity) was 3.2% (2017: Nil).

The Group devotes to uphold a solid financial position and continues to maintain positive 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 be dedicated to maintain a sound financial position and improve the equity return to the Shareholders.

Pledge of assets

As at 31 December 2018, no bank deposit and bills receivable (2017: RMB36.0 million) were pledged for bank acceptance bills facilities; a restricted bank deposit of approximately RMB2.0 million (2017: RMB2.0 million) was a security deposit requested by the relevant local authority to assure compliance with local environmental and safety production practices; and bank accounts with deposits of approximately RMB0.7 million (2017: RMB2.2 million) were frozen to secure litigation cases under the PRC court orders.

Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities (2017: Nil).

Commitments

As at 31 December 2018, the Group had commitments which has been contracted but not yet been provided for in the aggregate amount of approximately RMB76.2 million (2017: RMB100.4 million), for purchases of property, plant and equipment as well as construction in progress, while no capital commitment for authorised but not contracted for (2017: RMB35.1 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.

Cash flow forecast is well-prepared and reviewed regularly by the senior management of the Group, which facilitates the Group to maintain an adequate level of cash and cash equivalents, and sufficient available banking facilities to finance the daily operations and capital expenditure requirements in foreseeable future according to the funding and treasury policies of the Group.

During the year under review, the Group did not use any financial instruments for any hedging purposes as the Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the Group is not subject to significant currency risk and foreign exchange rate risk.

The Group's interest rate risk arises primarily from bank borrowings. In order to minimise the borrowing cost and interest rate risk, any raising of loans to meet the expected funding demand must be assessed carefully and approved by the executive Directors. The Group will consider new financing while maintaining an appropriate level of gearing.

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 2018, the Group had 1,428 (2017: 1,589) full-time employees. The decrease in the number of employees was mainly due to the effort to streamline business operations of the Group resulting in manpower reduction during the year under review.

For the year under review, the total staff costs including directors' remuneration increased to approximately RMB134.2 million (2017: RMB127.9 million).

The Group has established its human resource 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 offers 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 (2017: 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 2018. 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 2018. 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 2018 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
Tiande Chemical Holdings Limited
Liu Yang
Chairman

Hong Kong, 25 March 2019

As at the date of this announcement, the executive Directors are Mr. Liu Yang and Mr. Wang Zijiang; the non-executive Directors are Mr. Liu Hongliang and Mr. Guo Yucheng; whilst the independent non-executive Directors are Mr. Gao Baoyu, Mr. Leung Kam Wan and Mr. Liu Chenguang.