



Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.*

上海青浦消防器材股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8115)

2019

ANNUAL REPORT

* For identification purposes only

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the "Directors") of Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. (the "Company", together with its subsidiaries, the "Group") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Jin Hui
Mr. Shi Hui Xing
Mr. Zhou Guo Ping

Independent Non-Executive Directors

Mr. Wang Guo Zhong
Mr. Yang Chun Bao
Mr. Song Zi Zhang

AUDIT COMMITTEE

Mr. Song Zi Zhang
Mr. Yang Chun Bao
Mr. Wang Guo Zhong

AUTHORISED REPRESENTATIVE

Mr. Chan Chi Wai Benny
Mr. Shi Hui Xing

COMPANY SECRETARY

Mr. Chan Chi Wai Benny

AUDITORS

Ascenda Cachet CPA Limited

PRINCIPAL BANKERS

China Construction Bank Huaxin Sub-branch
Shanghai Rural Commercial Bank Co., Ltd
Chonggu branch

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

REGISTERED OFFICE

1988 Jihe Road
Hua Xin Town
Qingpu District, Shanghai
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2605, Island Place Tower
510 King's Road
North Point Hong Kong

CHAIRMAN'S STATEMENT

RESULTS FOR THE YEAR

For the year ended 31 December 2019, the Group recorded total revenue of RMB78,016,000 and loss for the year of RMB11,795,000. The Group's revenue was derived principally from its manufacture and sale of pressure vessels (including fire-fighting equipment products and pressure vessels products) in the PRC (excluding Hong Kong) and overseas, provision of fire technology inspection services, installation and inspection of marine fire-fighting equipment and sales of aquarium products and other products.

SALES

The Group's revenue increased by RMB8,366,000 from RMB69,650,000 in 2018 to RMB78,016,000 in 2019.

BUSINESS REVIEW

The Company's fire extinguisher products cover three categories, carbon dioxide, water-based, and dry powder. The wide product range offered by the Company can meet the diversified needs of the customers. In addition, the Company's fire extinguishers for non-marine use are granted the Certificate for Product Type Approval by the CCCF and its fire extinguishers for marine use are granted the Certificates of Type Approval by the China Classification Society, Shanghai Branch ("CCS"). The Company's pressure cylinders have obtained the manufacture licence in the PRC and they meet the quality standards or requirements of the USA and the European Union.

The Group had reduced profit margin on some products in the first quarter of 2019 in order to secure more orders and kept improving the profitability of the Group by increasing the operation efficiency and seeking for new business opportunities in fire-fighting industry.

The Group's factory located at 740 and 777 Zhonggu Street, Zhonggu Town, Qingpu District, Shanghai, the PRC (中國上海市青浦區重固鎮重固大街740及777號) (the "Zhonggu Factories") and certain leased land and buildings used by Shanghai Yuanfeng Pressure Cylinder Co. Ltd. (上海元奉高壓容器有限公司) ("Yuanfeng") are included in the land redevelopment plan. These resumptions of land has no material impact on the daily operations of the Group but provided an opportunity for the Group to centralize the production and improve profitability. In September 2019, the Company's subsidiary, Shanghai Pressure Special Gas Cylinder Co., Ltd.* ("Special Cylinder") (上海高壓特種氣瓶有限公司), got an offer from an independent third party proposing to lease the entire factory for 15 years, at annual rent not less than RMB5,800,000 (the "Special Gas Cylinder Offer"). With centralizing the production in mind and considering the orders in the past years, the Group decided to accept the Special Gas Cylinder Offer in November 2019.

Since the outbreak of the Coronavirus Disease 2019 ("COVID-19"), the prevention and control of the COVID-19 has been going on throughout China. Facing the epidemic situation, the Group, while cooperating with the government to fight the epidemic situation, actively took measures to avoid the economic loss of the Group. The Group also promoted employees' home office and network office and maintained close contact with suppliers and customers, and tried to maintain the normal development of business activities.



CHAIRMAN'S STATEMENT

The outbreak of COVID-19 have had certain impact over the Group's restoration of production and operation since January 2020. The Directors are still assessing the financial impact that the COVID-19 will have on the Group's financial position and operating performance up to the date of approval of these consolidated financial statements.

PROSPECT

We believe that the Company, with all the work done and change in business strategies in 2019 and experienced management team, will be able to sharpen the competitive edge. The Company will continue to develop new market of higher-margin products/businesses and centralisation of production will help to increase profitability. The Company will also prudently consider acquiring relevant enterprises which possess sound profitability by way of capital increment in accordance with the relevant laws and regulations in order to accelerate the growth of our profitability so that the Company will become a major enterprise in the manufacturing, sale of fire-fighting equipment and fire fighting service provider in the PRC.

OUR PEOPLE

The Group will further optimize its staff structure. The Board would like to express its gratitude to the employees of the Company for their invaluable contribution to the business of the Group.

DIRECTORS

My thanks go to the Directors of the Company for their professional work. The Board will endeavor to work professionally and painstakingly for achieving prosperous performance of the Group in the future.

Zhou Jin Hui

Chairman

Shanghai, the PRC

25 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group recorded a revenue of approximately RMB78,016,000 (year ended 31 December 2018: RMB69,650,000), representing an increase of approximately 12% over last year mainly because of online sales channels promotions which increase sales in aquarium products segment during the year. Sales of marine fire-fighting equipment was also increased during the year because of better sales strategies were imposed.

GROSS PROFIT

For the year ended 31 December 2019, the Group recorded overall gross profit of approximately RMB15,728,000 (year ended 31 December 2018: RMB16,745,000). The gross profit ratio is approximately 20% and 24% for the years ended 31 December 2019 and 2018 respectively. The decrease in gross profit ratio is mainly due to (i) stock clearance sale before vacating a factory for converting its use from production to lease out for rental; (ii) market subcontracting rate increased for inspection services; and (iii) increase cost of aquarium tools with the same level of selling price.

OTHER INCOME AND GAINS

Other income and gains for the year ended 31 December 2019 increased by approximately RMB1,175,000 from RMB1,191,000 for the year ended 31 December 2018 to approximately RMB2,366,000. This is mainly due to (i) increase in income from investment products; and (ii) write-back of other payables and amount due to a related company.

SELLING AND DISTRIBUTION COSTS

For the year ended 31 December 2019, the Group's selling and distribution costs increased to approximately RMB3,081,000 from RMB2,858,000, representing an increase of 8% over the corresponding period of last year. This is mainly due to increase in transportation costs and salaries of aquarium products segment during the year.

ADMINISTRATIVE EXPENSES

For the year ended 31 December 2019, the Group's administrative expenses amounted to approximately RMB21,542,000, (year ended 31 December 2018: approximately RMB16,173,000), representing an increase of 33%. The increase is mainly due to redundancy payment for terminated operation because of land resumption and vacating a factory to lease out for rent during the year.

FINANCE COSTS

Finance costs for the year ended 31 December 2019 was RMB80,000 arose from interest on lease liabilities (year ended 31 December 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2018: Nil).

Under the Corporate Income Tax Law, the CIT rate applicable to small-scale enterprises with low profitability that meet certain conditions shall be reduced to 20%. Six of the Company's subsidiaries (2018: four of the Company's subsidiaries and a branch of a subsidiary) have been designated as a small-scale enterprise. The concessionary CIT rate was revised with effective from 1 January 2019, the first RMB1,000,000 of assessable profits of these subsidiaries were subject to the concessionary CIT rate of 5% of assessable profits (i.e. 20% on the 25% assessable profits) and the remaining assessable profits not over RMB3,000,000 were subject to the concessionary CIT rate of 10% of assessable profits (i.e. 20% on the 50% assessable profits).

For the year ended 31 December 2018, four subsidiaries and a branch of a subsidiary designated as a small-scale enterprise was subject to CIT at 10% of assessable profits (i.e. at a rate of 20% on 50% of assessable profits).

Under the Corporate Income Tax Law, the corporate income tax ("CIT") for other companies in the Group is calculated at a rate of 25% (2018: 25%) on the Group's estimated assessable profits for the year ended 31 December 2019.

The effective tax rate of the Group is (4)% for the year ended 31 December 2019 (year ended 31 December 2018: (108)%). It is due to the loss in certain subsidiaries, which are not allowed to offset assessable profits arising from other subsidiaries of the Group.

The decrease in income tax expenses mainly attributable to two profitable subsidiaries were designated as a small-scale enterprise in 2019 and enjoy a concessionary CIT rate.

NON-CONTROLLING INTERESTS

For the year ended 31 December 2019, loss for the year attributable to non-controlling interests is approximately RMB1,296,000 (year ended 31 December 2018: profit RMB1,048,000).

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

For the year ended 31 December 2019, the Group recorded loss for the year attributable to the owners of the Company of approximately RMB10,499,000 (year ended 31 December 2018: RMB3,394,000). The loss was primarily attributable to (i) redundancy fee for termination of operation because of land resumption and vacating a factory to lease out for rent; (ii) decrease in gross profit margin; and (iii) impairment of trade and bills receivables during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

NET CURRENT ASSETS

As at 31 December 2019, the Group had current assets of approximately RMB55,390,000, based on which, the current ratio was 3.0 (31 December 2018: 3.3). The drop was mainly caused by a decrease in inventories, trade and bills receivables and cash and cash equivalents. The current liabilities decreased from RMB19,731,000 as at 31 December 2018 to RMB18,536,000 as at 31 December 2019 mainly attributable to decrease in trade payables. Current assets as at 31 December 2019 mainly comprised inventories of approximately RMB7,954,000 (31 December 2018: RMB13,889,000), trade and bills receivables of approximately RMB15,769,000 (31 December 2018: RMB17,471,000), prepayments, other receivables and other assets of approximately RMB4,312,000 (31 December 2018: RMB3,996,000) and cash and bank deposits of approximately RMB26,505,000 (31 December 2018: RMB29,668,000). The inventories turnover days for the year is 47 days (31 December 2018: 96 days). The drop is mainly caused by Special Cylinder's clearance sales in the fourth quarter to vacate the factory to lease out for rent. Trade and bills receivables decreased by 10% mainly because of impairment of trade and bills receivables during the year. Current liabilities mainly comprised trade payables of approximately RMB6,892,000 (31 December 2018: RMB8,208,000), the decrease was due to settlement of accounts payable in terminated operation because of land resumption and vacating a factory to lease out for rent. Other payables and accrued charges remain stable of approximately RMB4,485,000 (31 December 2018: RMB4,547,000).

GEARING RATIO

The Group's gearing ratio as at 31 December 2019 was 35% (31 December 2018: 30%), which was expressed as a percentage of the total liabilities divided by the total equity. The increase was mainly attributable to an increase in lease liabilities and bigger loss for the year.

LITIGATION

Please refer the details of litigation to notes 13 and 14 to the consolidated financial statements.

CAPITAL STRUCTURE AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had net assets of approximately RMB71,066,000 (31 December 2018: RMB82,861,000). The Group's operations are financed principally by internal sources, shareholders' borrowings and shareholders' equity.

As at 31 December 2019, the immediate holding company, Liancheng, has undertaken to provide to the Company with an unsecured interest-free shareholder's loan facility in the sum of not exceeding RMB50 million (the "Facility") for the period expiring on 30 May 2021 (2018: 30 May 2020). As at 31 December 2019 and 2018, the Facility has not been drawn down.



MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 31 December 2019, the Group had 125 employees (2018: 233 employees). The decrease is mainly due to the redundancy of certain staff in the terminated operation. Remuneration is determined by reference to market terms and the performance, qualifications, and experience of individual employee. Other benefits include contributions to retirement scheme.

Under relevant local government regulations, the Group is required to make contributions to a defined contribution retirement scheme for all qualified employees in the PRC. The Group has, in compliance with relevant local government regulations, made payment for such scheme during the year. The Group has no obligation for the payment of other retirement and non-retirement benefits of employees other than the contributions described above.

The Group has not experienced any significant labour disputes or strikes which have led to the disruption of its normal business operations. The Directors consider that the Group's relationship with its employees to be good.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhou Jin Hui (周金輝), aged 49, has been an executive Director since July 2009. He is the chairman of the Company and a director of Liancheng HK, Liancheng, and Hengtai Real Estate. Mr. Zhou started management of business in 1996 when he co-founded Jiangshan Construction Decoration Engineering Ltd.* (江山市建築裝飾配套工程有限公司). He was a founder of Jiangshan Hengtai Real Estate Co. Ltd.* (江山市恒泰房地產有限公司) in 1998 which was converted into Hengtai Real Estate in 2003. Mr. Zhou completed the business administration programme in the International Business University of Beijing* (北京國際商務學院) in 1998 and the training programme for senior manager in Tsinghua University* (清華大學) in 2005. In addition, he was conferred the degree of Master of Business Administration from the University of Management and Technology, Commonwealth of Virginia, the United States of America in 2007.

Mr. Shi Hui Xing (史惠星), aged 61, has been an executive Director since April 2014, appointed as the General Manager of the Company in November 2014. He is also a director and the general manager of 上海高壓特種氣瓶有限公司 (Shanghai Pressure Special Gas Cylinder Co., Ltd.*) ("Special Cylinder"). Mr. Shi has been working in Special Cylinder since 2007. Mr. Shi graduated from the Shanghai Light Industry Bureau Committee China Communist Party School (中共上海市輕工業局委員會黨校) with studies in political party management (政黨管理) in 1992 and was conferred the qualification of senior occupational manager (grade 1) (高級職業經理人(一級)) in 2009 by the Appraisal Centre of Occupational Capability of Shanghai (上海市職業技能鑒定中心).

Mr. Zhou Guo Ping (周國平), aged 52, has been a non-executive director since June 2014 and re-designated to executive director in November 2014. He joined the Company as the deputy general manager in May 2011. He has more than 28 years of experience in factory management. He worked as the Vice General manager of Zhejiang Jiangshan Transformer Co., Ltd.* (浙江江山變壓器有限公司) before joining the Company. Mr. Zhou Guo Ping was a graduate from Wuhan Institute of Economic Management* (武漢經濟學院).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Guo Zhong (王國忠), aged 62, has been an independent non-executive Director since October 2000. He has over 20 years of experience in legal practice. He has been the person in charge (主任) of Shanghai Keenmore Law Office* (上海市金馬律師事務所) since October 1992. Mr. Wang graduated from Shanghai Fudan University* (上海復旦大學) with a bachelor's degree in law in April 1983. He was conferred the qualification of professional lawyer by Shanghai Justice Bureau (上海市司法局) in January 1985.

Mr. Yang Chun Bao (楊春寶), aged 63, has been an independent non-executive Director since October 2000. He has more than 31 years of experience in finance and accounting. Mr. Yang was admitted as a certified public accountant and he joined Shanghai Huashen Certified Public Accountants Ltd.* (上海華申會計師事務所有限公司) in November 1973 and became a deputy supervisor (副主任) in June 2005. In July 2011, he was promoted to be the accountant-in-charge (主任會計師) of the firm. Mr. Yang was conferred a degree of Master of Science in Business Administration by Madonna University at Livonia, Michigan, the USA in December 1999.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Song Zi Zhang (宋子章), aged 73, has been an independent non-executive Director since November 2014. He has over 40 years' experience in factory management. He has been appointed as the Supervisor Committee Chairman of Shanghai Chenglong Group Co., Ltd. (上海晟隆(集團)有限公司) since 2007, after retiring from the position of General Manager in Shanghai Moshida Enterprise Development Company Limited (上海摩士達企業發展有限公司). He completed the program of Enterprise Operation and Management in Shanghai Open University and is a Senior Economist.

SENIOR MANAGEMENT

Mr. Xiao Li Jun (肖立軍), aged 58, is the deputy general manager of the Company. He has more than 10 years of experience in production management. He joined the Company in September 2006 as a production manager. He joined Qingpu Fire-fighting Equipment Factory* (青浦消防器材廠) in 1979.

Mr. Luo Jun (駱軍), aged 46, is the technical manager of the Company. He has more than 10 years of experience in industrial techniques. He joined the Company in January 2004 and had been working as technician and technical manager. He had worked as a technician in Baosteel People's Machinery Factory* (寶鋼集團人民機械廠) during the period from August 1996 to January 2000. Mr. Luo graduated from Nanchang Hankong Industrial College* (南昌航空工業學院) with studies in metal forming process and equipment in 1996.

Ms. Huang Ming Zhen (黃明禎), aged 44, is the manager of quality inspection department of the Company. She has over 20 years of experience in quality control. She joined the Company in December 2004 to work in quality inspection department. Ms. Huang completed professional studies from North Jiangxi Industry School* (贛北工業學校).

Mr. Li Hua (李華), aged 58, is the production facility manager of the Company. He has more than 25 years of experience in factory manufacturing. In 1979, he worked in Qingpu Fire-fighting Equipment Factory* (青浦消防器材廠). He worked in Qingpu Shanhu Machinery Factory* (青浦山湖機械廠) from January 1990 to February 2001 as a workshop supervisor. In March 2001, he joined the Company and worked as workshop supervisor, deputy manager and manager of the production facility department.

Mr. Sun Qiang (孫強), aged 40, was promoted to Financial Controller of the Company in October 2015. He joined the Company in 2011 and has over 15 years of accounting and finance experience. He graduated from Shanghai Commerce and Accounting School* (上海商業會計學校) in 1998 and obtained a Diploma in Management Accounting from Shanghai LiXin Accounting Colleague* (上海立信會計學院) in 2011. He was admitted to Senior International Finance Manager of International Financial Management Associations in 2017. He also possesses a certificate of Senior Operating Manager issued jointly by the Ministry of Commerce and the Ministry of Labor People's Republic of China.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Chan Chi Wai, Benny (陳智偉), aged 49, obtained a Bachelor of Business (Accountancy) in Queensland University of Technology. He has over 20 years' experience in auditing, accounting and financial management. Prior to joining the Company, he has moved to Shanghai and worked for a domestic company preparing to be listed in the Shanghai Stock Exchange. Before moving to Shanghai, he had worked for Ernst and Young and a couple of companies which shares are listed in the Stock Exchange of Hong Kong. He has been admitted to the status of certified practising accountant of the Australian Society of Certified Practising Accountants (now known as CPA Australia) since 1999.

SUPERVISORS

In accordance with Articles 124 of the Company's Articles of Association, Supervisors shall be elected at general meetings of the Company for a term of three years. Mr. Zhao Da Rong, Mr. Qiu Ning Song and Mr. Liu Jin were the Supervisors of the Company during the year.

Mr. Qiu Ning Song (邱寧松), aged 54, is the head of fire-fighting equipments production line. He joined the Company in April 2011. Before joining the Company, he is the factory manager of JiangShang DaZhong Boiler Co., Ltd. (“江山市大眾鍋爐廠”).

Mr. Zhao Da Rong (趙大榮), aged 49, has been the office manager of the Company since November 2006. He has over 20 years of experience in general management. Before he joined the Company, he had worked as the deputy office manager and office manager of Shanghai Huasheng during the period from December 1997 to November 2006, and as the office manager and deputy general manager of Shanghai Huasheng Fine Chemicals Co., Ltd.* (上海華盛精細化工有限公司) from February 1992 to December 1997. Mr. Zhao graduated from Shanghai Anting Teachers Training School with a major in education in July 1988. He completed the training course of intermediate professional manager (national professional qualification Grade 2) (中級職業經理人(國家職業資格二級)培訓班) held by Shanghai Centre for Quality of Management (上海卓越管理中心) in August 2008.

Mr. Liu Jin (劉金), aged 36, is the Operation Manager of LianCheng Fire-Fighting Group Company Limited (“LianCheng”). Before joining LianCheng in 2009, he was the Chief of International Procurement Department in Foxconn Technology Group. Mr. Liu was graduated from JiLin University in 2005.

COMPLIANCE OFFICER

Mr. Shi Hui Xing was as the compliance officer during the year.

* for identification purpose only

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44(2) and Appendix 15 of the GEM Listing Rules, the Company wishes to state that it has complied with all code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in the Appendix 15 of the GEM Listing Rules during the year.

(1) CORPORATE GOVERNANCE PRACTICES

The Company is committed to promote good corporate governance, with the objectives of (i) the maintenance of responsible decision making; (ii) the improvement in transparency and disclosure of information to shareholders; (iii) the continuance in respect of the rights of shareholders and the recognition of the legitimate interests of the shareholders; and (iv) the improvement in management of risk and the enhancement of performance by the Company. The Company has applied in Appendix 15 of the GEM Listing Rules with these objectives in mind.

(2) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the directors of the Company, all directors have complied with the required standard of dealings and code of conduct regarding securities transactions by directors.

BOARD OF DIRECTORS

The Board comprises of six members, including three executive Directors, Mr. Zhou Jin Hui, Mr. Shi Hui Xing and Mr. Zhou Guo Ping and three independent non-executive Directors, Mr. Wang Guo Zhong, Mr. Yang Chun Bao and Mr. Song Zi Zhang. Their term of office will end upon the commencement of the 2020 annual general meeting where re-election would be conducted.

The Board conducted 4 meetings in 2019 to discuss and decide on development strategies, critical operational matters, financial affairs and other matters stipulated in the articles of association of the Company. The following table sets out the attendance of Directors' meetings in 2019 in details:

Directors	Number of Meetings/attendance
Executive Directors	Mr. Zhou Jin Hui 4/4
	Mr. Shi Hui Xing 4/4
	Mr. Zhou Guo Ping 4/4
Independent non-executive Directors	Mr. Wang Guo Zhong 4/4
	Mr. Yang Chun Bao 4/4
	Mr. Song Zi Zhang 4/4

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND GENERAL MANAGER

During the year 2019, Mr. Zhou Jin Hui and Mr. Shi Hui Xing is chairman and general manager, respectively, which are two clearly defined positions. The chairman is responsible for the operation of the Board while the general manager (equivalent to a chief executive) is in charge of daily management. The Articles of Association of the Company set out the respective functions of the chairman and the general manager in detail.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board requires the management to review the implementation of internal control and risk management at the end of each year. Through an assessment of the Company and its subsidiaries conducted by a team of professionals on an ongoing basis, the management has determined whether the internal controls and risk management systems are able to meet the expected objectives, and has made recommendations for improving any control deficiency in the systems.

EMOLUMENTS OF DIRECTORS

In 2019, all Directors (other than executive director, Mr. Zhou Jin Hui) of the Company received emoluments for the year ended 31 December 2019. Details of emoluments of Directors are set out in note 8 of the consolidated financial statements.

APPOINTMENT OF DIRECTORS

Directors of the Company are elected at general meetings with a term of three years for each session. Directors can be re-elected upon expiration of the term. On 30 June 2017, the Company has appointed new Directors with a term until the commencement of the 2020 general meeting where re-election would be conducted.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee according to "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants. In compliance with Rule 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee have been properly written out. The audit committee for the year 2019 comprises of Yang Chun Bao, Wang Guo Zhong and Song Zi Zhang, who are independent non-executive Directors. Yang Chun Bao possess appropriate professional qualification and financial experience.

CORPORATE GOVERNANCE REPORT

The primary duties of the Audit Committee are mainly (i) reviewing the Group's consolidated financial statements and providing material advice in respect of the financial reporting; (ii) making recommendations to the Board on appointment, re-appointment and removal of external auditors as well as approval on their remuneration and terms of engagement; (iii) overseeing financial reporting system, risk management and internal control systems of the Company.

A total of 5 meetings have been conducted by the audit committee in 2019 for reviewing and discussion of the operating results, financial position and significant accounting policies and internal auditing issues of the Company for the year ended 31 December 2018, for the six months ended 30 June 2019 and for the three months ended 31 March 2019 and 30 September 2019, and meeting with auditors of the Company before the commencement of the audit for the year ended 31 December 2019.

The following table sets out the attendance of the committee's meeting in 2019:

Committee members	Attendance/number of meetings
Yang Chun Bao	5/5
Song Zi Zhang	5/5
Wang Guo Zhong	5/5

REMUNERATION COMMITTEE

The Remuneration Committee of the Company for the year 2019 comprises of one executive Director, Mr. Zhou Jin Hui and two independent non-executive Directors, Mr. Yang Chun Bao and Mr. Song Zi Zhang, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive Directors should form the majority of the remuneration committee. Its primary responsibility is to make proposals to the Board with respect to the overall remuneration policy and framework for Directors and senior management of the Company and the establishment of formal and transparent procedures for formulating the remuneration policy.

The following table sets out the attendance of the committee's meeting in 2019:

Committee members	Attendance/number of meetings
Zhou Jin Hui	1/1
Yang Chun Bao	1/1
Song Zi Zhang	1/1

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Company has established the Nomination Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibilities include (i) reviewing and supervising the framework, number of members and composition of the Board and making proposals to the Board in respect of any changes to be made and identifying and nominating suitable persons for appointment of Director; (ii) to assess the independence of independent non-executive Directors and review their annual confirmations on the independence; and (iii) to review the Board diversity policy and the progress on achieving the objectives set for implementing the policy.

The Nomination Committee for the year 2019 comprises of one executive Director, Mr. Zhou Jin Hui and two independent non-executive Directors, Mr. Yang Chun Bao and Mr. Song Zi Zhang, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive Directors should form the majority of the nomination committee.

The following table sets out the attendance of the committee's meeting in 2019:

Committee members	Attendance/number of meetings
Zhou Jin Hui	1/1
Yang Chun Bao	1/1
Song Zi Zhang	1/1

DIVERSITY OF THE BOARD

The Group has adopted a policy in relation to the diversity of the members of the Board and the summary of the policy is as follows:

- (1) selection of Board members will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and education background, professional experience, skills, knowledge and length of service; and
- (2) the Nomination Committee will monitor the implementation of the diversity policy from time to time to ensure the effectiveness of the diversity policy.



CORPORATE GOVERNANCE REPORT

PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

In compliance with the code provision A.6.5 of the Code, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Each Director is briefed and updated from time to time to ensure that he is fully aware of his responsibilities under the GEM Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All the Directors also understand the importance of continuous professional development and are committed to participate in any suitable training to develop and refresh their knowledge and skills.

COMPANY SECRETARY

The Board had appointed Mr. Chan Chi Wai Benny ("Mr. Chan") as the company secretary (the "Company Secretary") and an authorised representative of the Company on 9 April 2014. During the year, Mr. Chan undertook over 15 hours professional training to update his skill and knowledge in compliance with Rule 5.15 of the GEM Listing Rule.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to the Chairman on board governance matters, and is responsible for ensuring that board procedures are followed and facilitating communications among Directors as well as with Shareholders and management.

The Company Secretary's biographies are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" of this report.

AUDITORS' REMUNERATION

For the year under review, the fees in respect of audit and non-audit services provided to the Company by the auditors of the Company, Ascenda Cachet CPA Limited, amounted to HK\$1,160,000 and HK\$15,000 (equivalent to RMB1,052,000 and RMB14,000), respectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

This report is compiled with the Environmental, Social and Governance Reporting Guide as set out in Appendix 20 to the GEM Listing Rules and aims to disclose to investors the contributions made by Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. and its subsidiaries (the "Group") in the aspects of environment and community activities from 1 January 2019 to 31 December 2019.

The Group understands that "sustainability" is particularly important to the long-term development of the Group, the society as well as our next generation. The Group maintained a high standard of corporate social responsibility and strictly complied with relevant laws and regulations.

The Group participated in below in the "Environmental" and "Social" sections and sincerely hopes that the work can foster the "sustainability" development of the society.

ENVIRONMENTAL

In recent years, the problem of human-made pollution to the natural ecology has become increasingly serious. Since 2016, the Group has formally included environmental protection into its operational objectives and responsibilities. The Group is committed to reducing the harm done by operational activities to the natural ecology, improving the Group's staff's habit of energy consumption in the Company, encouraging staff to use natural resources in a responsible manner and reduce waste in daily life. As the Group's principal business activities involve plant production and office administration, the Group's environmental protection work mainly focuses on energy-saving at office and environmental-friendly production.

Emissions

As the Group is a manufacturer capable of producing various types of fire-fighting equipments in China, the Group's manufacturing process produces a small amount of waste water, solid wastes and to a lesser extent gases. Such process does not cause any material damage to the environment, therefore, the Group do not have significant air emissions and discharges into water, besides the non-hazardous solid wastes generated manufacturing plant during our operations.

There were no non-compliance cases noted in relation to environmental laws and regulations as of 31 December 2019.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy-saving at office

The Group encourages staff member to save energy during daily work so as to contribute to the environment. Lights and air conditioners are turned off when they are not in use, or are set at the energy-saving mode. In the daytime, the Group makes good use of daylight.

Environmentally friendly production

Since mid-2016, the Group's environmental requirements include efficient use of raw materials and minimize production wastage.

SOCIAL

I. Employment and Labour Practices

Employment and Labour Standards

The remuneration policy of the Group adjusts employees' salary level based on their nature of work, education and experience, etc. to ensure that all employees are entitled to reasonable rewards.

The Group attaches great importance to the cultivation of talents. When the Group expands its business and there are management vacancies, internal promotion will be first considered for those who are competent.

The Group is building a team which allows employees to have equal promotion opportunities when opportunities arise. The Group strictly complies with Labour Law in China which includes anti-discrimination sections and does not engage in any fraud or child labour. In the process of annual appraisal, the Group decides the level of salary increase and promotion opportunities based solely on the work performance, experience and skills of employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Staff are required to have good standards of professional ethics and personal qualities. There are strict requirements regarding staff's conduct in the Group's human resources policy. All staff are aware of the policy.

There were no non-compliance cases noted in relation to labour Standards law and regulations as of 31 December 2019.

Staff Composition

As at 31 December 2019, the Group employed a total of 125 staff members within the Group. All staff members are allocated in China. The Gender ratio is 71% Male to 29% Female. 8% of staff within the age from 18 to 29, 21% of staff within the age from 30 to 39, 27% of staff within the age from 40 to 49, 44% of staff age 50 or above.

Employee Health and Safety

The Group recognizes the importance of providing a safe and enjoyable working environment to staff. The keys to maintaining the health of our staff are to maintain adequate communication with them, fully understand and take care of their needs, and improve their working conditions as well. There were no non-compliance cases noted in relation to health and safety law and regulations as of 31 December 2019.

Training and Development

The Group hopes that our staff can grow together with the Group. All staff are encouraged to take part in external training courses related to their jobs.

II. Operating Practices

Supply Chain Management

The Group has internal control measures to ensure the impartiality of the process and the performance of all suppliers and contractors are reported and monitored. The factors that the Group takes into consideration during the selection of suppliers or contractors include: price, specification and quality of the product, service quality and product support.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product Responsibility

Prior to appointing any supplier, the Group's purchasing team would conduct a field trip to obtain the supplier's valid production licence and business licence, the quality evaluation of the sample and other information. Only after confirming that the relevant raw materials are harmless to the environment would the Group use those materials for product manufacturing.

There were no non-compliance cases noted in relation to health and safety, advertising, labelling and privacy matters as of 31 December 2019.

Anti-Corruption

During the year, the management of the Group did not find any cases of bribery or fraud. Through the established code of conduct and reporting mechanism, as well as the controlled environment developed by all staff throughout the years, the Group believes that the risk of the occurrence of fraud behaviour has been minimized. The Group will continue to monitor the related risks so as to maximize the values for the shareholders and other related parties.

There were no non-compliance cases noted in relation to corruption related laws and regulations as of 31 December 2019.

Future Approach Towards Sustainable Development

Facing the future, the Group has the following prospects:

- Introduce the principles of environmentally-friendly production and operation to every production process and office operation;
- Encourage the staff to join more community activities, raise the civil awareness of all staff within the Group and offer help to those in need in the society; and
- Improve the all-round development of the staff and workers.

DIRECTORS' REPORT

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company and its subsidiaries are the manufacture and sale of pressure vessels (including fire-fighting equipment products and pressure vessels products), provision of fire technology inspection services, installation and inspection of marine fire-fighting equipment business, commission received on trading of sanitary-ware and sales of aquarium products and other products.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business can be found in the Management Discussion and Analysis set out on pages 5 to 8 of this annual report. This discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2019 and the Group's financial position at the date are set out in the consolidated financial statements on pages 35 to 125.

The directors of the Company do not recommend the payment of any dividend in respect of the year (2018: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 126. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant, equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the consolidated financial statements, respectively.

SHARE CAPITAL

There is no change in registered, issued and fully paid capital of the Company during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.



DIRECTORS' REPORT

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, redeem or sell any of the Company's listed securities during the year.

EQUITY-LINKED AGREEMENT

No equity-linked agreement was entered by the Company during the year.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2019, calculated under the Company Law of the People's Republic of China (the "PRC", being the jurisdiction in which the Company were established) amounted to Nil.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the total sales and total purchases, respectively.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The Directors of the Company as of the date of this report were:

Executive Directors:

Mr. Zhou Jin Hui

Mr. Shi Hui Xing

Mr. Zhou Guo Ping

Independent non-executive Directors:

Mr. Yang Chun Bao

Mr. Wang Guo Zhong

Mr. Song Zi Zhang

The Company has received annual confirmations of independence from Mr. Yang Chun Bao, Mr. Wang Guo Zhong and Mr. Song Zi Zhang and still considers them to be independent as at the date of this report.

DIRECTORS' REPORT

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 11 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

All directors (including Executive Directors and Independent Non-Executive Directors) and Supervisors have service contracts with the Company for a term of three years. Directors can be re-elected upon expiration of the term. On 30 June 2017, the Company has re-elected Directors with a term until the commencement of the 2020 general meeting where re-election would be conducted.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Company.

PERMITTED INDEMNITY PROVISION

No permitted indemnity provision as defined in Hong Kong Companies Ordinance was in force for an indemnity against a liability incurred by the directors of the Company during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries were a party during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company nor any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

Long positions in shares of the Company

Name	Capacity	Number of shares	Approximate percentage of Share Capital total issued
Mr. Zhou Jin Hui (<i>Note 1</i>)	Held by controlled corporation	133,170,000	71.05%

Note:

1. Liancheng Fire-Fighting Group Company Limited ("Liancheng") holds 131,870,000 domestic shares of the Company. Liancheng Fire Protection Group (Hong Kong) Company Limited, a 100% subsidiary of Liancheng Fire-Fighting Group Company Limited, holds 1,300,000 H shares of the Company. Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. ("Hengtai") owns 80% of Liancheng Fire-Fighting Group Company Limited and Mr. Zhou Jin Hui owns 58% of Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. Accordingly, Mr. Zhou Jin Hui was deemed to be interested in 131,870,000 domestic shares and 1,300,000 H shares in the Company.

Liancheng is owned as to 80% by Hengtai and 20% by Mr. Zhou Jin Hui.

Save as disclosed above, as at 31 December 2019, none of the Directors of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified to the Company of relevant interests and short positions in the issued share capital of the Company:

Name	Capacity	Number of shares	Approximate percentage of Share capital total registered
Liancheng Fire-Fighting Group Company Limited (Note 3)	Beneficial owner	131,870,000 (Note 1)	70.36%
	Held by controlled corporation	1,300,000 (Note 2)	0.69%
Zhejiang Hengtai Real Estate Joint Stock Co., Ltd.	Held by controlled corporation	131,870,000 (Note 1)	70.36%
	Held by controlled corporation	1,300,000 (Note 2)	0.69%
Mr. Zhou Jin Hui	Held by controlled corporation	131,870,000 (Note 1)	70.36%
	Held by controlled corporation	1,300,000 (Note 2)	0.69%

Notes:

- All represent domestic shares of the Company.
- Liancheng Fire-Fighting Group Company Limited ("Liancheng") hold 131,870,000 domestic shares of the Company. Liancheng Fire Protection Group (Hong Kong) Company Limited, a 100% subsidiary of Liancheng Fire-Fighting Group Company Limited, holds 1,300,000 H shares of the Company. Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. ("Hengtai") owns 80% of Liancheng Fire-Fighting Group Company Limited and Mr. Zhou Jin Hui owns 58% of Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. Accordingly, Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. and Mr. Zhou Jin Hui were deemed to be interested in 131,870,000 domestic shares and 1,300,000 H shares in the Company.

Liancheng is owned as to 80% by Hengtai and 20% by Mr. Zhou Jin Hui.
- On 12 January 2017, the board of directors of the Company was notified that, an aggregate of 131,870,000 domestic shares of the Company (the "Pledged Shares") held by Liancheng have been pledged in favour of an independent third party (the "Lender") as a security for a loan amount of RMB198,000,000 provided by the Lender to Liancheng (the "2017 Loan"). The Pledged Shares will be released if Liancheng makes a partial repayment amounting to RMB63,000,000 to the Lender. Relevant shares pledge registration procedures have been completed with China Securities Depository and Clearing Corporation Limited. As of 12 January 2017 and the date of this report, the Pledged Shares represent approximately 70.36% and 100% of the issued share capital and domestic shares of the Company, respectively.



DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2019 the Company has not been notified by any substantial shareholders of the Company other than the Directors or chief executives, who had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of Part XV of the SFO.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions undertaken by the Company are set out in note 33 to the consolidated financial statements. The Company has sold fire extinguisher steel cylinders and aluminum cylinders to ZhongLian Cheng fire fighting Technology Group Company Limited and its subsidiaries and Zhejiang Hengtai Real Estate Joint Stock Co., Ltd.. These transactions are qualified for full exemption pursuant to GEM Listing Rules 20.74(1). Nevertheless, the independent non- executive Directors have examined and confirmed that:

- (i) these transactions were executed in the ordinary and usual course of business of the Company;
- (ii) these transactions were executed on normal commercial terms or on terms not less favourable than those given to (or obtained from, wherever applicable) independent third parties (if no comparable transaction can be referred to judge whether the transaction was executed on normal commercial terms);
- (iii) these transactions were executed in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Company's shareholders as a whole; and
- (iv) these transactions have complied with the requirements under Chapter 20 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

DIRECTORS' REPORT

AUDITORS

There have been no changes of auditors in the past three years. A resolution to re-appoint Ascenda Cachet CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board

Zhou Jin Hui

Chairman

Shanghai, The PRC

25 March 2020

* *for identification purposes only*

INDEPENDENT AUDITORS' REPORT



13F Neich Tower
128 Gloucester Road
Wanchai Hong Kong

TO THE MEMBERS OF SHANGHAI QINGPU FIRE-FIGHTING EQUIPMENT CO., LTD.

(A joint stock limited company established in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 125, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significant in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS (CONTINUED)

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

1. Carrying value of goodwill

Refer to notes 2.4 and 3 of the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 16 of the consolidated financial statements for further information.

The Key Audit Matter

The Group had goodwill of RMB4,211,000 contained with Marine fire-fighting equipment installation and inspection cash generating units (the "Marine Installation and Inspection CGU") as at 31 December 2019.

With the challenging economic environment continuing in China, the subsidiary's performance and prospects could be impacted, increasing the risk that goodwill is impaired.

For the Marine Installation and Inspection CGU, the determination of recoverable amount, being the higher of fair value less costs of disposal and value-in-use, requires judgement on the part of management in both identifying and then valuing the Marine Installation and Inspection CGU. Recoverable amounts are based on management's view of variables such as budgeted future revenue, budgeted future cost of fire-fighting equipment and operating expenditure.

How the matter was addressed in our audit

Our procedures included challenging management on the suitability of the impairment model and reasonableness of the assumptions, with particular attention paid to the business, through performing the following:

- holding discussions with the independent valuer;
- assessing the financial projection prepared by the management; and
- assessing the methodology and discount rate applied to the cash flow projections in management's valuation models with reference to the valuation conducted by an independent firm of professional valuers.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS (CONTINUED)

2. The loss allowance for impairment of trade receivables

Refer to notes 2.4 and 3 of the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 19 of the consolidated financial statements for further information.

The Key Audit Matter

The carrying amount of the Group's trade and bills receivables was approximately RMB15,769,000 as at 31 December 2019 out of which, as to RMB15,365,000 (net of loss allowance of RMB1,163,000) were trade receivables.

The management applied judgement in assessing the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. The management applied assessment on the recoverability of trade receivables when there is information indicating that there is no reasonable expectation of recovery. Expected credit losses are also estimated, using a provision matrix, by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected credit loss rates are determined based on historical credit losses experienced from the past 3 years.

We focused on this area due to the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit losses allowance of the trade receivables.

Based on the management's assessment on the recoverability of trade receivables, the management concluded that the carrying amount of trade receivables was appropriate as at 31 December 2019.

How the matter was addressed in our audit

Our procedures in relation to the provision for impairment of the Group's trade receivables included, among others the following:

- assessing the design and implementation of key controls over the expected credit loss assessment process;
- testing on a sample basis, the accuracy of ageing analysis of trade receivables by checking to the underlying sales invoices;
- testing on a sample basis, the subsequent settlement of trade receivables against bank receipts;
- obtaining management's assessment on the written off of trade receivables and expected credit losses allowance of receivables. We corroborated and validated management's assessment based on the historical settlement pattern from the past 3 years; and
- recalculating the amount of loss allowances for impairment on trade receivables.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS (CONTINUED)

3. Determination of the net realisable value of inventories

Refer to notes 2.4 and 3 of the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 18 of the consolidated financial statements for further information.

The Key Audit Matter

The carrying amount of the Group's inventories was approximately RMB7,954,000 (including the inventories with the cost of RMB767,000 are stated at its net realisable value amounted to RMB Nil) as at 31 December 2019.

Management applied judgement in determining the net realisable value of the inventories. The net realisable value of the inventories was determined by using the estimated selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, which involved significant estimates and assumptions.

The determination of the basis of write down is a significant judgement based on historical experience of stock losses and expected future sales prices.

Based on the management's determination of the net realisable value of the inventories, the management concluded that the carrying amount of inventories was appropriate as at 31 December 2019.

How the matter was addressed in our audit

Our procedures in relation to the determination of the net realisable value of the Group's inventories included among others the following:

- identifying any old or damaged inventories during the physical inventory count;
- obtaining the inventory ageing analysis;
- assessing the methodology and assumptions used in the calculation of the net realisable value of the inventories; and recalculating the amount of write down in inventories; and
- checking, on a sample basis, the accuracy and relevance of the selling prices of the inventories subsequent to the end of the reporting period.



INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the Group to express and opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Chan Yuk Tong.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
25 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
Revenue	5	78,016	69,650
Cost of sales and services	6	(62,288)	(52,905)
Gross profit		15,728	16,745
Other income and gains	5	2,366	1,191
Selling and distribution expenses		(3,081)	(2,858)
Administrative expenses		(21,542)	(16,173)
Finance costs	7	(80)	-
Impairment of trade and bills receivables, net	19	(3,069)	-
Write off of inventories	6, 18	(1,699)	(34)
Loss before tax	6	(11,377)	(1,129)
Income tax expense	10	(418)	(1,217)
Loss for the year		(11,795)	(2,346)
Attributable to:			
Owners of the Company		(10,499)	(3,394)
Non-controlling interests		(1,296)	1,048
		(11,795)	(2,346)
LOSS PER SHARE	11		
Basic (RMB cents)		(5.60)	(1.81)
Diluted (RMB cents)		(5.60)	(1.81)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
LOSS FOR THE YEAR	(11,795)	(2,346)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(11,795)</u>	<u>(2,346)</u>
Attributable to:		
Owners of the Company	(10,499)	(3,394)
Non-controlling interests	<u>(1,296)</u>	<u>1,048</u>
	<u>(11,795)</u>	<u>(2,346)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	9,603	13,059
Right-of-use assets	15(b)	1,875	-
Investment properties	14	23,570	23,510
Prepaid land lease payments	15(a)	-	106
Goodwill	16	4,211	4,211
Intangible assets	17	1,035	1,215
		<hr/>	<hr/>
Total non-current assets		40,294	42,101
CURRENT ASSETS			
Inventories	18	7,954	13,889
Trade and bills receivables	19	15,769	17,471
Prepayments, other receivables and other assets	20	4,312	3,996
Contract assets	21	74	137
Due from related companies	22	776	783
Cash and cash equivalents	24	26,505	29,668
		<hr/>	<hr/>
Total current assets		55,390	65,944
CURRENT LIABILITIES			
Trade payables	25	6,892	8,208
Other payables and accruals	26	4,485	4,547
Contract liabilities	27	1,165	1,550
Lease liabilities	15(c)	1,172	-
Due to the immediate holding company	28	906	906
Due to non-controlling interests	28	1,451	1,451
Due to a related company	28	2,377	2,798
Tax payables		88	271
		<hr/>	<hr/>
Total current liabilities		18,536	19,731
		<hr/>	<hr/>
NET CURRENT ASSETS		36,854	46,213
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		77,148	88,314
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	15(c)	614	-
Deferred tax liabilities	23(b)	5,468	5,453
Total non-current liabilities		6,082	5,453
Net assets		71,066	82,861
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	18,743	18,743
Reserves	30	52,527	63,026
		71,270	81,769
Non-controlling interests		(204)	1,092
Total equity		71,066	82,861

Zhou Jin Hui
Director

Shi Hui Xing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the Company							Non-controlling interests	Total equity	
	Share capital	Share premium account*	Capital reserve*	Statutory reserve fund*	Discretionary common reserve fund*	Asset revaluation reserve*	Accumulated Losses*			
	RMB'000 (note 29)	RMB'000 (note 30(i))	RMB'000 (note 30(ii))	RMB'000 (note 30(iii))	RMB'000 (note 30(iv))	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2018:	18,743	10,910	43,655	6,786	1,500	11,299	(7,730)	85,163	44	85,207
Loss and total comprehensive loss for the year	-	-	-	-	-	-	(3,394)	(3,394)	1,048	(2,346)
Transfer to statutory reserve funds	-	-	-	150	-	-	(150)	-	-	-
At 31 December 2018	<u>18,743</u>	<u>10,910</u>	<u>43,655</u>	<u>6,936</u>	<u>1,500</u>	<u>11,299</u>	<u>(11,274)</u>	<u>81,769</u>	<u>1,092</u>	<u>82,861</u>
At 1 January 2019	18,743	10,910	43,655	6,936	1,500	11,299	(11,274)	81,769	1,092	82,861
Loss and total comprehensive loss for the year	-	-	-	-	-	-	(10,499)	(10,499)	(1,296)	(11,795)
Transfer to statutory reserve funds	-	-	-	125	-	-	(125)	-	-	-
At 31 December 2019	<u>18,743</u>	<u>10,910</u>	<u>43,655</u>	<u>7,061</u>	<u>1,500</u>	<u>11,299</u>	<u>(21,898)</u>	<u>(71,270)</u>	<u>(204)</u>	<u>71,066</u>

* These reserve accounts comprise the consolidated reserves of approximately RMB52,527,000 (2018: approximately RMB63,026,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(11,377)	(1,129)
Adjustments for:			
Finance costs	7	80	-
Amortisation of prepaid land lease payments	6, 15(a)	-	3
Depreciation of property, plant and equipment	6, 13	849	1,125
Depreciation of right-of-use assets	6, 15(b)	641	-
Amortisation of intangible assets	6, 17	180	180
Write-back of other payables and amount due to a related company	5	(770)	-
Loss on disposal of items of property, plant and equipment	6	1,533	-
Fair value gains on investment properties	5	(60)	(240)
Write off of inventories	6, 18	1,699	34
Impairment of trade and bills receivables	6, 19	3,389	-
Reversal of impairment of trade and bills receivables	19	(320)	(92)
Interest income	5	(29)	(37)
Income from investment products	5	(427)	(141)
		(4,612)	(297)
Decrease/(increase) in inventories		4,236	(1,772)
(Increase)/decrease in trade and bills receivables		(1,367)	11,030
(Increase)/decrease in prepayments, other receivables and other assets		(455)	18
Decrease in contract assets		63	54
Decrease in trade payables		(1,316)	(2,039)
Increase in other payables and accruals		231	131
Decrease in contract liabilities		(385)	(1,044)
Decrease in amounts due from related companies		7	214
Increase in amount due to related company		50	-
Cash flows (used in)/from operations		(3,548)	6,295
Interest paid		(80)	-
Decrease in the restricted cash balance		-	1,284
Corporate income tax paid		(586)	(1,178)
Net cash flows (used in)/from operating activities		(4,214)	6,401

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	13	(605)	(274)
Proceeds from disposal of items of property, plant and equipment		1,679	5
Interest received		29	37
Received from investment products		427	141
		<hr/>	<hr/>
Net cash flows from/(used in) investing activities		1,530	(91)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(479)	-
		<hr/>	<hr/>
Net cash flows used in financing activities		(479)	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		(3,163)	6,310
		<hr/>	<hr/>
		29,668	23,358
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		26,505	29,668
		<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	26,505	29,668
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

Shanghai Qingpu Fire-Fighting Equipment Factory was transformed into a joint stock limited liability company in the People's Republic of China (the "PRC") on 1 December 2000 and was renamed as Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. ("上海青浦消防器材股份有限公司") (the "Company"). The registered office of the Company is located at No. 1988, Jihe Road, Hua Xin Town, Qingpu District, Shanghai, the PRC and its principal place of business in Hong Kong is situated at Unit 2605, Island Place Tower, 510 King's Road, North Point, Hong Kong.

The Company's H shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Group was involved in the following principal activities:

- manufacture and sale of pressure vessels (including fire-fighting equipment products and pressure vessels products);
- provision of fire technology inspection services;
- manufacture and trading of iron casted grooved couplings (which was terminated during the year);
- marine fire-fighting equipment installation and inspection;
- trading of sanitary-ware and other products; and
- sales of aquarium products.

In the opinion of the directors, the Company's immediate holding company is 聯城消防集團股份有限公司 (literally translated as "Liancheng Fire-Fighting Group Joint Stock Co., Ltd.", "Liancheng"), which is a limited liability company established in the PRC, and the ultimate holding company is 浙江恒泰房地產有限公司 (literally translated as "Zhejiang Hengtai Real Estate Company Limited", "Zhejiang Hengtai"), which is a limited liability company established in the PRC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries

Particulars of the all subsidiaries of the Company were as follows:

Name	Place of establishment and business	Registered capital/paid-up capital	Percentage of equity attributable to the Company**		Principal activities
			Direct	Indirect	
上海黎明消防檢測有限公司* (Shanghai Liming Fire Testing Co., Limited) ("Liming")	The People's Republic of China (The "PRC")	RMB5,000,000	90%	-	Provision of fire technology inspection services
上海鐵錨壓力容器(集團)有限公司* (Shanghai Anchor Pressure Vessel (Group) Limited) ("Anchor")	PRC	RMB70,000,000	90%	9%	Investment holding
上海元奉高壓容器有限公司* (Shanghai Yuanfeng Pressure Vessels Co., Limited) ("Yuanfeng")	PRC	RMB5,000,000	-	94.05%	Manufacturing and sales of pressure vessels
上海元蓬國際貿易有限公司* (Shanghai J.S.X. International Trading Corporation)	PRC	RMB5,000,000	-	94.05%	Trading of pressure vessels
上海高壓特種氣瓶有限公司* (Shanghai Pressure Special Gas Cylinder Co., Limited) ("Special Cylinder")	PRC	RMB19,170,000*	-	59.4%	Manufacturing and sales of pressure vessels
上海荻野生物科技股份有限公司* (Shanghai Ogino Biotechnology Co., Limited) ("Shanghai Ogino")	PRC	RMB4,000,000	-	44.1% [^]	Sales of aquarium products
上海安航海上消防設備有限公司* (Shanghai An Hang Marine Fire-Fighting Equipment Co., Limited) ("Shanghai An Hang")	PRC	RMB5,000,000	90%	9%	Marine fire-fighting equipment installation and inspection

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

- * Ascenda Cachet CPA Limited is not the statutory auditor of the subsidiaries.
- ⊗ Pursuant to the supplemental agreement entered into by Anchor and the non-controlling interest (上海洋涇工業公司 (literally translated as Shanghai Yangjing Industrial Co., "Yangjing")), 54% and 46% of the net profit of Special Cylinder would be shared by Anchor and non-controlling interest, respectively.
- + These subsidiaries are registered as limited liability companies established in the PRC.
- * The total registered/paid up capital of Special Cylinder is RMB19.17 million, 40% of which should be contributed by Yangjing by transferring the legal title of the land use right together with the property and buildings constructed thereon (the "Relevant Property") to Special Cylinder. The legal title of the Relevant Property has not yet been transferred to Special Cylinder as at the end of the reporting period and the date of approving these consolidated financial statements. The legal title of the Relevant Property is held by 上海廣洋企業發展總公司 (literally translated as Shanghai Guangyang Enterprise Development Corp., the holding company of Yangjing, "Guangyang") but the Relevant Property has been used by Special Cylinder. In September 2019, Special Cylinder started vacating the factory for converting its use from own production to lease out for rental and the Relevant Property is leased to third party currently. As Guangyang is still the legal owner of the Relevant Property, the prepaid land lease payments and buildings have not been recognised but recorded as amount due by Yangjing included in non-controlling interests in the consolidated statement of financial position as at 31 December 2018 and 2019. Accordingly, the amortisation/depreciation of the Relevant Property of approximately RMB296,000 for each of the years ended 31 December 2018 and 2019 was not provided for in the respective consolidated financial statements.

As advised by the PRC legal advisers to the Group, (i) the entity(ies) recorded in the register of equity interest holders shall be recognised as the legal equity interest holders of the Company and such entity(ies) can legally claim and exercise its rights as an equity interest holder of the company; (ii) Yangjing was, and is, recorded in the Company Shareholder (Promoter) Investment Information (公司股東(發起人)出資信息) of Special Cylinder, which is a type of register of equity interest holders, as the holder of 40% equity interest in Special Cylinder, and therefore, Yangjing was, and is, the legal holder of the 40% equity interest in Special Cylinder; and (iii) Yangjing's status as the legal holder of 40% equity interest in Special Cylinder shall not be affected by the failure of Yangjing in completing its capital contribution obligation but pursuant to the PRC Company Law and judicial interpretations thereto, Special Cylinder is entitled to require Yangjing to procure the transfer of the legal title of the Relevant Property to Special Cylinder.

- ^ Shanghai Ogino is classified as a subsidiary of the Group by virtue of the Company's control over it.
- ** All the percentages of equity attributable to the Company remain unchanged with the previous year except when otherwise indicated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) promulgated by the International Accounting Standards Board (“IASB”). The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) of the Stock Exchange. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value.

The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. RMB is the Group’s functional and presentation currency.

Basis of consolidation

The consolidated financial statements include consolidated the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

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

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

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

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's consolidated financial statements:

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IFRS 19	Plan Amendment, Curtailment or Settlement
Amendments to IFRS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to IFRS 9, IAS 19 and IFRS 28, which are not relevant to the preparation of the Group's consolidated financial statements, the nature and the impact of the new and revised IFRSs are described below:

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for land and buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 16 Leases (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

For the leasehold land and buildings (that were held to earn rental income) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying IAS 40.

The Group has used the short-term exemptions for leases with a lease term that ends within 12 months from the date of initial application.

As a lessee — Leases previously classified as finance leases

The Group did not have any recognised assets and liabilities at the date of initial application for leases previously classified as finance leases.

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Group	Company
	Increase/ (decrease)	Increase/ (decrease)
	RMB'000	RMB'000
Assets		
Increase in right-of-use assets	2,227	727
Decrease in prepayments, other receivables and other assets*	(141)	-
Decrease in prepaid land lease payments	(110)	(110)
Increase in total assets	<u>1,976</u>	<u>617</u>
Liabilities		
Increase in lease liabilities	1,976	617
Increase in total liabilities	<u>1,976</u>	<u>617</u>

* The prepayment of rental expenses in 2018 were included in "prepayments, other receivables and other assets" in the consolidated statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 16 Leases (Continued)

Financial impact at 1 January 2019 (Continued)

In the context of the transition to IFRS 16, right-of-use assets of the Group and the Company for the amount of RMB2,227,000 and RMB727,000, respectively, and lease liabilities of the Group and the Company for the amount of RMB1,976,000 and RMB617,000, respectively, were recognised as at 1 January 2019.

The following table presents the reconciliation of lease liabilities as of 1 January 2019:

	RMB'000
Operating lease commitments as at 31 December 2018 (<i>note 32(b)</i>)	2,570
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	<u>(10)</u>
	<u>2,560</u>
Discounted operating lease commitments as at 1 January 2019	<u>1,976</u>
Leases liabilities as at 1 January 2019 (<i>note 15</i>)	<u>1,976</u>

The weighted-average incremental borrowing rate for lease liabilities initially recognised as of 1 January 2019 was approximately 6%.

The adoption of IFRS 16 has had no material impact on the consolidated statement of profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows as at 31 December 2018.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Amendments under Annual Improvements to IFRSs 2015–2017 Cycle

Annual Improvements to IFRSs 2015–2017 Cycle sets out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. Details of the amendments relevant to the preparation of the Group's consolidated financial statements are as follows:

- IAS 12 Income Taxes: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends. The amendments did not have any material impact on the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	Definition of a Business ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ¹
Amendments to IFRS 10 and IAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
IFRS 17	Insurance Contracts ²
Amendments to IAS 1 and IAS 8	Definition of Material ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

The amendments to IFRS 9, IAS 39 and IFRS 7, and IFRS 10 and IAS 28 (2011) are either not relevant to the preparation of the Group's consolidated financial statements or do not have any material impact on the Group's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those other IFRSs that are expected to be applicable to the Group is described below:

Amendments to IFRS 3 Definition of a Business

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations under common control

Business combinations under common control are accounted for using merger accounting. Merger accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control consolidation occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party. The assets and liabilities of the acquired entities or businesses are combined using the existing book values from the controlling party's perspective.

No amount is recognised as consideration for goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination, to the extent of the continuation of the controlling party's interest. Any excess of the consideration paid over the net carrying amount of the acquired entities are recognised in capital reserve.

Comparative amounts in the consolidated financial statements are presented using the principles as set out above as if the entities or businesses had been combined at the previous reporting date unless the combining entities or businesses first came under common control at a later date.

Business combinations not under common control and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination not under common control, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business not under common control, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations not under common control and goodwill (Continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The useful lives for this purpose are as follows:

Buildings	Over the shorter of the lease terms and 40 years
Machinery	8 to 10 years
Furniture, fixtures and computer equipment	6 to 10 years
Motor vehicles	4 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of the investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and Licenses

Patents and licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

As a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Land and buildings	3 to 20 years
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(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payment include fixed payments (including in-substance fixed payments) less any lease incentives receivable and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

As a lessee (Continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

As a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income and gains in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

When the Group is an intermediate lessor, a sublease is classified as an operating lease with reference to the right-of-use asset arising from the head lease.

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rental receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as follows:

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and bills receivables, other receivables and other assets, the amounts due from related companies and cash and bank balance.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months ("a 12-month ECL"). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default ("a lifetime ECL").

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component, the Group applies a simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, and amount due to the immediate holding company, amount due to non-controlling interest and a related company. The financial liabilities are classified and accounted for as loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

Warranty provisions

The Group provides warranties in relation to the sale of marine fire-fighting equipment for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Employee benefits

The employees of the Group which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) *Sale of pressure vessels, iron casted grooved couplings, marine fire-fighting equipment and aquarium products*

Revenue from sale of equipment and products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment and products.

Certain contracts provide a customer with a right to return the goods within a specified period. The rights of return give rise to variable consideration. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) *Fire technology inspection services and marine fire-fighting equipment inspection services*

Revenue from inspection services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

(c) *Trading of sanitary-ware and other products*

The Group has contracts with customers to acquire, on their behalf, sanitary-ware and other products produced by foreign suppliers. The Group is acting as an agent in these arrangements.

When another party is involved in providing goods or services to its customer, the Group determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Group is a principal and records revenue on a gross basis if it controls the promised goods or services before transferring them to the customer. However, if the Group's role is only to arrange for another entity to provide the goods or services, then the Group is an agent and will need to record revenue at the net amount that it retains for its agency services.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Foreign currencies

These consolidated financial statements are presented in Renminbi ("RMB"), which is the Group's functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Consolidation of entities in which the Group holds less than a majority of effective equity interest

The Group determines whether an equity investment should be classified as a subsidiary and has developed criteria in making that judgement. A subsidiary is an entity controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee). Judgement is made on an individual basis to determine the extent of power the Group held over the investee. The Group considers that it controls Shanghai Ogino even though it owns less than 50% of the effective equity interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB4,211,000 (2018: RMB4,211,000). Further details are given in note 16 to the consolidated financial statements.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to the changes in market condition. Management reassesses these estimations at the reporting date.

Impairment of non-financial assets

The Group assess whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. These non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset and choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Write off of trade receivables and provision for expected credit losses of trade receivables and contract assets

The Group writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to engage in a repayment plan with the Group.

Other than write off of trade receivables, the Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

Further details on the ECLs on the Group's trade receivables and contract assets are given in notes 19 and 21, respectively, to the consolidated financial statements.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of property, plant and equipment and prepaid land lease payments

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group's management uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors' actions in response to severe industry cycle. Management will revise the depreciation charge where useful lives are different from previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Useful lives of intangible assets

The estimated useful life is generally the term of the patent and trademark. Using the patent and trademark term reflects the period over which the Group will receive economic benefit. The estimated useful economic life reflects the Group's expectation of the period over which the Group will continue to receive economic benefit from the patent and trademark. The economic lives are periodically reviewed taking into consideration such factors as changes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2019 was RMB23,570,000 (2018: RMB23,510,000).

Further details, including the key assumptions used for fair value measurement are given in note 14 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has six reportable operating segments as follows:

- (i) Fire-fighting equipment segment — manufacture and sale of pressure vessels (including fire-fighting equipment products and pressure vessels products);
- (ii) Inspection services segment — provision of fire technology inspection services and marine fire-fighting equipment inspection services;
- (iii) Aquarium products segment — sale of aquarium products;
- (iv) Marine fire-fighting segment — marine fire-fighting equipment installation and inspection;
- (v) Property investment segment — investment in office building and industrial properties for its rental income potential; and
- (vi) Trading segment — trading of other products (including sanitary-ware) and commission income.

The principal activities of manufacture and sales of iron casted grooved couplings were terminated during the year. In the opinion of the directors of the Company, as the corresponding operating results of grooved couplings segment was not significant to the Group, the grooved couplings segment was not separately accounted for or disclosed as a discontinued operation.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, non-lease-related finance costs and income from investment products as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude amounts due to the immediate holding company, non-controlling interests and a related company, tax payables and deferred tax liabilities as these liabilities are managed on a group basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2019

	Fire-fighting equipment RMB'000	Inspection services RMB'000	Aquarium products RMB'000	Marine fire-fighting RMB'000	Property investment RMB'000	Trading RMB'000	Total RMB'000
Segment revenue (note 5):							
Sales/services provided to external customers	41,107	9,849	17,585	8,673	-	-	77,214
Gross rental income	-	-	-	-	802	-	802
	<u>41,107</u>	<u>9,849</u>	<u>17,585</u>	<u>8,673</u>	<u>802</u>	<u>-</u>	<u>78,016</u>
Segments results	(12,900)	1,840	2,741	362	862	(3,389)	(10,484)
Interest income							29
Income from investment products							427
Other income							216
Corporate and unallocated expenses							(1,565)
Loss before tax							<u>(11,377)</u>
Segment assets	38,109	10,772	12,540	10,055	24,042	166	95,684
Unallocated assets							-
Total assets							<u>95,684</u>
Segment liabilities	6,450	2,484	2,323	2,901	-	-	14,158
Unallocated liabilities							10,460
Total liabilities							<u>24,618</u>
Capital expenditure*	439	-	166	-	-	-	605
Write off of inventories	1,699	-	-	-	-	-	1,699
Impairment of trade and bills receivables, net	(320)	-	-	-	-	3,389	3,069
Depreciation and amortisation	868	321	481	-	-	-	1,670

* Capital expenditure consists of additions to property, plant and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2018

	Fire-fighting equipment RMB'000	Inspection services RMB'000	Aquarium products RMB'000	Marine fire-fighting RMB'000	Property investment RMB'000	Trading RMB'000	Total RMB'000
Segment revenue (note 5):							
Sales/services provided to external customers	42,588	9,645	11,996	5,414	-	7	69,650
	<u>42,588</u>	<u>9,645</u>	<u>11,996</u>	<u>5,414</u>	<u>-</u>	<u>7</u>	<u>69,650</u>
Segments results	(5,586)	2,504	2,317	629	193	7	64
Interest income							37
Income from investment products							141
Other income							53
Corporate and unallocated expenses							(1,424)
Loss before tax							<u>(1,129)</u>
Segment assets	54,916	8,381	9,174	8,469	23,510	3,595	108,045
Unallocated assets							-
Total assets							<u>108,045</u>
Segment liabilities	9,860	1,137	1,262	1,876	-	-	14,135
Unallocated liabilities							11,049
Total liabilities							<u>25,184</u>
Capital expenditure*	98	-	176	-	-	-	274
Write off of inventories	-	-	34	-	-	-	34
Reversal of impairment of trade and bills receivables	-	-	-	(92)	-	-	(92)
Depreciation and amortisation	872	198	238	-	-	-	1,308

* Capital expenditure consists of additions to property, plant and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
PRC	63,280	62,449
European Union	8,799	4,919
Other countries	5,937	2,282
	<u>78,016</u>	<u>69,650</u>

(b) Non-current assets

Non-current assets are principally located in the PRC.

Information about major customers

For the years ended 31 December 2019 and 2018, there was no revenue from sales to any single external customer that contributed over 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers:		
Sales of pressure vessels	41,107	42,588
Sales of aquarium products	17,585	11,996
Sales of marine fire-fighting equipment	8,673	5,414
Inspection service fees	9,506	9,272
Marine fire-fighting equipment inspection service fees	343	373
Commission income	-	7
	<u>77,214</u>	<u>69,650</u>
Revenue from other sources:		
Gross rental income	802	-
	<u>78,016</u>	<u>69,650</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) *Disaggregate revenue information*

For the year ended 31 December 2019

Segments	Fire-fighting equipment RMB'000	Inspection services RMB'000	Aquarium products RMB'000	Marine fire-fighting RMB'000	Trading RMB'000	Total RMB'000
Type of goods or services						
Sales of goods	41,107	-	17,585	8,673	-	67,365
Inspection services	-	9,849	-	-	-	9,849
Total revenue from contracts with customers	<u>41,107</u>	<u>9,849</u>	<u>17,585</u>	<u>8,673</u>	<u>-</u>	<u>77,214</u>
Geographical markets						
PRC	26,371	9,849	17,585	8,673	-	62,478
European Union	8,799	-	-	-	-	8,799
Other countries	5,937	-	-	-	-	5,937
Total revenue from contracts with customers	<u>41,107</u>	<u>9,849</u>	<u>17,585</u>	<u>8,673</u>	<u>-</u>	<u>77,214</u>
Timing of revenue recognition						
Goods transferred at a point in time	41,107	-	17,585	8,673	-	67,365
Services transferred over time	-	9,849	-	-	-	9,849
Total revenue from contracts with customers	<u>41,107</u>	<u>9,849</u>	<u>17,585</u>	<u>8,673</u>	<u>-</u>	<u>77,214</u>
Revenue from contracts with customers						
External customers	<u>41,107</u>	<u>9,849</u>	<u>17,585</u>	<u>8,673</u>	<u>-</u>	<u>77,214</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregate revenue information (Continued)

For the year ended 31 December 2018

Segments	Fire-fighting equipment RMB'000	Inspection services RMB'000	Aquarium products RMB'000	Marine fire-fighting RMB'000	Trading RMB'000	Total RMB'000
Type of goods or services						
Sales of goods	42,588	-	11,996	5,414	-	59,998
Inspection services	-	9,645	-	-	-	9,645
Commission income from trading of goods	-	-	-	-	7	7
Total revenue from contracts with customers	<u>42,588</u>	<u>9,645</u>	<u>11,996</u>	<u>5,414</u>	<u>7</u>	<u>69,650</u>
Geographical markets						
PRC	35,387	9,645	11,996	5,414	7	62,449
European Union	4,919	-	-	-	-	4,919
Other countries	2,282	-	-	-	-	2,282
Total revenue from contracts with customers	<u>42,588</u>	<u>9,645</u>	<u>11,996</u>	<u>5,414</u>	<u>7</u>	<u>69,650</u>
Timing of revenue recognition						
Goods transferred at a point in time	42,588	-	11,996	5,414	7	60,005
Services transferred over time	-	9,645	-	-	-	9,645
Total revenue from contracts with customers	<u>42,588</u>	<u>9,645</u>	<u>11,996</u>	<u>5,414</u>	<u>7</u>	<u>69,650</u>
Revenue from contracts with customers						
External customers	<u>42,588</u>	<u>9,645</u>	<u>11,996</u>	<u>5,414</u>	<u>7</u>	<u>69,650</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(i) *Disaggregate revenue information (Continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Trade deposits received in respect of sales of pressure vessels	401	910
Trade deposits received in respect of sales of aquarium products	35	2
Trade deposits received in respect of sales of marine fire-fighting equipment	99	1,682
	535	2,594

(ii) *Performance obligations*

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

Sale of pressure vessels, marine fire-fighting equipment and aquarium products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within two months from delivery, except for new customers, where payment in advance is normally required. For the sale of marine fire-fighting equipment, a certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the product quality by the customers over a certain period as stipulated in the contracts. Some contracts of sales of aquarium products provide customers with a right of return which give rise to variable consideration. Variable consideration on sale of goods has had no material impact to the Group's financial performance during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Fire technology inspection services and marine fire-fighting equipment inspection services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of installation and customer acceptance.

Trading of sanitary-ware and other products

The performance obligation is satisfied upon delivery of sanitary-ware and other products.

Other income and gains

	2019	2018
	RMB'000	RMB'000
Interest income	29	37
Income from investment products	427	141
Sales of scraps	178	81
Fair value gains on investment properties	60	240
Exchange gain, net	107	38
Reversal of impairment of trade and bills receivables (<i>note 19</i>)	-	92
Government grant	579	509
Write-back of other payables and amount due to a related company	770	-
Others	216	53
	<hr/>	<hr/>
Total other income and gains	<u>2,366</u>	<u>1,191</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		55,418	46,403
Cost of services provided		6,870	6,502
		62,288	52,905
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	15	641	3
Amortisation of intangible assets*	17	180	180
Depreciation of property, plant and equipment	13	849	1,125
Minimum lease payments under operating leases: land and buildings		-	514
Lease payments not included in the measurement of lease liabilities	15	65	-
Auditors' remuneration: Assurance services		1,052	991
Other services		14	13
		1,066	1,004
Write off of inventories	18	1,699	34
Impairment of trade and bills receivables	19	3,389	-
Reversal of impairment of trade and bills receivables	19	(320)	(92)
Employee benefits expenses (including directors' and supervisors' remuneration): Wages and salaries		13,312	12,850
Redundancy payment		3,749	-
Pension scheme contributions		2,936	3,367
		19,997	16,217
Exchange gain, net	5	(107)	(38)
Loss on disposal of items of property, plant and equipment		1,533	-
Direct operating expenses arising from rental-earning investment properties		-	47
Fair value gains on investment properties	5, 14	(60)	(240)
Interest income	5	(29)	(37)
Income from investment products	5	(427)	(141)

* The amortisation of patents and trademark for the year are included in "administrative expenses" in the consolidated statement of profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities (<i>note 15(c)</i>)	80	–

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Sections 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Directors' fees:		
Independent non-executive directors	90	90
Other emoluments:		
Salaries, allowances and benefits in kind	251	254
Pension scheme contributions	20	24
	271	278
	361	368
Supervisors' emoluments:		
Salaries, allowances and other benefits in kind	70	82

(a) Independent non-executive directors of the Company

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Mr. Yang Chun Bao	30	30
Mr. Wang Guo Zhong	30	30
Mr. Song Zi Zhang	30	30
	90	90

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(b) Executive directors and supervisors

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2019				
Executive directors of the Company				
Mr. Zhou Jin Hui	-	-	-	-
Mr. Shi Hui Xing	-	176	-	176
Mr. Zhou Guo Ping	-	75	20	95
	<u>-</u>	<u>251</u>	<u>20</u>	<u>271</u>
Supervisors of the Company				
Mr. Zhao Da Rong	-	55	15	70
Mr. Qiu Ning Song	-	-	-	-
Mr. Liu Jin	-	-	-	-
	<u>-</u>	<u>55</u>	<u>15</u>	<u>70</u>
Year ended 31 December 2018				
Executive directors of the Company				
Mr. Zhou Jin Hui	-	-	-	-
Mr. Shi Hui Xing	-	175	-	175
Mr. Zhou Guo Ping	-	79	24	103
	<u>-</u>	<u>254</u>	<u>24</u>	<u>278</u>
Supervisors of the Company				
Mr. Mao Jiang Wei *	-	-	-	-
Mr. Zhao Da Rong	-	65	17	82
Mr. Qiu Ning Song	-	-	-	-
Mr. Liu Jin [®]	-	-	-	-
	<u>-</u>	<u>65</u>	<u>17</u>	<u>82</u>

* Resigned on 29 June 2018

® Appointed on 29 June 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2018: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2018: four) highest paid employees who are neither a director nor supervisor of the Company, are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	623	687
Pension scheme contributions	101	112
	724	799

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019	2018
Nil to RMB1,000,000	4	4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong during the year ended 31 December 2019 (2018: Nil).

Under the Corporate Income Tax Law, the corporate income tax ("CIT") rate applicable to small-scale enterprises with low profitability that meet certain conditions shall be reduced to 20%. Six of the Company's subsidiaries (2018: four of the Company's subsidiaries and a branch of a subsidiary) have been designated as a small-scale enterprise. The concessionary CIT rate was revised with effective from 1 January 2019, the first RMB1,000,000 of assessable profits of these subsidiaries were subject to the concessionary CIT rate of 5% of assessable profits (i.e. 20% on the 25% assessable profits) and the remaining assessable profits not over RMB3,000,000 were subject to the concessionary CIT rate of 10% of assessable profits (i.e. 20% on the 50% assessable profits).

For the year ended 31 December 2018, four subsidiaries designated as a small-scale enterprise were subject to the concessionary CIT rates of 10% of assessable profits (i.e. 20% on the 50% assessable profits).

Under the Corporate Income Tax Law, the CIT for other companies in the Group is calculated at a rate of 25% (2018: 25%) on the Group's estimated assessable profits for the year ended 31 December 2019.

	2019	2018
	RMB'000	RMB'000
Current — the PRC:		
Charge for the year	401	1,125
Under-provision in prior year	2	32
	403	1,157
Deferred tax (<i>note 23(b)</i>)	15	60
Total tax charge for the year	418	1,217

The deferred tax effect of tax losses was not recognised in the consolidated financial statements due to the uncertainty of future profits streams against which the assets can be utilised. These tax loss benefits will be expired in the next five years, details of which are set out in note 23(a) to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the countries in which the Group are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	2019		2018	
	RMB'000	%	RMB'000	%
Loss before tax	<u>(11,377)</u>		<u>(1,129)</u>	
Tax at statutory tax rate at 25%	(2,844)	25	(282)	25
Effect of concessionary tax rates	(303)	3	102	(9)
Tax effect of non-deductible expenses	307	(3)	55	(5)
Tax effect of non-taxable income	(2,136)	19	(145)	13
Tax effect on temporary differences not recognised/(utilised) (note 23(a))	627	(6)	(25)	2
Tax effect of tax losses not recognised (note 23(a))	4,778	(42)	1,468	(130)
Under-provision in prior year	2	-	32	(3)
Others	(13)	-	12	(1)
Tax charge at the Group's effective tax rate	<u>418</u>	<u>(4)</u>	<u>1,217</u>	<u>(108)</u>

11. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of RMB10,499,000 (2018: RMB3,394,000) and the number of ordinary shares of 187,430,000 (2018: 187,430,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

12. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Furniture, fixtures and computer equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2019					
At 1 January 2019:					
Cost	10,056	33,428	3,019	2,496	48,999
Accumulated depreciation	(1,816)	(29,203)	(2,654)	(2,267)	(35,940)
Net carrying amount	<u>8,240</u>	<u>4,225</u>	<u>365</u>	<u>229</u>	<u>13,059</u>
At 1 January 2019, net of accumulated depreciation	8,240	4,225	365	229	13,059
Additions	175	267	163	-	605
Disposals	-	(3,133)	(43)	(36)	(3,212)
Depreciation provided during the year (note 6)	(239)	(441)	(111)	(58)	(849)
At 31 December 2019, net of accumulated depreciation	<u>8,176</u>	<u>918</u>	<u>374</u>	<u>135</u>	<u>9,603</u>
At 31 December 2019:					
Cost	10,231	9,915	2,477	2,419	25,042
Accumulated depreciation	(2,055)	(8,997)	(2,103)	(2,284)	(15,439)
Net carrying amount	<u>8,176</u>	<u>918</u>	<u>374</u>	<u>135</u>	<u>9,603</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Machinery RMB'000	Furniture, fixtures and computer equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2018					
At 1 January 2018:					
Cost	10,056	33,361	2,922	2,489	48,828
Accumulated depreciation	(1,578)	(28,690)	(2,438)	(2,207)	(34,913)
Net carrying amount	<u>8,478</u>	<u>4,671</u>	<u>484</u>	<u>282</u>	<u>13,915</u>
At 1 January 2018, net of accumulated depreciation					
	8,478	4,671	484	282	13,915
Additions	-	170	97	7	274
Disposals	-	(5)	-	-	(5)
Depreciation provided during the year (note 6)	(238)	(611)	(216)	(60)	(1,125)
At 31 December 2018, net of accumulated depreciation	<u>8,240</u>	<u>4,225</u>	<u>365</u>	<u>229</u>	<u>13,059</u>
At 31 December 2018:					
Cost	10,056	33,428	3,019	2,496	48,999
Accumulated depreciation	(1,816)	(29,203)	(2,654)	(2,267)	(35,940)
Net carrying amount	<u>8,240</u>	<u>4,225</u>	<u>365</u>	<u>229</u>	<u>13,059</u>

The buildings together with the prepaid land lease (note 15) are situated in the PRC under medium term leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

- (a) As detailed in note 1 to the consolidated financial statements, the legal title of the Relevant Property has not yet been transferred to one of the Company's indirectly owned subsidiary, Special Cylinder, as at the end of the reporting period and the date of approving these consolidated financial statements, but the Relevant Property has been used by Special Cylinder. In September 2019, Special Cylinder started vacating the factory for converting its use from own production to lease out for rental and the Relevant Property is leased to third party currently. As Guangyang is still the legal owner of the Relevant Property, the prepaid land lease payments and buildings have not been recognised but included in non-controlling interests in the consolidated statements of financial position as at 31 December 2019 and 2018. Accordingly, the amortisation/depreciation of the Relevant Property of approximately RMB296,000 for each of the years ended 31 December 2018 and 2019 was not provided for in the consolidated financial statements.
- (b) Certain of the Group's plant and machineries (the "Plant") were situated on certain land and buildings (the "Leased Property"), which was previously owned by the former immediate holding company, 上海華盛企業(集團)有限公司 (literally translated as "Shanghai Huasheng Enterprises (Group) Co., Ltd. ("Huasheng")), which had granted a lease (the "Original Tenancy") to use to the Company in October 2008. The Leased Property had been pledged to secure bank loans granted by a bank (the "Bank") to Huasheng in March 2005. In May 2012, the Bank put the Leased Property into auction (the "Auction"). The Leased Property was acquired by the current landlord (the "Current Landlord", an independent third party) on 9 May 2013.

In 2015, the Current Landlord filed a suit (the "First Legal Case") in the Qingpu District People's Court ("青浦區人民法院") (the "Court") against the Company in respect of (i) requesting the Company to move out from the Leased Property; and (ii) paying rental expenses for the period from 9 May 2013 to 8 May 2015 as the Current Landlord was of the view that the Original Tenancy was not legally valid because the Original Tenancy was entered into between Huasheng and the Company without the consent of the Bank at the time or subsequently rectified by the Current Landlord. In 2016, the Court decided that (i) the Company had to move out from the Leased Property within 10 days of the civil judgment; and (ii) the Company had to pay the related rental expenses for the period from 9 May 2013 to the date having moved out from the Leased Property. The Company moved out from the Leased Property on 11 July 2017 as well as settled the rent up to 31 December 2016. After having moved out from the Leased Property, the Current Landlord filed an execution requisition (the "Execution Requisition") to the Court in respect of, inter alia, requesting the Company to move out those plant and machineries from the remaining parts of the Leased Property. In 2019, the remaining rental expenses of approximately RMB254,000 for the period from 1 January 2017 to 11 July 2017 (the date moved out from the Leased Property) was settled after offsetting the construction costs of RMB150,000 of the Third Legal Case mentioned below. The Execution Requisition was still in progress as at 31 December 2019 and the date of approving the consolidated financial statements.

In October 2016, the Company filed a suit (the "Second Legal Case") with the Court against the Current Landlord for recovering the construction costs of the underground facilities and the buildings (the "Counter-claimed Constructions") as the Company is of the view that (i) the Counter-claimed Constructions were constructed by the Company with the approval of Huasheng and therefore belonged to the Company; and (ii) the Counter-claimed Constructions had been excluded from the First Legal Case and the Auction. However, the valuer appointed by the Court cannot assess the present status of the Counter-claimed Constructions and the Second Legal Case was withdrawn by the Company. After collected more evidences, the Company filed a suit (the "Third Legal Case") with the Court against the Current Landlord for the Counter-claimed Constructions again with the same view of the Second Legal Case. In 2018, the court judged that the Current Landlord has to pay for the construction costs of the underground facilities to the Company for the amount of RMB150,000. The construction costs have been offset by the Company when settled the rental expenses of the First Legal Case during the year.

In the opinion of the directors of the Company, there was no significant financial impact on the Group as (i) all rental expenses was settled; and (ii) the Execution Requisition is outside the jurisdiction of the Court.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

14. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	23,510	23,270
Net gain from a fair value adjustment (<i>note 5</i>)	<u>60</u>	<u>240</u>
Carrying amount at 31 December	<u><u>23,570</u></u>	<u><u>23,510</u></u>

The investment properties as at 31 December 2018 and 2019 represented industry properties located at 740 and 777 Zhonggu Street, Zhonggu Town, Qingpu District, Shanghai, the PRC (中國上海市青浦區重固鎮重固大街740及777號) (the "Zhonggu Factories") under a medium term lease.

The Zhonggu Factories were revalued on 31 December 2019 by an independent firm of professional valuers with recognised qualifications and experiences (the "Valuer") at RMB23,570,000. The net gain on fair value adjustment of RMB60,000 (2018: RMB240,000) is recognised in the line item "other income and gains" in the consolidated statement of profit or loss.

Pursuant to the Letter on Confirmation of Land Redevelopment Proposal of Urban Villages located at Xin Lian Village and Mao Jia Jiao Village, Zhonggu Town, Qingpu District, Shanghai (《上海城鄉建設和管理委員會關於確認青浦區重固鎮新聯村、毛家角村"城中村"改造地塊實施方案的函》) (the "Land Zhonggu Redevelopment Proposal") issued by the Shanghai Urban-Rural Construction and Management Commission and based on the discussion between the management and the relevant government (the "PRC Government") officials, it has been confirmed that the Zhonggu Factories had been included in the Zhonggu Land Redevelopment Proposal.

On 25 December 2018, the Company received a notice from Shanghai Qingpu District Housing Security and Housing Administration Bureau (上海市青浦區住房保障和房屋管理局) (the "Bureau"), confirming that the Zhonggu Factories are part of the state owned land resumption according to the Housing Expropriation and Compensation Regulations on State Owned Land (國有土地上房屋徵收與補償條例). On 14 March 2019, the Company received a first draft valuation report dated 11 March 2019 (the "Report") from the Bureau. The valuation was done by Shanghai Real Estate Appraisers Co., Ltd. (上海房地產估價師事務所有限公司) selected by the Company and appointed by the Bureau. According to the Report, as at 28 January 2019 the compensation of the Zhonggu Factories, including but not limited to the land and building, is valued at RMB41,575,440. On 24 March 2019, according to relevant rules and regulations, in order to maximise the compensation for resumption of the Zhonggu Factories, the Company had logged in an objection to the Bureau against the value of the Zhonggu Factories in the Report. In June 2019, the objection was rejected by Shanghai People's Government (上海市人民政府).

On 25 May 2019, certain rechecking valuation reports (the "Second Report") of investment properties done by Shanghai Real Estate Appraisers Co., Ltd. was issued to the Company by the Bureau. According to the Second Report, as at 28 January 2019, the compensation of the Zhonggu Factories, including but not limited to the land and building, is valued at RMB46,638,953 in total.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

14. INVESTMENT PROPERTIES (CONTINUED)

As the Company considers that there were a series of disputes during the valuation procedures, including improper land resumption procedures, incorrect areas of Zhonggu Factories and improper rehousing arrangements, the Company filed a suit in Shanghai Second Intermediate People's Court (上海市第二中级人民法院) against Shanghai Qingpu District People's Government (上海市青浦区人民政府) in respect of revoking the land resumption compensation decision in December 2019.

The Bureau and the Company have not agreed on any special schedule or compensation proposal for resumption of the Zhonggu Factories.

The Zhonggu Factories are currently vacated. Therefore, the resumption of the Zhonggu Factories has no material impact on the daily operation of the Group.

The Group's finance department, including the finance manager, reviewed the valuation performed by the Valuer for financial reporting purpose. At each financial year end, the finance department:

- Verified all major inputs to the independent valuation report;
- Assessed property valuation movements when compared to the prior year valuation report; and
- Held discussions with the independent valuer.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable input (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Recurring fair value measurement for: Industrial properties located in the PRC:				
As at 31 December 2019	-	-	23,570	23,570
As at 31 December 2018	-	-	23,510	23,510

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

14. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (Continued)

Below is a summary of the valuation techniques used and key inputs to the valuation of investment properties as at 31 December 2019:

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs 2019		Relationship of unobservable inputs to fair value
Industrial properties	Comparison Approach	(i) Monthly rental	RMB30.5/sq m	RMB27.9/sq m	The higher the monthly rental, the higher the fair value
		(ii) Reversionary yield per annum	7.2%	7.7%	The higher the reversionary yield, the lower the fair value
		(iii) Market unit sale rate per annum	RMB2,900/sq m	RMB2,900/sq m	The higher the market rate, the higher the fair value

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of land and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owner with lease period of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of land and buildings have lease terms between 2 and 20 years. Certain properties have lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Prepaid land lease payments (before 1 January 2019)*

	RMB'000
Carrying amount at 1 January 2018	113
Recognised in profit or loss during the year	(3)
	<hr/>
Carrying amount at 31 December 2018	110
Less: current portion included in prepayments, other receivables and other assets	(4)
	<hr/>
Non-current portion	<u>106</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

15. LEASES (CONTINUED)

The Group as a lessee (Continued)

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Land and properties RMB'000	Total RMB'000
As at 1 January 2019	110	2,117	2,227
Additions	-	289	289
Depreciation charge during the year	(3)	(638)	(641)
	<u>107</u>	<u>1,768</u>	<u>1,875</u>
As at 31 December 2019			

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 RMB'000
Carrying amount at 1 January (<i>note 2.2</i>)	1,976
New lease	289
Accretion of interest recognised during the year (<i>note 7</i>)	80
Payments	(559)
	<u>1,786</u>
Carrying amount at 31 December	
Analysed into:	
Current portion	1,172
Non-current portion	614
	<u>1,786</u>

Included in the lease liabilities, lease payables are approximately RMB600,000 as at 31 December 2019.

The maturity analysis of lease liabilities is disclosed in note 37 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

15. LEASES (CONTINUED)

The Group as a lessee (Continued)

(d) The amounts recognised in profit or loss in relation to leases in which the Group is a lessee are as follows:

	2019
	RMB'000
Interest on lease liabilities (note 7)	80
Depreciation charge of right-of-use assets	641
Expense relating to short-term leases with remaining lease terms ended on or before 31 December 2019 (note 6)	65
	<hr/>
Total amount recognised in profit or loss	786
	<hr/> <hr/>

(e) The total cash outflow for leases is disclosed in note 31 to the consolidated financial statements.

The Group as a lessor

The Group sub-leases its leased properties to independent third parties under operating leases arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustment according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB802,000 (2018: Nil), details of which are included in note 5 to the consolidated financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019	2018
	RMB'000	RMB'000
Within one year	4,142	300
After one year but within two years	24,408	275
After five years	75,537	-
	<hr/>	<hr/>
	104,087	575
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

16. GOODWILL

	Marine fire- fighting equipment installation and inspection CGU
	RMB'000
At 1 January 2018 and 1 January 2019	
Cost	4,211
Accumulated impairment	—
Net carrying amount	<u>4,211</u>
At 31 December 2018	
Cost	4,211
Accumulated impairment	—
Net carrying amount	<u>4,211</u>
At 31 December 2019	
Cost	4,211
Accumulated impairment	—
Net carrying amount	<u>4,211</u>

Marine fire-fighting equipment installation and inspection CGU

Goodwill acquired through business combination during 2016 has been allocated to the marine fire-fighting equipment installation and inspection cash generating unit (the "Marine Installation and Inspection CGU").

Impairment test of goodwill

A portion of the goodwill (amounting to approximately RMB4,211,000) in connection with the Marine Installation and Inspection CGU arose from the acquisition of Shanghai An Hang, representing the difference between the Company's consideration transferred and Shanghai An Hang's identifiable net assets acquired on the completion date (i.e. 1 February 2016).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

16. GOODWILL (CONTINUED)

Marine fire-fighting equipment installation and inspection CGU (Continued)

Impairment test of goodwill (Continued)

At 31 December 2019, the directors of the Company conducted assessments of the recoverable amount of the Marine Installation and Inspection CGU with reference to the valuations conducted by Asset Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experiences, using the income approach methodology. The discount rate applied to the cash flow projections is 14.94% (2018: 14.9%). Based on the assessments, in the opinion of the directors of the Company, the estimated recoverable amount of the Marine Installation and Inspection CGU was higher than its corresponding carrying amount and therefore, no impairment of the net carrying amount of goodwill in connection with the Marine Installation and Inspection CGU at 31 December 2019.

17. INTANGIBLE ASSETS

	Patents and trademarks of aquarium products RMB'000
31 December 2019	
At 1 January 2019	
Cost	1,800
Accumulated amortisation	<u>(585)</u>
Net carrying value	<u>1,215</u>
At 1 January 2019, net of accumulated amortisation	1,215
Amortisation provided during the year (<i>note 6</i>)	<u>(180)</u>
At 31 December 2019	<u>1,035</u>
At 31 December 2019	
Cost	1,800
Accumulated amortisation	<u>(765)</u>
Net carrying value	<u>1,035</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

17. INTANGIBLE ASSETS (CONTINUED)

	Patents and trademarks of aquarium products RMB'000
31 December 2018	
At 1 January 2018	
Cost	1,800
Accumulated amortisation	<u>(405)</u>
Net carrying value	<u><u>1,395</u></u>
At 1 January 2018, net of accumulated amortisation	1,395
Amortisation provided during the year (<i>note 6</i>)	<u>(180)</u>
At 31 December 2018	<u><u>1,215</u></u>
At 31 December 2018	
Cost	1,800
Accumulated amortisation	<u>(585)</u>
Net carrying value	<u><u>1,215</u></u>

Patents and trademarks were acquired by the Group as part of the establishment of a non-wholly owned subsidiary in prior years. They are amortised using the straight-line basis over their estimated useful lives of 10 years.

At 31 December 2019, the directors of the Group conducted assessments of the recoverable amounts of patents and trademarks with reference to the valuation conducted by an independent firm of professional valuers with recognised qualifications and experiences, using income approach methodology. Based on the assessment, in the opinion of the directors of the Group, the estimated recoverable amount of patents and trademarks were higher than the carrying amount and therefore, no impairment of patents and trademarks was required at 31 December 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

18. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Raw materials	4,294	7,333
Work in progress	625	2,105
Finished goods	2,720	4,047
Low cost consumables	315	404
	7,954	13,889

At 31 December 2019, the Group's inventories with cost of RMB767,000 (2018: RMB767,000) are stated at their net realisable value amounted to RMBNil (2018: RMBNil). The write off of inventories are approximately RMB1,699,000 during the year (2018: RMB34,000).

19. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Trade receivables	16,528	18,041
Less: Allowance for credit losses	(1,163)	(1,483)
	15,365	16,558
Bills receivables	404	913
	15,769	17,471

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally two months, extending up to half year for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

19. TRADE AND BILLS RECEIVABLES (CONTINUED)

An aging analysis of the trade and bills receivables as at the end of reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 month	2,930	5,367
1 to 2 months	3,002	1,877
2 to 3 months	1,248	2,080
3 to 6 months	6,306	1,919
6 to 12 months	1,878	2,513
1 to 2 years	405	3,715
	<u>15,769</u>	<u>17,471</u>

The movements in the allowance for credit loss of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	1,483	1,575
Impairment losses (<i>note 6</i>)	3,389	-
Reversal of impairment losses (<i>note 6</i>)	(320)	(92)
	<u>3,069</u>	<u>(92)</u>
	4,552	1,483
Amount written off as uncollectible	<u>(3,389)</u>	-
At 31 December	<u>1,163</u>	<u>1,483</u>

The decrease in the allowance for credit loss was due to the following significant changes in the gross carrying amount:

- (i) Decrease in the allowance for credit loss to RMB1,163,000 (2018: RMB1,483,000) as a result of a net decrease in the gross carrying amount after the recovery of certain impaired trade receivables during the year; and
- (ii) Amount written off as uncollectible of RMB3,389,000 as there was an indicator that a single debtor aged more than one year past due cannot be collected (2018: Nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

19. TRADE AND BILLS RECEIVABLES (CONTINUED)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses, as follows:

31 December 2019

	Neither past due nor impaired	Less than 1 month past due	1 to 3 months past due	3 to 6 months past due	6 to 12 months past due	More than 1 year past due	Total
Gross carrying amount (RMB'000)	6,042	1,968	3,574	2,923	879	1,142	16,528
Less: gross carrying amount of specific debtors without known financial difficulties and/or subject to a one-on-one credit loss analysis (RMB'000)	(2,156)	(86)	(98)	(137)	(76)	(128)	(2,681)
Adjusted gross carrying amount (RMB'000)	3,886	1,882	3,476	2,786	803	1,014	13,847
Expected credit loss rate							2%-50%
Expected credit losses (RMB'000)							1,163

31 December 2018

	Neither past due nor impaired	Less than 1 month past due	1 to 3 months past due	3 to 6 months past due	6 to 12 months past due	More than 1 year past due	Total
Gross carrying amount (RMB'000)	6,855	1,453	1,712	1,808	5,211	1,002	18,041
Less: gross carrying amount of specific debtors without known financial difficulties and/or subject to a one-on-one credit loss analysis (RMB'000)	(1,161)	(30)	(80)	-	(3,630)	-	(4,901)
Adjusted gross carrying amount (RMB'000)	5,694	1,423	1,632	1,808	1,581	1,002	13,140
Expected credit loss rate							1%-50%
Expected credit losses (RMB'000)							1,483

As the Group's historical credit loss experience for the inspection services segment and aquarium products segments does not have material impairment records as well as certain specific receivables with different credit history (where a one-on-one credit loss analysis is carried out), the Group adjusted for factors that are specific to these debtors. The provision rates are based on days past due for groupings of various customer segments. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019	2018
	RMB'000	RMB'000
Prepayments	19	203
Trade deposits paid	673	783
Prepaid land lease payments (<i>note 15(a)</i>)	-	4
Other receivables	3,551	3,006
Value added tax receivables	69	-
	<u>4,312</u>	<u>3,996</u>

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

21. CONTRACT ASSETS

	31 December	31 December	1 January
	2019	2018	2018
	RMB'000	RMB'000	RMB'000
Contract assets arising from:			
Sales of marine fire-fighting equipment	<u>74</u>	<u>137</u>	<u>191</u>
	<u>74</u>	<u>137</u>	<u>191</u>

Contract assets are initially recognised for revenue earned from the sale of marine fire-fighting equipment as the receipt of consideration is conditional on retention period provided to customers. Included in contract assets for sale of marine fire-fighting equipment are retention receivables. Upon the end of retention period, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2019 and 2018 was the result of the decrease in the ongoing sale of marine fire-fighting equipment with a retention period at the end of each of the years.

During the year ended 31 December 2019 and 2018, allowance for expected credit losses on contract assets has had no material impact to the Group's financial position. The Group's trading terms and credit policy with customers are disclosed in note 19 to the consolidated financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

	2019	2018
	RMB'000	RMB'000
Within one year	<u>74</u>	<u>137</u>
Total contract assets	<u>74</u>	<u>137</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

22. DUE FROM RELATED COMPANIES

Name	Note	31 December 2019 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2019 RMB'000
<i>Related companies</i>				
上海石化消防工程有限公司 (literally translated as "Shanghai Petro-Chemical Fire-fighting Engineering Company Limited", "SPFE")	(i)	60	67	67
上海聯滬消防器材有限公司 (literally translated as "Shanghai Lianhu Fire-fighting Equipment Company Limited", "SLFE")	(i)	<u>716</u>	<u>716</u>	<u>716</u>
		<u>776</u>		<u>783</u>

Note:

- (i) SPFE and SLFE are under common control of Zhou Jin Feng who is the director of Zhejiang Hengtai. The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment. These balances as at 31 December 2018 and 2019 were trade in nature.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

23. DEFERRED TAX

(a) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses and impairment of financial and contract assets, and write off of inventories (collectively the "Impairment of Assets") arising from the operation in the PRC as it is not considered probable that future taxable profits will be available against which the losses could be utilised.

At the end of the reporting periods, the movement of unrecognised deferred tax assets in respect of tax benefits from tax losses and the Impairment of Assets of the Group are as follows:

	Impairment of Assets	Tax losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2018	448	3,890	4,338
Not recognised during the year (<i>note 10</i>)	(25)	1,468	1,443
	<u>423</u>	<u>5,358</u>	<u>5,781</u>
At 31 December 2018 and 1 January 2019	423	5,358	5,781
Not recognised during the year (<i>note 10</i>)	<u>627</u>	<u>4,778</u>	<u>5,405</u>
	<u>1,050</u>	<u>10,136</u>	<u>11,186</u>
At 31 December 2019	1,050	10,136	11,186

At the end of the reporting period, the Group's tax losses will be expired in the following years:

	2019	2018
	RMB'000	RMB'000
In 2024	22,884	-
In 2023	7,139	7,139
In 2022	6,104	6,104
In 2021	3,208	3,208
In 2020	3,464	3,464
In 2019	-	2,784
	<u>42,799</u>	<u>22,699</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

23. DEFERRED TAX (CONTINUED)

(b) Deferred tax liabilities

	Fair value changes in the investment properties RMB'000
At 1 January 2018	5,393
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10)	<u>60</u>
At 31 December 2018 and 1 January 2019	5,453
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10)	<u>15</u>
At 31 December 2019	<u>5,468</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

24. CASH AND CASH EQUIVALENTS

	2019	2018
	RMB'000	RMB'000
Cash at banks	26,467	29,638
Cash on hand	38	30
	<u>26,505</u>	<u>29,668</u>

The cash and bank balances were denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group and the Company are permitted to exchange RMB for other currencies through bank authorised to conduct foreign exchange business.

25. TRADE PAYABLES

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

	2019	2018
	RMB'000	RMB'000
Within 1 month	2,113	2,243
1 to 2 months	1,991	1,146
2 to 3 months	303	771
Over 3 months	2,485	4,048
	<u>6,892</u>	<u>8,208</u>

All of the trade payables are non-interest-bearing and are normally settled within one year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

26. OTHER PAYABLES AND ACCRUALS

	2019	2018
	RMB'000	RMB'000
Other payables	832	1,526
Accruals	3,391	2,663
Value added tax payables	262	358
	4,485	4,547

Other payables are non-interest-bearing and are normally settled within one year.

27. CONTRACT LIABILITIES

	31 December	31 December	1 January
	2019	2018	2018
	RMB'000	RMB'000	RMB'000
Trade deposits received from customers:			
Sales of goods	1,165	1,550	2,594
	1,165	1,550	2,594

Contract liabilities include trade deposits received to deliver pressure vessels, aquarium products and marine fire-fighting equipment. The decrease in contract liabilities in 2019 and 2018 was mainly due to the decrease in trade deposits received from customers in relation to the sales of pressure vessels. The operation of certain manufacturing factories were terminated by the end of the year.

28. DUE TO THE IMMEDIATE HOLDING COMPANY, NON-CONTROLLING INTERESTS AND A RELATED COMPANY

The amounts due to the immediate holding company, non-controlling interests and a related company are unsecured, interest-free and have no fixed terms of repayment.

The shareholder of the related company is one of the directors of the Company.

As at 31 December 2019, the immediate holding company, Liancheng, has undertaken to provide to the Company with an unsecured interest-free shareholder's loan facility in the sum of not exceeding RMB50 million (the "Facility") for the period expiring on 30 May 2021 (2018: 30 May 2020). As at 31 December 2019 and 2018, the Facility has not been drawn down.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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29. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Registered, issued and fully paid:		
131,870,000 unlisted domestic shares ("Domestic Shares") of RMB0.10 each	13,187	13,187
55,560,000 overseas listed foreign invested shares ("H Shares") of RMB0.10 each	5,556	5,556
	18,743	18,743

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Share premium

Share premium arose from the issuance of share at prices in excess of their par value.

(ii) Capital reserve

	Other reserve RMB'000	Reversal of revaluation surplus of property, plant and equipment RMB'000	Waiver of amount due to the immediate holding company RMB'000	Total RMB'000
At 31 December 2018 and at 31 December 2019	<u>18,521</u>	<u>(1,733)</u>	<u>26,867</u>	<u>43,655</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

30. RESERVES (CONTINUED)

(ii) Capital reserve (Continued)

Reversal of revaluation surplus of property, plant and equipment

Pursuant to a shareholders' resolution in October 2000, the Company was converted from a limited liability company into a joint stock limited liability company on 1 December 2000. The Company's registered and issued share capital was RMB13,187,000, divided into 131,870,000 Domestic Shares of RMB0.10 each, and was credited as fully paid by capitalising all the Company's then paid-in capital and reserves, calculated based on the Company's PRC GAAP financial statements.

The deficit of approximately RMB1,733,000 in capital reserve of the Company represents the excess of the net assets of the Company calculated based on its PRC GAAP financial statements over that calculated based on its consolidated financial statements prepared under IFRS when the conversion took place in 2000. Such excess was resulted from a transfer of equity capital between investors of Shanghai Qingpu Fire-Fighting Equipment Factory in 1996, the Company's property, plant and equipment was revalued, and a revaluation surplus of approximately RMB1,733,000 was recorded as paid-in capital in its PRC GAAP financial statements. In the Group's consolidated financial statements prepared under IFRS, all property, plant and equipment was stated at historical cost. Accordingly, an adjustment of the same amount was recorded as a deficit of capital reserve.

Other reserve

This reserve arose from the acquisition of the Anchor Group from Liancheng (the immediate holding company) which was considered by the directors of the Company as business combination under common control of Liancheng and represents the difference between (i) the consideration paid by the Company to Liancheng and (ii) the net assets of the Anchor Group at the date of 11 April 2011 (being the acquisition date of the Anchor Group by Liancheng).

(iii) Statutory reserve fund

According to the PRC regulations and the relevant Articles of Association, each of the Company and its subsidiaries established in the PRC is required to transfer 10% of its respective profit after tax, as determined under the PRC accounting standards and regulations, to statutory reserve fund until the fund reaches 50% of the respective companies' registered capital. The transfer to this reserve must be made before distributing dividends to the respective companies' shareholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

30. RESERVES (CONTINUED)

(iii) Statutory reserve fund (Continued)

The statutory reserve fund can be used to make up for previous years' losses, if any. It may be converted into share capital by issuing new shares to the respective companies' shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(iv) Discretionary common reserve fund

Each of the Company and its subsidiaries established in the PRC may, at its discretion and subject to approval of its respective shareholders, transfer its retained earnings balance to its discretionary common reserve fund. The usage of discretionary common reserve fund is similar to that of the statutory reserve fund.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB289,000 and RMB289,000, respectively, in respect of lease arrangements for land and buildings (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Lease liabilities RMB'000
At 31 December 2018	-
Effect of adoption of IFRS 16 (note 2.2)	1,976
At 1 January 2019 (restated)	1,976
Changes from financing cash flows	(479)
New leases	289
Interest expense	80
Interest paid classified as operating cash flows	(80)
At 31 December 2019	1,786

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	145
Within financing activities	479
	<hr/>
	624
	<hr/> <hr/>

32. COMMITMENTS

(a) The Group did not have any significant capital and other commitments at the end of the reporting period.

(b) Operating lease commitments as at 31 December 2018

The Group leased certain land and buildings from independent third parties under operating lease arrangements. Leases for land and buildings were negotiated for terms ranging from 1 to 20 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases with its owners falling due as follows:

	2018 RMB'000
Within one year	650
In the second to fifth years, inclusive	1,340
After five years	580
	<hr/>
	2,570
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

33. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties, which also constitute continuing connected transactions under the GEM Listing Rules, during the year:

	2019 RMB'000	2018 RMB'000
Sales of goods		
SPFE	27	5
SLFE	-	42
聯城消防工程有限公司 (literally translated as "Liancheng Fire Engineering Company Limited", "LCFE") (note (i))	-	216
	27	263
Inspection services income		
SPFE	160	238
Liancheng	18	47
	178	285
Rental expenses		
中聯城消防科技集團有限公司 (literally translated as "Zhong Lian Cheng Fire-Fighting Technology Group Company Limited", "ZLCFT") (note (ii))	-	136

Notes:

- (i) LCFE is under common control of Liu Jin who is the Supervisor of the Company.
- (ii) ZLCFT is under common control of Zhou Jin Feng who is the director of Zhejiang Hengtai.

In the opinion of the board of directors, the above transactions were carried out in the normal course of business of the Group and at prices and terms comparable with those charged by and/or contracted with third parties.

- (b) Key management personnel of the Group are the directors and supervisors of the Company. Details of their remuneration are included in note 8 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2019	2018
Percentage of equity interest held by non-controlling interests:		
Special Cylinder	40.6%	40.6%
Shanghai Ogino	55.9%	55.9%
Percentage of profit sharing held by non-controlling interests:		
Special Cylinder	46%	46%
Shanghai Ogino	55.9%	55.9%
	2019	2018
	RMB'000	RMB'000
(Loss)/profit for the year allocated to non-controlling interests:		
Special Cylinder	(2,486)	3
Shanghai Ogino	1,390	978
Accumulated balances of non-controlling interests at the end of the reporting date:		
Special Cylinder	(7,194)	(4,708)
Shanghai Ogino	3,469	2,079

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate summaries financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Special Cylinder RMB'000	Shanghai Ogino RMB'000
Year ended 31 December 2019		
Revenue	21,680	17,585
Total expenses	(27,084)	(15,102)
(Loss)/profit for the year	(5,404)	2,483
Other comprehensive income for the year	-	-
Total comprehensive (loss)/income for the year	(5,404)	2,483
Non-current assets	9,557	1,014
Current assets	10,370	11,526
Current liabilities	(4,137)	(2,343)
Net assets	15,790	10,197
Net cash flows (used in)/from operating activities	(3,346)	2,111
Net cash flows from/(used in) investing activities	1,425	(161)
Net cash flows used in financing activities	-	(348)
Net (decrease)/increase in cash and cash equivalents	(1,921)	1,602

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

	Special Cylinder RMB'000	Shanghai Ogino RMB'000
Year ended 31 December 2018		
Revenue	27,575	12,020
Total expenses	<u>(27,569)</u>	<u>(10,274)</u>
Profit for the year	6	1,746
Other comprehensive income for the year	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u><u>6</u></u>	<u><u>1,746</u></u>
Non-current assets	12,766	492
Current assets	16,704	8,682
Current liabilities	<u>(8,276)</u>	<u>(1,460)</u>
Net assets	<u><u>21,194</u></u>	<u><u>7,714</u></u>
Net cash flows from/(used in) operating activities	160	(350)
Net cash flows used in investing activities	(74)	(172)
Net cash flows used in financing activities	<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents	<u><u>86</u></u>	<u><u>(522)</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

Financial assets

	Financial assets at amortised cost	
	2019	2018
	RMB'000	RMB'000
Trade and bills receivables	15,769	17,471
Financial assets included in prepayments, other receivables and other assets	4,224	3,789
Due from related companies	776	783
Cash and bank balances	26,505	29,668
	47,274	51,711

Financial liabilities

	Financial liabilities at amortised cost	
	2019	2018
	RMB'000	RMB'000
Trade payables	6,892	8,208
Financial liabilities include in other payables and accruals	4,223	4,189
Due to the immediate holding company	906	906
Due to non-controlling interests	1,451	1,451
Due to a related company	2,377	2,798
	15,849	17,552

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The Group did not have any financial assets and financial liabilities measured at fair value as at 31 December 2018 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise cash and bank balances, trade and bills receivables, other receivables and other assets, the amounts due from related companies, trade payables, other payables and accruals, the amounts due to the immediate holding company, non-controlling interests and a related company which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group had no significant interest-bearing financial assets and liabilities with a floating interest rate at 31 December 2019. The Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Renminbi.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis and the Group's exposure to bad debts is not significant. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

As at 31 December 2019

	12-month	Lifetime ECLs			Total
	ECLs	ECLs			
	Stage 1	Stage 2	Stage 3	Simplified	
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Contract assets*	-	-	-	74	74
Trade and bills receivables*	-	-	-	16,932	16,932
Financial assets included in prepayments, other receivables and other assets					
— Normal**	4,224	-	-	-	4,224
Due from related companies					
— Normal**	776	-	-	-	776
Cash and cash equivalents					
— Not yet past due	26,505	-	-	-	26,505
	31,505	-	-	17,006	48,511

As at 31 December 2018

	12-month	Lifetime ECLs			Total
	ECLs	ECLs			
	Stage 1	Stage 2	Stage 3	Simplified	
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Contract assets*	-	-	-	137	137
Trade and bills receivables*	-	-	-	18,954	18,954
Financial assets included in prepayments, other receivables and other assets					
— Normal**	3,789	-	-	-	3,789
Due from related companies					
— Normal**	783	-	-	-	783
Cash and cash equivalents					
— Not yet past due	29,668	-	-	-	29,668
	34,240	-	-	19,091	53,331

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 19 and 21 to the consolidated financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets and amounts due from related companies are considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

The credit risk of the Group's other financial assets, which comprise cash and bank balance and amounts due from related companies, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The credit risk on liquid funds is limited because majority of the counterparties are banks of high credit quality and state-owned banks with good reputation in the PRC.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of lease liabilities and other borrowings.

As at 31 December 2019, the immediate holding company, Liancheng, has undertaken to provide to the Company with an unsecured interest-free shareholder's loan facility in the sum of not exceeding RMB50 million (the "Facility") for the period expiring on 30 May 2021 (2018: 30 May 2020). As at 31 December 2019 and 2018, the Facility has not been drawn down.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

31 December 2019

	On demand or no fixed repayment terms RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	-	6,892	-	-	6,892
Other payables and accruals	4,223	-	-	-	4,223
Lease liabilities (undiscounted)	630	808	852	440	2,730
Due to the immediate holding company	906	-	-	-	906
Due to non-controlling interests	1,451	-	-	-	1,451
Due to a related company	2,377	-	-	-	2,377
	<u>9,587</u>	<u>7,700</u>	<u>852</u>	<u>440</u>	<u>18,579</u>

31 December 2018

	On demand or no fixed repayment terms RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	-	8,208	-	-	8,208
Other payables and accruals	4,189	-	-	-	4,189
Due to the immediate holding company	906	-	-	-	906
Due to non-controlling interests	1,451	-	-	-	1,451
Due to a related company	2,798	-	-	-	2,798
	<u>9,344</u>	<u>8,208</u>	<u>-</u>	<u>-</u>	<u>17,552</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders of issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net cash divided by the total capital plus net debt less net cash. Net cash includes cash and cash equivalents less trade payables, other payables and accruals, and amounts due to the immediate holding company, non-controlling interests and a related company. Capital includes equity attributable to owners of the Group. The gearing ratios as at the end of reporting periods were as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000 (note)	31 December 2018 RMB'000
Trade payables	6,892	8,208	8,208
Other payables and accruals	4,223	4,189	4,189
Contract liabilities	1,165	1,550	1,550
Lease liabilities	1,786	1,976	-
Due to the immediate holding company	906	906	906
Due to non-controlling interests	1,451	1,451	1,451
Due to a related company	2,377	2,798	2,798
Less: Cash and cash equivalents	(26,505)	(29,668)	(29,668)
Net cash	(7,705)	(8,590)	(10,566)
Equity attributable to owners of the Company	71,270	81,769	81,769
Capital less net cash	63,565	73,179	71,203
Gearing ratio	N/A	N/A	N/A

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. There is no change to the Group's gearing ratio on 1 January 2019 when compared with the position as at 31 December 2018.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

38. EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of Coronavirus Disease 2019 (“COVID-19”) in January 2020, the prevention and control of the COVID-19 has been implemented across the PRC. The COVID-19 has certain impacts on the business operation and overall economy in some areas or industries. Up to the date of this report, the financial effect cannot be estimated. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group.

39. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the consolidated financial statements, the Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, IAS 17, and related interpretations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019	2018
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	8,877	9,019
Right-of-use assets	547	-
Investment properties	23,570	23,510
Prepaid land lease payments	-	106
Investment in subsidiaries	9,840	15,300
	<hr/>	<hr/>
Total non-current assets	42,834	47,935
CURRENT ASSETS		
Inventories	2,772	2,723
Trade and bills receivables	1,619	2,184
Prepayments, other receivables and other assets	2,411	2,468
Due from related companies	776	776
Due from subsidiaries	5,893	3,327
Cash and cash equivalents	8,037	13,948
	<hr/>	<hr/>
Total current assets	21,508	25,426
CURRENT LIABILITIES		
Trade payables	2,141	2,143
Other payables and accruals	1,294	1,379
Contract liabilities	296	363
Lease liabilities	578	-
Due to the immediate holding company	906	906
	<hr/>	<hr/>
Total current liabilities	5,215	4,791
NET CURRENT ASSETS		
	<hr/>	<hr/>
	16,293	20,635
TOTAL ASSETS LESS CURRENT LIABILITIES		
	<hr/>	<hr/>
	59,127	68,570

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	2019	2018
	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	<u>5,468</u>	<u>5,453</u>
Total non-current liabilities	<u>5,468</u>	<u>5,453</u>
Net assets	<u>53,659</u>	<u>63,117</u>
EQUITY		
Share capital	18,743	18,743
Reserves	<u>34,916</u>	<u>44,374</u>
Total equity	<u>53,659</u>	<u>63,117</u>

Approved and authorised for issue by the board of directors on 25 March 2020.

Zhou Jin Hui
Director

Shi Hui Xing
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account	Capital reserve	Statutory reserve funds	Discretionary common reserve fund	Asset revaluation reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>note 30(i)</i>	<i>note 30(ii)</i>	<i>note 30(iii)</i>	<i>note 30(iv)</i>			
At 1 January 2018	10,910	25,134	5,036	1,500	11,299	(5,016)	48,863
Profit and total comprehensive income for the year	-	-	-	-	-	(4,489)	(4,489)
At 31 December 2018	<u>10,910</u>	<u>25,134</u>	<u>5,036</u>	<u>1,500</u>	<u>11,299</u>	<u>(9,505)</u>	<u>44,374</u>
At 1 January 2019	10,910	25,134	5,036	1,500	11,299	(9,505)	44,374
Loss and total comprehensive loss for the year	-	-	-	-	-	(9,458)	(9,458)
At 31 December 2019	<u>10,910</u>	<u>25,134</u>	<u>5,036</u>	<u>1,500</u>	<u>11,299</u>	<u>(18,963)</u>	<u>34,916</u>

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2020.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and reclassified as appropriate, is set out below.

	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	78,016	69,650	72,663	73,500	67,679
Cost of sales	(62,288)	(52,905)	(55,084)	(53,701)	(52,961)
Gross profit	15,728	16,745	17,579	19,799	14,718
Other income and gains	2,366	1,191	4,638	3,667	4,734
Selling and distribution expenses	(3,081)	(2,858)	(2,944)	(2,873)	(2,757)
Administrative expenses	(26,310)	(16,207)	(17,194)	(18,908)	(17,160)
Finance costs	(80)	-	-	(464)	-
(LOSS)/PROFIT BEFORE TAX	(11,377)	(1,129)	2,079	1,221	(465)
Income tax expenses	(418)	(1,217)	(1,050)	(975)	(1,378)
(LOSS)/PROFIT FOR THE YEAR	(11,795)	(2,346)	1,029	246	(1,843)
Attributable to:					
Owners of the Company	(10,499)	(3,394)	(230)	317	(1,070)
Non-controlling interests	(1,296)	1,048	1,259	(71)	(773)
	(11,795)	(2,346)	1,029	246	(1,843)
ASSETS AND LIABILITIES					
TOTAL ASSETS	95,684	108,045	113,304	126,818	120,520
TOTAL LIABILITIES	(24,618)	(25,184)	(28,097)	(42,444)	(35,822)
NON-CONTROLLING INTERESTS	204	(1,092)	(44)	1,019	378
	71,270	81,769	85,163	85,393	85,076

This summary does not form part of the audited consolidated financial statements.