



# 日照港裕廊股份有限公司 Rizhao Port Jurong Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 6117



## 2019 ANNUAL REPORT

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# Corporate Information

## COMPANY NAME (IN CHINESE)

日照港裕廊股份有限公司

## COMPANY NAME (IN ENGLISH)

RIZHAO PORT JURONG CO., LTD.

## LEGAL REPRESENTATIVE

Mr. Zhang Baohua

## REGISTERED OFFICE AND HEADQUARTERS IN THE PRC

South End  
Haibin 5th Road  
Rizhao City, Shandong Province  
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Sunlight Tower  
248 Queen's Road East  
Wanchai  
Hong Kong

## LISTING DATE

19 June 2019

## PLACE OF LISTING

Main Board of The Stock Exchange of Hong Kong Limited

## STOCK ABBREVIATION (IN ENGLISH)

RIZHAO PORT JR

## STOCK ABBREVIATION (IN CHINESE)

日照港裕廊

## STOCK CODE

6117

## TELEPHONE

+86 0633 7381 569

## FACSIMILE

+86 0633 7381 530

## E-MAIL

rzgyl@rzportjurong.com

## COMPANY'S WEBSITE

www.rzportjurong.com

## EXECUTIVE DIRECTOR

Mr. He Zhaodi

## NON-EXECUTIVE DIRECTORS

Mr. Zhang Baohua (*Chairman*)  
Mr. Ng Chee Keong (*Deputy Chairman*)  
Mr. Ooi Boon Hoe  
Mr. Shi Ruxin  
Mr. Jiang Zidan

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zixue  
Mr. Lee Man Tai (*appointed on 17 December 2019*)  
Mr. Wu Xibin  
Mr. Lau Wai Leung Anders (*resigned on 18 September 2019*)

### SUPERVISORY COMMITTEE

Mr. Wang Wei (*Chairman*)  
Mr. Li Weiqing  
Mr. Tham Wai Kong

### JOINT COMPANY SECRETARIES

Mr. Zheng Shiqiang  
Ms. Fok Po Yi (*CPA*)

### AUTHORIZED REPRESENTATIVES

Mr. Zhang Baohua  
Ms. Fok Po Yi

### AUDIT COMMITTEE

Mr. Lee Man Tai (*Chairman*) (*appointed on 17 December 2019*)  
Mr. Zhang Zixue  
Mr. Shi Ruxin  
Mr. Lau Wai Leung Anders (*resigned on 18 September 2019*)

### REMUNERATION COMMITTEE

Mr. Zhang Zixue (*Chairman*)  
Mr. Wu Xinbin  
Mr. Jiang Zidan

### NOMINATION COMMITTEE

Mr. Zhang Baohua (*Chairman*)  
Mr. Lee Man Tai (*appointed on 17 December 2019*)  
Mr. Zhang Zixue  
Mr. Wu Xinbin  
Mr. Ng Chee Keong  
Mr. Lau Wai Leung Anders (*resigned on 18 September 2019*)

### AUDITOR

Grant Thornton Hong Kong Limited

### COMPLIANCE ADVISER

China Industrial Securities International Capital Limited  
7/F Three Exchange Square  
8 Connaught Place  
Central

### LEGAL ADVISERS

#### (1) As to Hong Kong laws:

Jun He Law Offices

#### (2) As to PRC laws:

JunHe LLP

### H SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### PRINCIPAL BANKER

Agricultural Bank of China  
Rizhao Branch

# Definitions

In this annual report, the following expressions have the following meanings unless otherwise specified:

“AGM”	the 2019 annual general meeting or any adjournment thereof of the Company to be convened at 10:00 a.m. on Monday, 18 May 2020 at Office Building of Rizhao Port Jurong Co., Ltd.
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Asia Symbol”	Asia Symbol Shandong Co., Ltd. (亞太森博山東漿紙有限公司)
“Audit Committee”	the audit committee of the Company
“Board”	board of Directors
“CG Code”	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
“China” or “PRC”	People’s Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau Special Administrative Region and Taiwan
“Company”	Rizhao Port Jurong Co., Ltd. (日照港裕廊股份有限公司)
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by PRC natural persons or entities established under PRC laws
“H Share(s)”	overseas listed shares in the share capital of the Company with a nominal value of RMB1.00 each in the share capital of the Company, listed on the main board of the Stock Exchange and traded in HK\$
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	an individual or a company which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is not a connected person of the Company within the meaning of the Listing Rules
“Lanshan Branch of Rizhao Port”	Lanshan stevedoring branch of Rizhao Port (日照港股份有限公司嵐山裝卸分公司)
“Listing Date”	19 June 2019
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

## Definitions (Continued)

“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Company
“Prospectus”	the prospectus of the Company dated 31 May 2019
“Remuneration Committee”	the remuneration committee of the Company
“Reporting Period”	the financial year ended 31 December 2019
“Rizhao Municipal Government”	Rizhao Municipal People’s Government
“Rizhao Port”	Rizhao Port Co., Ltd. (日照港股份有限公司)
“Rizhao Port Group”	Rizhao Port Group Co., Ltd. (日照港集團有限公司)
“Rizhao Port Supervision”	Rizhao Port Construction and Supervision Co., Ltd. (日照港建設監理有限公司)
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“RPG Finance”	Rizhao Port Group Finance Co., Ltd (日照港集團財務有限公司), a company held as to 60% by Rizhao Port Group and 40% by Rizhao Port
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (as amended from time to time)
“Shandong Gangwan”	Shandong Gangwan Construction Group Co., Ltd. (山東港灣建設集團有限公司)
“Shandong Port Group”	Shandong Port Group Co., Ltd. (山東省港口集團有限公司)
“Shandong SASAC”	Shandong Provincial State-owned Assets Supervision and Administration Commission
“Share(s)”	share(s) of RMB1.00 each in the share capital of the Company, comprising the Domestic Shares and the H Shares
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“%”	per cent



# Chairman's Statement

Dear shareholders,

On behalf of the Board of Directors of the Company, I hereby present to you the annual report of the Company for the year ended 31 December 2019.

## MACROECONOMIC ANALYSIS

In 2019, the economy of the PRC maintained the momentum of overall stability amidst sound and steady progress, with a gross domestic product (GDP) of RMB99.09 trillion, representing a year-on-year increase of 6.1%. In 2019, the total import and export trade value of the PRC amounted to RMB31.54 trillion, representing a year-on-year increase of 3.4%, of which, total export value amounted to RMB17.23 trillion, increased by 5% and total import value amounted to RMB14.31 trillion, increased by 1.6%. External trade of the PRC remained stable and is expecting quality improvement.

## KEY PERFORMANCE AND DIVIDEND

In 2019, due to the impact from domestic market fluctuations in grain and oil, pulp and alcohol processing industries, the throughput of soybeans, woodchips, dried tapioca recorded a decrease to some extent. During the Reporting Period, the Company achieved 25.78 million tonnes of cargo throughput, representing a decrease of 0.5% as compared with the same period of 2018. The Company achieved an operating income of RMB542,783,000, an increase by 2% and of RMB10,722,000 over the same period last year, which was essentially the same as last year. The Board recommends the payment of a final dividend of RMB0.024 per share (including tax) for the year.

## BUSINESS REVIEW

In 2019, the Company focused on market development. It seized opportunities to secure product supply. The Company gave full play to its advantages in managing main products such as grain and woodchips to secure a steady capital increase in imports throughout the year. The Company planned ahead and strengthened its cooperation to develop the corn business and make it new a growth point of product supply. The Company launched integrated services and extended its service chain to control overload for highway, reduce highway transportation and increase railway transportation. The Company launched a logistics service of "port + railway + shipping" to improve its revenue capacity. The Company optimized its production process, implemented a system efficiency improvement program and improved its efficiency of cargo handling and transit. The Company streamlined its service process focusing on customers to improve customer experience. The Company will continue to improve its quality and efficiency and strive to achieve steady business development.

### FUTURE PROSPECTS

The year 2020 is decisive for the PRC to complete the building of a moderately prosperous society in all respects and achieve the goals set in the 13th Five-Year Plan. In terms of regional development, Shandong Port Group was established and put into operation. Industry synergy is deepened with integrated development implemented and port resource allocation optimized, thus enabling the Company to enjoy a larger platform for business development.

Internationally, after the signing of the first-phase China-US trade agreement, grain imports are expected to stabilize and rebound, especially soybeans, thus bringing greater benefits to international trade.

The Company expects that soybeans will still be the main necessities in the market for imported agricultural products, and consumers will have huge demand for corn, wheat and other grains. Therefore, we believe that the import trade of agricultural products will bring significant opportunities for the Company's business development.

As a committed listed company, we will actively follow the evolution of the international market situation and plan to increase the Company's supply organization in order to achieve profitability.

Domestically, under the influence of the COVID-19, we believe that it may have an adverse effect on economic operations in the short term, especially the recent spread of overseas epidemics and the changes having caused to the world economy. China's economic development has brought new challenges. However, China's epidemic situation continues to improve, the economy is beginning to return to normal for production, and people's life is gradually getting on track. Therefore, we predict that the short-term impact of the epidemic on China's economy will be controllable. In the long run, we have confidence in the trend of China's economic stability and transformation and upgrade.

Our major customers are grain, oil, alcohol, and pulp enterprises that are closely related to the people's livelihood. They will, alcohol enterprises in particular, continuously expand the import of raw materials, so we will expand our production capacity to meet people's demand.

We expect that grain, oil, alcohol, and pulp enterprises will face enormous opportunities in 2020. However, we are also aware that the current international trade situation is complex and volatile and there are many uncertainties in the internal and external environment. Under this context, the Company's market environment is still subject to great uncertainty. The Company will focus on economic benefits, reduce operating costs through innovative technologies, continue to strengthen its port handling business and extend its service chain. By doing so, the Company will be able to improve its service quality, consolidate and expand its market share and facilitate its high-quality development.

On behalf of the Board of Directors, I would like to thank our shareholders, customers and business partners for their great support and help to the Company. Additionally, I would like to express my sincere gratitude to all the employees for their hard work.

**Rizhao Port Jurong Co., Ltd.**

**Zhang Baohua**

*Chairman*

3 March 2020

# Financial Highlights

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>	<b>Change</b> <b>%</b>
<b>Summary of Statement of Profit or Loss</b>			
Operating revenue	<b>542,783</b>	532,061	2
Gross profit	<b>239,565</b>	224,144	6.9
Operating profit	<b>188,722</b>	198,609	-5
Net profit attributable to shareholders of the parent company	<b>141,131</b>	149,152	-5.4
Basic earnings per share(RMB cents)	<b>9.78 cents</b>	12.43 cents	-21.3
<b>Summary of Balance Sheet</b>			
Cash and cash equivalents	<b>198,107</b>	55,491	257
Net current assets/(liabilities)	<b>192,957</b>	(157,778)	-222
Total assets	<b>2,511,242</b>	1,717,548	46.2
Borrowing and leasing liabilities	<b>321,187</b>	-	-
Gearing ratio(%)	<b>15.2%</b>	-	-
Net assets per share(RMB)	<b>1.27</b>	1.17	9
Return on net assets (%)	<b>6.67</b>	10.60	-37.1
<b>Summary of Statement of Cash Flows</b>			
Net cash flow from operating activities	<b>241,364</b>	212,248	13.7
Net cash flow used in investing activities	<b>(512,455)</b>	(18,114)	2,729.1
Net cash flow from/(used in) financing activities	<b>413,707</b>	(205,102)	-301.7
Net increase/(decrease) in cash and cash equivalents	<b>142,616</b>	(10,968)	-1,400.3

# Management Discussion and Analysis

## OVERALL SITUATION

### Macroeconomic Situation

In 2019, the economy of the PRC maintained the momentum of overall stability amidst sound and steady progress, with a gross domestic product (GDP) of RMB99.09 trillion, representing a year-on-year increase of 6.1%. In 2019, the total import and export value of the PRC's trade in cargos amounted to RMB31.54 trillion, representing a year-on-year increase of 3.4%, of which, total export value amounted to RMB17.23 trillion, increased by 5.0% and total import value amounted to RMB14.31 trillion, increased by 1.6%. Foreign trade of the PRC has maintained a steady growth with a trend of qualitative development. (Source: National Bureau of Statistics of the PRC, the General Administration of Customs of the PRC)

### Operation of the Port Industry

In 2019, the cargo throughput of the ports in the PRC achieved steady growth, which amounted to 13,951 million tonnes, representing an increase of 5.7% as compared with the same period of 2018, of which, foreign trade cargo throughput amounted to 4,321 million tonnes, representing a year-on-year increase of 4.8%, and coastal port cargo throughput amounted to 9,180 million tonnes, representing a year-on-year increase of 4.3%. The expected growth has been generally achieved.

In 2019, the supply-side structural reform of ports in the PRC has been accelerated. The ports in the coastal provinces of the PRC have basically formed the pattern of "one province and one port" to integrate port resources. Shandong Port Group was established to consolidate port resources from Qingdao port, Rizhao port, Yantai port and Bohai Bay port to effectively promote the development towards high-end and enhance the efficiency of the ports in the Shandong province. In 2019, the cargo throughput of the coastal ports in the Shandong province amounted to 1.61 billion tonnes, representing a year-on-year increase of 8.9%. (Source: Ministry of Transport of the PRC)

## BUSINESS AND FINANCIAL REVIEW

### Overall Review

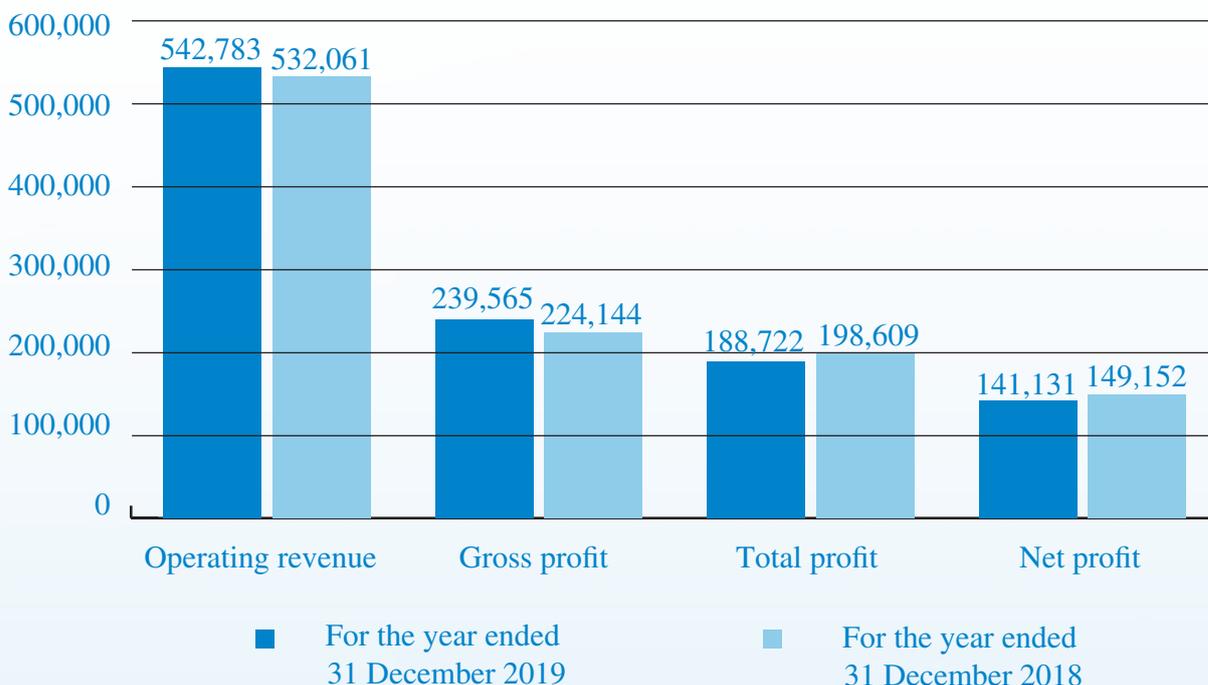
In 2019, with the focus on market development, the Company made use of its advantage in the operation of principal cargo types such as grains and woodchips, strived to develop maize business, optimized production process and implemented systematic efficiency improvement projects to enhance the efficiency of loading and unloading vessel cargos and trans-shipment. The Company also provided integrated services to extend the service chain and enhance profitability, and pushed forward the steady growth of the businesses through quality improvement and efficiency enhancement and innovation.

During the Reporting Period, the Company achieved 25.78 million tonnes of cargo throughput, representing a decrease of 0.5% as compared with the same period of 2018, which generally remained stable. In 2019, the throughput of soybeans, woodchips, dried tapioca of the Company recorded a decrease due to domestic market fluctuations in grain and oil, pulp and alcohol processing industries and the decrease in import volume of the PRC. According to the statistics from the General Administration of Customs of the PRC, the total import volume of grains in China was 111.44 million tonnes in 2019, representing a year-on-year decrease of 3.6%, of which, the import volume of soybeans was 88.51 million tonnes, representing a year-on-year increase of 0.5%, accounting for 79.4% to the total import volume of grains in the year; and the import volume of dried tapioca was 2.74 million tonnes, representing a year-on-year decrease of 42%. Furthermore, changes in the Company's throughput for certain grain types during the Reporting Period reflects changes in the structure of grains import. The major performance indicators of the Company remained stable, the details of which are as follow:

## Management Discussion and Analysis (Continued)

### Comparison of Major Performance Indicators

Unit: RMB'000



During the Reporting Period, the Company achieved an operating revenue of RMB542.783 million, increased by RMB10.722 million or 2.0% as compared with the same period of 2018.

During the Reporting Period, the Company achieved a gross profit of RMB239.565 million, increased by RMB15.421 million or 6.9% as compared with the same period of 2018, mainly attributable to the gross profit from storage services and new logistics agency services.

During the Reporting Period, the Company achieved a total profit of RMB188.722 million, decreased by RMB9.887 million or 5% as compared with the same period of 2018.

During the Reporting Period, the Company achieved a net profit of RMB141.131 million, decreased by RMB8.021 million or 5.4% as compared with the same period of 2018.

## Management Discussion and Analysis (Continued)

### Business Review

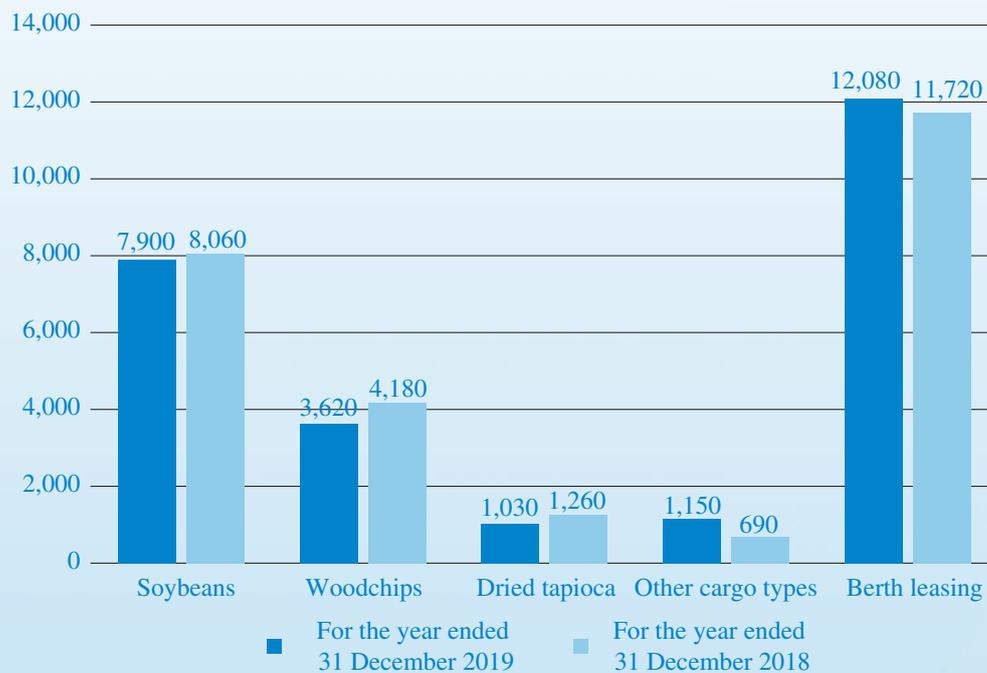
During the Reporting Period, the Company recorded a year-on-year decrease in the stevedoring service, mainly attributable to the decrease in the throughput of soybeans and dried tapioca, which has a higher revenue rate.

Unit: '000 tonnes, except percentage

Cargo type	For the year ended 31 December				Change
	2019		2018		
	Throughput	Proportion	Throughput	Proportion	
Soybeans	7,900	30.6%	8,060	31.1%	(2.0%)
Woodchips	3,620	14.0%	4,180	16.1%	(13.4%)
Dried tapioca	1,030	4.0%	1,260	4.9%	(18.3%)
Other cargo types	1,150	4.5%	690	2.7%	66.7%
Berth leasing	12,080	46.9%	11,720	45.2%	3.1%
<b>Total</b>	<b>25,780</b>	<b>100.0%</b>	<b>25,910</b>	<b>100.0%</b>	<b>(0.5%)</b>

### Comparison of Throughput by Cargo Types

Unit: '000 tonnes





## Management Discussion and Analysis (Continued)

### Soybeans

In 2019, the PRC imported 88.51 million tonnes of soybeans (Source: General Administration of Customs of the PRC), representing a year-on-year increase of 0.5%. During the Reporting Period, the Company achieved 7.9 million tonnes of soybean throughput, of which, foreign trade import volume accounted for 8.4% of the PRC's soybean import during the same period, maintaining a relatively higher market share.

### Woodchips

In the first three quarters of 2019, the woodchip business of the Company and the woodchip production remained stable, as compared with the same period of 2018. In the fourth quarter of 2019, due to the impact of domestic market fluctuations in the pulp industry, the import volume of woodchips decreased and the Company's throughput of woodchips during the Reporting Period was 3.62 million tonnes, representing a decrease of 13.4% as compared with the same period of 2018.

### Dried tapioca

In 2019, affected by the recession of the domestic alcohol industry in the PRC and the decline in tapioca inventory in Thailand, there was a continuous decrease in import of dried tapioca by the PRC, with a total import volume of 2.74 million tonnes (Source: General Administration of Customs of the PRC), representing a decrease of 1.99 million tonnes or 42% as compared with the same period of 2018. The throughput of dried tapioca of the Company achieved 1.03 million tonnes, representing a year-on-year decrease of 18.3%. The Company's market share increased from 26.6% for the year of 2018 to 37.6% for the year of 2019.

### Other cargo types

In 2019, the Company strengthened the market development of the maize and other cargo types, with the throughput amounting to 1.15 million tonnes, representing an increase of 66.7% as compared with the same period of 2018. On the basis of the existing business, the Company has conducted in-depth cooperation with customers and expanded the maize supply channels, which has provided a foundation for the Company's further development of the maize business.

### Berth leasing

The Company entered into a long-term lease agreement to lease the West-4 berth, Wood-2 berth and Wood-3 berth owned by the Company to Asia Symbol, an independent third party engaged in wood pulp production. The business volume of berth leasing is mainly derived from the throughput of woodchips imported and transferred by Asia Symbol. Asia Symbol pays the Company a fixed rent each year, and is responsible for the maintenance of the leased berth and related berthing equipment.

# Management Discussion and Analysis (Continued)

## Financial Review

### Revenue

During the Reporting Period, the Company achieved an operating revenue of RMB542.783 million, increased by RMB10.722 million or 2.0% as compared with the same period last year. Revenue by segment is as follows:

#### (1) Total Revenue

	For the year ended 31 December		Period-to-period change	
	2019 RMB'000	2018 RMB'000	Change in amount RMB'000	Percentage of change
Revenue from contracts with customers				
– Provision of services	464,655	455,768	8,887	2.0%
Rental income from investment properties	78,128	76,293	1,835	2.4%
<b>Total revenue</b>	<b>542,783</b>	<b>532,061</b>	<b>10,722</b>	<b>2.0%</b>

#### (2) Revenue from contracts with customers by service type

	For the year ended 31 December		Period-to-period change	
	2019 RMB'000	2018 RMB'000	Change in amount RMB'000	Percentage of change
<b>Types of services</b>				
Stevedoring service	406,315	413,751	(7,436)	(1.8%)
Storage service	23,551	19,573	3,978	20.3%
Port management services	11,673	13,587	(1,914)	(14.1%)
Logistics agency services	23,116	8,857	14,259	161.0%
<b>Total</b>	<b>464,655</b>	<b>455,768</b>	<b>8,887</b>	<b>2.0%</b>

During the Reporting Period, the Company recorded a slight year-on-year increase in revenue, mainly attributable to the increase in revenue of storage service, logistics agency services and berth leasing service, and the decrease in revenue of stevedoring service and port management services.

## Management Discussion and Analysis (Continued)

During the Reporting Period, the Company recorded a year-on-year increase in the storage service revenue, mainly attributable to the increase of revenue from the soybean storage. The year-on-year increase in the logistics agency services was mainly attributable to the logistics agency revenue generated from this new service since July 2018 when the business was first conducted. The year-on-year increase in the berth leasing revenue was mainly attributable to (a) the reduction of tax rate from 11% to 10%, and then to 9% as impacted by the national tax policy, and (b) the increase in the leasing revenue of Rizhao Port Container Development Co., Ltd.

The decrease in the revenue of port management services was mainly attributable to the decrease in customers' demand for port management services.

### Cost of sales

During the Reporting Period, the cost of sales of the Company amounted to RMB303.218 million, decreased by RMB4.699 million or 1.5% from RMB307.917 million as compared with the same period of 2018, mainly attributable to the decrease in procurement costs and utilities expenses.

### Gross profit

During the Reporting Period, the Company achieved a gross profit of RMB239.565 million, increased by RMB15.421 million or 6.9% from RMB224.144 million as compared with the same period of 2018, mainly attributable to the gross profit from storage services and new logistics agency services.

### Administrative expenses

During the Reporting Period, the total administrative expenses of the Company amounted to RMB13.752 million, increased by RMB1.509 million or 12.3% from RMB12.243 million as compared with the same period of 2018, primarily due to the following reasons: (a) the increase in the cost of employees of the Company arising from the increase in the number of administrative staff and the level of their remuneration; (b) the donation of RMB975,000 to the Community Chest of Hong Kong.

### Listing expenses

During the Reporting Period, the Company recorded the listing expenses of RMB12.363 million, increased by RMB5.895 million or 91.1% from RMB6.468 million as compared with the same period of 2018, mainly attributable to the Company's expenses increase in the process of listing.

### Other income

During the Reporting Period, other income of the Company amounted to RMB8.170 million, increased by RMB6.911 million or 548.9% from RMB1.259 million as compared with the same period of 2018, mainly attributable to the addition of listing incentives and subsidies of RMB6 million from the government of the PRC.

### Finance costs

During the Reporting Period, the finance costs of the Company amounted to RMB27.812 million, increased by RMB22.144 million or 390.7% from RMB5.668 million as compared with the same period of 2018, mainly attributable to the impact of IFRS 16 lease on the Company.

## Management Discussion and Analysis (Continued)

### Income tax expense

During the Reporting Period, the income tax expense of the Company amounted to RMB47.591 million, decreased by RMB1.866 million or 3.8% from RMB49.457 million as compared with the same period of 2018, mainly attributable to the decrease in profit before tax of the Company.

### Total comprehensive income for the period

Due to the foresaid reasons, during the Reporting Period, the total comprehensive income of the Company was RMB141.131 million, decreased by RMB8.021 million or 5.4% from RMB149.152 million as compared with the same period of 2018.

## LIQUIDITY AND CAPITAL RESOURCES

The Company adopts a prudent treasury management policy to maintain a solid and healthy financial position. The Company monitors the cash flows and cash balance on a regular basis and strives to maintain an optimum liquidity that can meet its working capital needs.

The Company funds its operations principally from cash flow generated from operating activities and bank borrowings. The Company's primary uses of cash are for working capital and to satisfy the capital expenditure needs of the Company.

As at 31 December 2019, the Company had cash and cash equivalents of RMB198.107 million (31 December 2018: RMB55.491 million).

As at 31 December 2019, the Company's total bank borrowings amounted to RMB100 million (31 December 2018: nil), which were denominated in RMB at floating interest rate, and due within two years.

The Company's current ratio (being the ratio of total current assets to total current liabilities) was 3.24 as at 31 December 2019 (31 December 2018: 0.43).

As at 31 December 2019, the Company's gearing ratio (being the ratio of total interest-bearing borrowings to total equity) was 15.2% (31 December 2018: nil).

During the Reporting Period, the Company's net cash from operating activities amounted to RMB241.364 million (the corresponding period of 2018: RMB212.248 million). The Company's net cash used in investing activities during the Reporting Period amounted to RMB512.455 million (the corresponding period of 2018: RMB18.114 million). The Company's net cash from financing activities during the Reporting Period amounted to RMB413.707 million (the corresponding period of 2018: net cash used of RMB205.102 million).

## PLEDGE OF ASSETS

As at 31 December 2019, the Company did not have any pledge of assets (31 December 2018: Nil).

## CONTINGENT LIABILITIES

As at 31 December 2019, the Company did not have any contingent liabilities (31 December 2018: Nil).



## Management Discussion and Analysis (Continued)

### CAPITAL EXPENDITURE

The Company's capital expenditure comprised mainly additions to property, plant and equipment. The Company's capital expenditure in the Reporting Period amounted to RMB519.666 million (the corresponding period of 2018: RMB26.173 million).

### SIGNIFICANT INVESTMENTS

During the Reporting Period, the Company made capital investment of RMB512 million, of which, RMB479 million was used for the purchase of the West-6 berth and the bulk grain operation reconstruction project, RMB9.1 million was used for bulk grain yard project and RMB24.56 million was used for the purchase of three gantry cranes for the West-3 berth.

With respect to the purchase of the West-6 berth and the bulk grain operation reconstruction project, the Company has settled the payment for the purchase of the West-6 berth and has made the filing for the sea area certificate and land certificate for the West-6 berth.

The reconstruction project has been filed with Economic and Information Commission of Donggang District, Rizhao with the related environmental assessment, security assessment, and energy conservation assessment. Due to a change in the shore equipment configuration for the project, the relevant filings have to be made again.

With respect to the purchase of three gantry cranes for the West-3 berth, (a) the supervisor has entered the site, (b) the equipment has been on shore in its entirety, (c) the gantry cranes have undergone special inspection, and (d) the formalities for applying for the special inspection certificate and insurance for equipment have been completed. The equipment is currently under commissioning period.

### MATERIAL ACQUISITIONS AND DISPOSAL

During the Reporting Period, the Company had no material acquisitions and disposal of subsidiaries or associated companies.

### FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Company has been carrying out the "Phase II Bulk Grain Silo Reconstruction Project for Loading and Unloading of Maize", which shall be funded by the Company's internal resources, to achieve the loading and unloading of maize from the West-2 berth and West-3 berth to the phase II bulk grain silo. The Phase II Bulk Grain Reconstruction Project for Loading and Unloading of Maize reforms the existing dried tapioca process and bulk grain process and utilizes the screw ship unloader from the West-2 berth and the West-3 berth to complete unloading through dried tapioca conveyor process to Phase II bulk grain silo, thereby connecting the conveyors of two cargo types and completing unloading and independent outbound delivery. At present, process equipment MEC (Mechanical Electrical Control equipment and services) general contract, civil construction, design and other tender and contract signing have been completed. The general contractor has determined the supplier of main equipment and reviewed equipment drawing. The construction of the pile foundation on site has been completed. Due to the COVID-19 epidemic, the production of steel structure, scraper, conveyor and crushing device has not commenced yet and therefore the subsequent stages are also likely to be postponed.

# Management Discussion and Analysis (Continued)

## EVENTS AFTER THE REPORTING PERIOD

There are no material events undertaken by the Company after the Reporting Period.

## FOREIGN EXCHANGE RISK MANAGEMENT

The operations of the Company are mainly located in the PRC, and substantially all of business assets, liabilities, operating revenue and expenses of the Company are denominated in or settled in RMB, while liabilities denominated in foreign currencies are mainly used to pay overseas agency fees. As such, the Company considers there is no material foreign exchange exposure. As at 31 December 2019, the Company did not enter into any derivative contracts to hedge the foreign exchange exposure.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Company had a total of 309 full-time employees, all of whom are based in the PRC (31 December 2018: 278 employees). During the Reporting Period, the employees costs of the Company amounted to RMB57.046 million.

The remuneration policy of the Company links the remunerations of employees with performance, according to their positions, qualifications, work performance and the Company's production and operation results. For the senior management of the Company, the Company implements a basic salary and a performance-based salary policy. The employees' remunerations are reviewed and adjusted by the Company annually. The Company also provides employees with various benefits in accordance with the relevant national, municipal and city-level laws and regulations in the PRC.

In addition, to actively establish a learning enterprise and cultivate employees with active learning, the Company offers internal trainings on safety and security, business operations and technical skills to the employees for their improvement of skills related to their positions.

## FUTURE PROSPECTS

In 2020, the U.S. and the PRC signed the phase one economic and trade agreement, which stipulates that, among other things, the PRC shall ensure that the imports of agricultural products from the U.S. shall increase by no less than USD12.5 billion and USD19.5 billion in the year 2020 and 2021, respectively, as compared with the import value of USD24 billion in 2017; and the aggregate amount of the import value of agricultural products is expected to be USD80 billion for the two years ended 31 December 2021. The product categories include oilseeds, maize and grains, cotton, meat, ethanol, DDGS, fruits and other agricultural products. We expect that the imports of agricultural products will bring opportunities to the Company for its business development. Soybeans will still be the main cargo type to be imported from the U.S., while there will also be large market demand for maize, wheat and other types of grains. The Company will actively keep up with the changing global market situation, increase sources of supply and enhance our profitability.

On the other hand, due to the COVID-19 epidemic, the operating rate of factories was affected, while to a limited extent. As at 21 February 2020, work resumption rate of industrial enterprises above designated size in the Shandong Province ranked the first in the PRC, accounting for 86% of the total industrial enterprises above designated size.



## Management Discussion and Analysis (Continued)

At present, the decline of soybean import in the first quarter of 2020 is mainly due to seasonality factor. The first quarter is generally the off-season for soybean import in the PRC and in particular, the amount of soybean import is usually the lowest in February. The Company mainly imports soybeans from Brazil and the U.S. to the ports in the PRC directly by shipment. With resumption of road transportation in the PRC, oil exploration and production companies will gradually return to normal and the business is expected to increase in the second quarter. In addition, as the domestic demand for medical disinfection alcohol increases, the purchase of dried tapioca, being the raw material for alcohol production, will correspondingly increase, which is favorable to our dried tapioca business. Further, since the logging of poplars is restricted in the Shandong Province and the Henan Province of the PRC due to the impact of the COVID-19 epidemic, customers have alternatively increased the procurement of raw materials from abroad, which is expected to promote our woodchip business in the short run.

Further, our major customers are companies in the grain, oil, alcohol and pulp industries, which are closely related to people's livelihood. We expect that they, especially those in the alcohol industry, will have ample opportunities in 2020 and will continuously expand the import of raw materials and production capacity to meet domestic demand. With a focus on economic benefits, the Company will seize every opportunity to expand and strengthen its principal business of port loading and unloading, further extend the service chain and improve service standards, so as to maintain and expand market share. In this regard, the Company will focus on the following:

### **Increasing efforts in market development**

The Company will keep abreast of port integration reform and development, and spare no efforts to expand sources of supply and strengthen market development while ensuring the existing product supply, such as taking the initiative to conducting comprehensive market research and seize the opportunities brought by new production capacity of the industries to acquire new cargo types and new customers. The Company will explore supply chain finance services and connect with upstream and downstream customers, thereby creating a new service mode covering production, supply and sales.

### **Establishing an integrated service process with focus on customers**

The Company will optimize service combination and procedures with focus on the customers, allowing one-stop business handling at one time, so as to enhance customer experience and diligently fulfill the service philosophy of "providing whole-hearted service to your satisfaction" to meet the targeted needs of customers.

### **Promoting efficient and eco-friendly production**

The Company will strengthen research and innovation to put forward technological improvements and establish a big data platform with a view to planning production resources as a whole, remedying the shortcoming in efficiency in the production process and achieving eco-friendly production. In particular, the Company will enhance efficient berthing and unberthing of vehicles, vessels and goods, strengthen efforts in unloading of soybeans in rainy days, dust suppression for dried tapioca loading and unloading, separation of soybeans and dust and leakproof processes.

### **Promoting the establishment of "Smart Ports"**

The Company will strengthen the application of technology, such as the unmanned vessel unloading and filling of loading funnels, and implement dashboard management in order to enhance production efficiency. The Company will also construct intelligent analysis tools for centralization of data so as to provide data support for the Company's production and operation.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieving a high standard of corporate governance practices in the belief that they are critical to the development of the Company and essential for protecting the interest of the Shareholders. The Company has adopted the CG Code as its own code of corporate governance. The Company reviews its corporate governance practice from time to time in order to ensure high standards of corporate governance of the Company and meet the expectations of the Shareholders and other stakeholders.

Save for the deviations disclosed below, the Company has complied with the relevant requirements of the applicable code provisions of the CG Code for the year ended 31 December 2019.

Mr. Lau Wai Leung Anders resigned as an independent non-executive Director and ceased to serve as the chairman of the Audit Committee and the member of the Nomination Committee with effect from 18 September 2019. As a result, (a) the number of independent non-executive Directors was reduced to two which was below the minimum number set out in Rules 3.10(1) and 3.10A of the Listing Rules; (b) the Board lacked at least one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules; (c) the chairman of the Audit Committee fell vacant and the composition of the Audit Committee fell below the requirements under Rule 3.21 of the Listing Rules; and (d) the Nomination Committee comprised of two non-executive Directors and two independent non-executive Directors which deviated from the requirement under code provision A.5.1 of the CG Code.

Following the appointment of Mr. Lee Man Tai as an independent non-executive Director at the fourth extraordinary general meeting of the Company of 2019 held on 17 December 2019, the Board (a) comprised of three independent non-executive Directors one of which possesses appropriate professional qualifications or accounting or related financial management expertise; and (b) appointed Mr. Lee Man Tai as the chairman of the Audit Committee and the member of the Nomination Committee. Accordingly, the number of independent non-executive Directors and the composition of the Audit Committee and the Nomination Committee are in compliance with the requirements under Rules 3.10(1), 3.10A, 3.10(2) and 3.21 of the Listing Rules and the code provision A.5.1 of the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for the Directors and the Supervisors to conduct securities transactions. Having made specific enquiry of all the Directors and Supervisors, each of the Directors and the Supervisors has confirmed that he has complied with the required standard as set out in the Model Code from the Listing Date to 31 December 2019.

# Corporate Governance Report (Continued)

## THE BOARD

### Board Composition

In compliance with code provision A.3.2 of the CG Code, an updated list of the Directors identifying their role and function are available on the websites of the Company ([www.rzportjurong.com](http://www.rzportjurong.com)) and HKEXnews ([www.hkexnews.hk](http://www.hkexnews.hk)). The Company will review the composition of the Board from time to time to ensure that the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Company's business and to enhance the Shareholders' value.

The Board currently comprises nine Directors in total, including one executive Director, five non-executive Directors and three independent non-executive Directors. The composition of the Board during the year and up to the date of this annual report is set out as follows:

#### *Executive Director*

Mr. He Zhaodi

#### *Non-executive Directors*

Mr. Zhang Baohua (*Chairman*)

Mr. Ng Chee Keong (*Deputy Chairman*)

Mr. Ooi Boon Hoe

Mr. Shi Ruxin

Mr. Jiang Zidan

#### *Independent Non-executive Directors*

Mr. Zhang Zixue

Mr. Lee Man Tai (appointed on 17 December 2019)

Mr. Wu Xibin

Mr. Lau Wai Leung Anders (resigned on 18 September 2019)

Pursuant to the Articles of Association, Directors shall be elected or replaced at shareholders' general meetings and serve a term of three years. Directors are eligible for re-election upon the expiration of their terms. If the Board appoints a new director to fill a temporary vacancy, the appointed director shall be subject to election by the Shareholders at the first shareholders' general meeting after his or her appointment.

Biography of each Director is set out in the section headed "Brief Biographies of Directors, Supervisors and Senior Management" in this annual report.

The Directors have no financial, business, family or other material/relevant relationships with each other.

## Board Meetings and General Meetings

According to the Articles of Association, Board meetings shall be held at least 4 times a year. At least 14 days' notice shall be given for a regular board meeting. At least 3 days' notice shall be given in the event of an extraordinary board meeting. Notice of the annual general meeting of the Company shall be served to all shareholders 20 days before the meeting is held, and notice of the extraordinary general meeting shall be served to all shareholders 15 days before the meeting is held. The company secretary of the Company assists the chairman of the Board in preparing the agenda for each meeting. The agenda and board papers shall be despatched at least 3 days before the date of the regular board meeting to enable the Directors to have full and timely access to relevant information. The Board decisions are voted upon at the board meetings. The company secretary of the Company records all matters considered and decisions reached by the Board and any concerns raised or dissenting views expressed by the Directors. Minutes of the meetings are kept by the company secretary.

A Board meeting shall be attended by more than half of the Directors. The Directors may attend the board meeting in person or authorise another director in writing to attend the board meeting on his or her behalf.

During the Reporting Period (including the period when the Company was not listed on the Stock Exchange), the Board held 11 board meetings and convened 5 shareholders' general meetings in total. The attendance record of the Directors of the above meetings is set out below:

Name of Directors	Attendance/Number of Meetings Held During Directors' Tenure		
	Board Meeting	Annual General Meeting	Extraordinary General Meeting
<i>Executive Director</i>			
Mr. He Zhaodi	11/11	1/1	4/4
<i>Non-executive Directors</i>			
Mr. Zhang Baohua	11/11	1/1	4/4
Mr. Ng Chee Keong	11/11	1/1	4/4
Mr. Ooi Boon Hoe	11/11	1/1	4/4
Mr. Shi Ruxin	11/11	1/1	4/4
Mr. Jiang Zidan	11/11	1/1	4/4
<i>Independent Non-executive Directors</i>			
Mr. Zhang Zixue	6/6	0/0	1/1
Mr. Lee Man Tai (Note 1)	1/1	0/0	0/0
Mr. Wu Xibin	6/6	0/0	1/1
Mr. Lau Wai Leung Anders (Note 2)	2/3	0/0	0/0

*Notes:*

- Mr. Lee Man Tai was appointed as an independent non-executive Director, the chairman of the Audit Committee and the member of the Nomination Committee on 17 December 2019.
- Mr. Lau Wai Leung Anders resigned as an independent non-executive Director, the chairman of the Audit Committee and the member of the Nomination Committee on 18 September 2019.

In addition to Board meetings, a meeting of the Chairman and the independent non-executive Directors without the presence of other Directors and the management was held in 2019.

### **Responsibilities of the Board and Management**

The Board shall act in the interests of all the Shareholders and shall be accountable to the general meeting. The Board shall mainly be responsible for: implementing the resolutions of the general meeting; determining the operation plan and investment program of the Company; formulating the annual financial budget plan and final accounting plan of the Company; formulating the profit distribution plan of the Company; determining the establishment of internal management bodies and formulating the basic management system of the Company, etc. The Company has established three committees under the Board to oversee specific matters of the Company, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated relevant duties to the respective committees, which are contained in the terms of reference of the relevant committees. Besides, the management of the Company will provide sufficient consultation to the Board and the Board committees when appropriate to facilitate the Directors in making informed decision.

### **Nomination, Appointment and Removal of Directors**

The Company has formulated a formal and transparent procedure for the appointment of new directors to the Board. Nomination and appointment of new directors is first considered by the Nomination Committee and the Remuneration Committee whose recommendations will then be put to the Board for consideration. All newly nominated directors are subject to the approval of the shareholders at the Company's general meetings. For details of the Company's policy for nomination of Directors, please refer to the paragraph headed "Board Committees – Nomination Committee – Policy for the nomination of directors" in this annual report. Removal of members of the Board and their remuneration and payment terms are also subject to the approval of the Shareholders at the Company's general meetings.

### **Independent Non-executive Directors**

Mr. Lau Wai Leung Anders resigned as an independent non-executive Director and ceased to serve as the chairman of the Audit Committee with effect from 18 September 2019. As a result, (a) the number of independent non-executive Directors will be reduced to two which was below the minimum number set out in Rules 3.10(1) and 3.10A of the Listing Rules; (b) the Board lacked at least one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules; and (c) the chairman of the Audit Committee fell vacant and the composition of the Audit Committee fell below the requirements under Rule 3.21 of the Listing Rules.

Following the appointment of Mr. Lee Man Tai as an independent non-executive Director at the extraordinary general meeting of the Company held on 17 December 2019, the Board (a) comprised of three independent non-executive Directors one of which possesses appropriate professional qualifications or accounting or related financial management expertise; and (b) appointed Mr. Lee Man Tai as the chairman of the Audit Committee, in compliance with the requirements under Rules 3.10(1), 3.10A, 3.10(2) and 3.21 of the Listing Rules.

The Company has received from each independent non-executive Director an annual confirmation of their independence in accordance with Rule 3.13 of the Listing Rules. Based on their confirmations, the Company considers that, as at the date of this annual report, the independent non-executive Directors are independent from the Company.

## Corporate Governance Report (Continued)

### Training and Professional Development of Directors

During the Reporting Period, all Directors have complied with code provision A.6.5 of the CG Code to participate in continuous professional development to develop and refresh their knowledge and skills by participating in seminars or trainings or reading materials on the following topics:

<b>Name of Directors</b>	<b>Training contents</b>
<i>Executive Director</i>	
Mr. He Zhaodi	(1) (2)
<i>Non-executive Directors</i>	
Mr. Zhang Baohua	(1) (2)
Mr. Ng Chee Keong	(1) (2)
Mr. Ooi Boon Hoe	(1) (2)
Mr. Shi Ruxin	(1) (2)
Mr. Jiang Zidan	(1) (2)
<i>Independent Non-executive Directors</i>	
Mr. Zhang Zixue	(1) (2)
Mr. Lee Man Tai (appointed on 17 December 2019)	(1) (2)
Mr. Wu Xibin	(1) (2)
Mr. Lau Wai Leung Anders (resigned on 18 September 2019)	(1) (2)
<i>Notes:</i>	
(1)	Corporate governance
(2)	Legal and compliance

### CHAIRMAN AND GENERAL MANAGER

The posts of chairman and general manager of the Company are separate and held by different persons to ensure their respective independence of responsibility and accountability and the balance of power and authority between them. The chairman (Mr. Zhang Baohua, a non-executive Director) plays a crucial role in setting the development strategy of the Company, and is responsible for ensuring that the Board is functioning properly and with well-formulated corporate governance practices and procedures, whilst the general manager (Mr. He Zhaodi, an executive Director) is responsible for the day-to-day management of the Company's operations, including organizing the implementation of strategies set by the Board, making day-to-day decisions and coordinating overall business operations.

## Corporate Governance Report (Continued)

### BOARD COMMITTEES

The Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee, all with specific terms of reference clearly defining the powers and responsibilities of the respective Board committees. All Board committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations.

During the Reporting Period (including the period when the Company was not listed on the Stock Exchange), the attendance record of Directors at the meeting of each Board Committee is as follows:

Name of Directors	Attendance/Number of Meetings Held During Directors' Tenure		
	Audit Committee	Remuneration Committee	Nomination Committee
<i>Executive Director</i>			
Mr. He Zhaodi	–	–	–
<i>Non-executive Directors</i>			
Mr. Zhang Baohua	–	–	2/2
Mr. Ng Chee Keong	–	–	2/2
Mr. Ooi Boon Hoe	–	–	–
Mr. Shi Ruxin	3/3	–	–
Mr. Jiang Zidan	–	2/2	–
<i>Independent Non-executive Directors</i>			
Mr. Zhang Zixue	3/3	2/2	2/2
Mr. Lee Man Tai (Note 1)	0/0	–	1/1
Mr. Wu Xibin	–	2/2	2/2
Mr. Lau Wai Leung Anders (Note 2)	1/1	–	0/1

*Notes:*

- Mr. Lee Man Tai was appointed as an independent non-executive Director, the chairman of the Audit Committee and the member of the Nomination Committee on 17 December 2019.
- Mr. Lau Wai Leung Anders resigned as an independent non-executive Director, the chairman of the Audit Committee and the member of the Nomination Committee on 18 September 2019.

### Audit Committee

The Audit Committee was established by the Company with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. Its main responsibilities are to review and supervise the financial report and internal audit system of the Company, oversee the audit process, engage, renew or remove external auditors, review and oversee the existing and potential risks of the Company and perform other duties and responsibilities as assigned by the Board.

On 18 September 2019, Mr. Lau Wai Leung Anders resigned as the chairman of the Audit Committee. On 17 December 2019, Mr. Lee Man Tai was appointed as the chairman of the Audit Committee. As at 31 December 2019, the Audit Committee consisted of three independent non-executive Directors, namely Mr. Lee Man Tai, Mr. Zhang Zixue and Mr. Shi Ruxin.

During the period from the Listing Date to 31 December 2019, the Audit Committee held 3 meetings and performed the following duties:

- (a) reviewed the Company's interim report and interim unaudited financial statements for the six months ended 30 June 2019;
- (b) reviewed the non-exempted continuing connected transactions of the Company;
- (c) considered the appointment of Grant Thornton Hong Kong Limited ("**Grant Thornton**") as auditor to fill the vacancy following the resignation of Deloitte Touche Tohmatsu ("**Deloitte**") during the Reporting Period and made recommendations to the Board; and
- (d) reviewed the risk management and internal control procedures of the Company.

The Audit Committee has, together with the management of the Company and the external auditors, reviewed the audited financial statements in this annual report. They have also discussed the key risks and the internal control and risk management issues, and reviewed the audit plan, internal control performance and the effectiveness of the internal control system.

### Remuneration Committee

The Remuneration Committee was established by the Company with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee has adopted the model described in code provision B.1.2(c)(ii) of the CG Code in its terms of reference that it shall make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. Its other main responsibilities are to make recommendations to the Board on the remuneration policy and structure for the Directors, the Supervisors and senior management, on the establishment of a formal and transparent procedure for the formation of a remuneration policy and on the remuneration of non-executive Directors.

As at 31 December 2019, the Remuneration Committee consisted of two independent non-executive Directors, namely Mr. Zhang Zixue and Mr. Wu Xibin and one non-executive Director, namely Mr. Jiang Zidan, and the chairman of the Remuneration Committee was Mr. Zhang Zixue.

## Corporate Governance Report (Continued)

During the period from the Listing Date to 31 December 2019, the Remuneration Committee held 2 meetings and performed the following duties:

- (a) reviewed the Company's remuneration policy; and
- (b) considered the remuneration package for the newly appointed independent non-executive Director and financial director and made recommendations to the Board.

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of members of the senior management by band are as follows:

<b>Remuneration band (RMB)</b>	<b>Number of persons</b>
0 – 500,000	6
500,001 – 1,000,000	–
1,000,001 – 1,500,000	–

Further details of the remunerations of Directors and the five highest paid employees are disclosed in Notes 11 and 12 to the financial statements of this annual report.

### Nomination Committee

The Nomination Committee was established by the Company with written terms of reference in compliance with the CG Code. Its main responsibilities are to review the structure, size and members of the Board, make recommendations to the Board on the appointment and removal of Directors, and review independence of independent non-executive Directors.

On 18 September 2019, Mr. Lau Wai Leung Anders resigned as a member of the Nomination Committee. On 17 December 2019, Mr. Lee Man Tai was appointed as a member of the Nomination Committee. As at 31 December 2019, the Nomination Committee consisted of three independent non-executive Directors, namely Mr. Lee Man Tai, Mr. Zhang Zixue and Mr. Wu Xibin and two non-executive Directors, namely Mr. Zhang Baohua and Mr. Ng Chee Keong, and the chairman of the Nomination Committee was Mr. Zhang Baohua.

During the period from the Listing Date to 31 December 2019, the Nomination Committee held 2 meetings and performed the following duties:

- (a) considered the suitability of the nominees of the independent non-executive Director and financial director and made recommendations to the Board.

## Corporate Governance Report (Continued)

### **Policy for the nomination of directors**

The directors shall be elected or replaced at the general meeting of shareholders and serve a term of three years. Directors are eligible for re-election upon expiration of their terms of office. The Chairman of the Board shall be elected and removed by more than half of all the members of the Board. The term of the Chairman is three years and may be re-elected. The term of independent non-executive directors is three years and subject to re-election with a term of not more than nine years, unless otherwise stipulated by relevant laws and regulations.

The first session of director candidates shall be nominated by the promoters; the next session of director candidates shall be nominated by the last Board and shareholders who individually or jointly hold more than 3% of the Company's shares. In terms of the specific procedures for nomination of the Board of last session, in order to control the number of the directors of the last session within the number specified in the Articles of Association, a list of proposed candidates for directors based on the number of proposed candidates for election shall be submitted to the Board for review. After the Board has reviewed and passed a resolution to determine the candidates for directors, it shall submit a written proposal to the general meeting. The nomination methods and procedures of independent non-executive directors shall be implemented in accordance with the relevant provisions of laws, administrative regulations and departmental rules.

In respect of any shareholder's submission to the Company of (i) a notice of his intention to recommend a director candidate and (ii) a notice to the Company by that the director candidate indicates his acceptance of nomination, the deadline for giving the said notice shall not be earlier than the latest date of issue of the notice of such election meeting nor expires 7 days prior to the date of the meeting; however, such notice shall be given within at least 7 days.

### **Board diversity policy**

The Company has adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of the Board in order to enhance the effectiveness of the Board. Pursuant to the board diversity policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

In identifying and selecting suitable candidates to serve as a director of the Company, the Nomination Committee would consider the above criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

While the Board recognizes that the gender diversity at the Board level can be improved given its current composition of all-male directors, the Board and the Nomination Committee will continue to apply the principle of appointments based on merits with reference to the board diversity policy as a whole.



## Corporate Governance Report (Continued)

### SUPERVISORY COMMITTEE

The Supervisory Committee is the supervisory authority of the Company and shall be accountable to the general meeting of the Shareholders. Supervisors shall act independently to protect the legal interests of the Shareholders and the Company in accordance with the relevant laws and regulations and the Articles of Association.

The authority and duties of the Supervisory Committee include but not limited (a) to review the financial statements, business report and profit distribution plan prepared by the Board and may retain certified accountant or certified auditor to review the financial information; (b) to supervise the financial activities of the Company; (c) to demand the rectification of acts of the Directors, Chairman and senior management which are against the interests of the Company; and (d) to exercise other power, authority and duties in accordance with the Articles of Association.

As at 31 December 2019, the Supervisory Committee consists of three members, namely Mr. Wang Wei, Mr. Li Weiqing and Mr. Tham Wai Kong, and the chairman of the Supervisory Committee was Mr. Wang Wei. Each Supervisor shall serve a term of three years and may be re-elected for successive terms.

Particulars of the Supervisors are set out in the section headed “Brief Biographies Details of Directors, Supervisors and Senior Management” of this annual report. The work of the Supervisory Committee is set out in the Supervisors’ Report in this annual report.

### CORPORATE GOVERNANCE FUNCTIONS

The corporate governance function of the Company is carried out by the Board with written terms of reference in compliance with code provision D.3.1 of the CG Code. The main responsibilities are to develop and review the policies and practices on corporate governance of the Company, review and monitor the Company’s policies and practices on compliance with legal and regulatory requirements, review and monitor the training and continuous professional development of Directors and senior management and review the Company’s compliance with the CG code and the disclosure in the Corporate Governance Report in this annual report.

During the period from the Listing Date to 31 December 2019, the Board performed the following duties:

- (a) reviewed the Company’s policies and practices on corporate governance;
- (b) reviewed the training and continuous professional development of the Directors; and
- (c) reviewed the Company’s compliance with the CG Code and the disclosure in the corporate governance report.

### EXTERNAL AUDITOR'S REMUNERATION

For the Reporting Period, the remuneration paid and payable to the external auditors of the Company in respect of audit and non-audit services were RMB484,000 and RMB2,002,000, respectively, which has been reviewed and approved by the Audit Committee. The non-audit services were in relation to the reporting accountants for the Company's listing and the Company's 2019 interim report.

The Audit Committee had considered the external auditor's independence and objectivity as required under the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accounts, reviewed the terms of their engagement, nature and scope of the audit and reporting obligations.

The Audit Committee is satisfied with the findings of their review of the engagement process.

### ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparation and publication of the timely financial statements and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. In preparing the accounts for the year ended 31 December 2019, the Directors have adopted suitable accounting policies which are pertinent to the Company's operations and relevant to the financial statements and have presented an understandable assessment of the Company's position and prospects.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, the accounts is prepared on a going concern basis and they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

A statement by the external auditor about their reporting responsibilities is set out on pages 62 to 66 of this annual report.

### JOINT COMPANY SECRETARIES

During the Reporting Period, Mr. Zheng Shiqiang, our joint company secretary, and Ms. Fok Po Yi, another joint company secretary from SWCS Corporate Services Group (Hong Kong) Limited, confirmed that they have complied with the requirements on a minimum of 15 hours dedicated for relevant professional training as set out in Rule 3.29 of the Listing Rules. The key contact person of Ms. Fok Po Yi in the Company is Mr. Zheng Shiqiang, one of the joint company secretaries of the Company.

### RISK MANAGEMENT AND INTERNAL CONTROL

One of the major functions and responsibilities of the Board is to maintain adequate risk management and internal control systems to safeguard shareholders' investments and the Company's assets. The risk management and internal control measures are designed to manage and mitigate rather than eliminate the risks inherent in the Company's business, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Company reviews the effectiveness of the risk management and internal control systems every year. The review covers all important aspects that need to be monitored, including finance, operation and compliance as well as risk management. The Company has defined the lines of authority and monitoring responsibilities for risk management and internal control of each business unit of the Company, and established a risk management department so as to ensure clear division of responsibilities and effective accountability. The Company has also set up internal procedures and management manuals to supervise the operations.



## Corporate Governance Report (Continued)

To establish effective risk management and internal control, the Company has adopted the following measures:

### Compliance Control

The Company has established a set of compliance management mechanism to promote compliance operation of the Company. The Company has also complied with the requirements under the Listing Rules, SFO and the Guidelines on Disclosure of Inside Information which regulates information disclosure.

The procedures and internal control measures of the Company for identifying, handling and publishing inside information are as follows:

- (1) the Company has formulated the Management Regulations Governing Information Disclosure (the “**Regulation**”) in accordance with the requirements under the Listing Rules, SFO and the Guidelines on Disclosure of Inside Information, and shall gradually establish the comprehensive process of reporting, identifying and disclosing inside information to ensure compliance of inside information disclosure;
- (2) the Supervisory Committee shall review the implementation of the Regulation from time to time and urge the Board to rectify any deviation from the Regulation, and require the Board to amend the Regulation as necessary and appropriate; and
- (3) when the disclosed information of the Company (including information published by the Company or the media) is found to be incorrect, omitted or misleading, the Company shall promptly publish a supplemental announcement or clarification announcement.

### Operation Control

The Company endeavors to establish a systematic and complete corporate operational monitoring mechanism to reduce corporate risks. The Company formulated a contract management system and a seal management system to strengthen contract risk control.

### Finance Control

The Company has established a series of financial management measures, including business outsourcing, fixed assets leasing, receivables, financing management and notes management, etc. to effectively prevent and reduce financial risks. The Company has introduced comprehensive budget management and promoted budget’s process control, which provide quantitative index of finance and operation for the Board and the management. The Audit Committee communicates with auditors regularly to review the regular reports, as well as supervise the financial operation of the Company. The Company also pays high attention to the job qualifications and professional integrity of accounting and financial personnel, and the Company takes full consideration of resources and budget of continuous trainings.

### Internal Audit Control

The Company establishes an internal audit department with corresponding supervision and audit responsibilities in order to assist the Audit Committee and the Supervisory Committee to review and supervise the factuality, legitimacy and efficiency for the Company's financial condition, construction projects and related economic activities.

The Board and the Audit Committee has conducted its regular and annual review of the effectiveness of the Company's risk management and internal control systems in respect of the Reporting Period to ensure effective measures are in place to protect material assets and identify business risks of the Company. Such review did not reveal any major issues and the Board considers the risk management and internal control systems effective and adequate.

### INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Company's business, performance and strategies. The secretary of the Board is responsible for the overall coordination and arrangement of the management work of investor relations and the investor relations personnel is responsible for the specific implementation. The Company is committed to setting up an efficient communication bridge between management and investors. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions. The Company has established several communication channels, including (a) the annual and extraordinary general meetings, road shows, as well as site visits, which provide a forum for the Shareholders to communicate directly with the Board; (b) printed corporate documents mailing to the Shareholders; (c) announcement disseminating the latest activities of the Company on the website of the Company and the Stock Exchange; and (d) the Company's website providing an electronic means of communication. Furthermore, the secretary of the regularly reports to the management on the reports investors' perception of the Company and relevant development, so that the management can understand the concerns of investors and the changes of relevant policies and requirements in time, thus improving its work on investor relations.

### SHAREHOLDERS' RIGHTS

#### Convening of extraordinary shareholders' general meeting

Pursuant to the Articles of Association, shareholders holding individually or collectively 10% or more of the Company's shares may request in writing for the convening of an extraordinary shareholders' general meeting and shall follow the following procedures:

- (a) Two or more shareholders individually or jointly holding 10% or more of the shares carrying voting rights at the meeting sought to be held may sign one or more written requests of identical form of content requesting the Board to convene an extraordinary shareholders' general meeting and stating the subject of the meeting.
- (b) The Board shall convene an extraordinary shareholders' general meeting as soon as possible after having received the aforesaid written request.
- (c) If the Board fails to issue a notice of convening such meeting within 30 days upon receipt of the above written request, the shareholders who made such request may request the Supervisory Committee to convene the extraordinary shareholders' general meeting.
- (d) If the Supervisory Committee fails to issue a notice of convening such meeting within 30 days upon receipt of the above written request, shareholders, for more than 90 consecutive days, individually or jointly holding 10% or more of the shares carrying voting rights at the meeting sought to be held may convene the meeting of their own accord within four months upon the Board having received such request. The convening procedures shall, to the greatest extent possible, be identical to procedures according to which the shareholders' general meetings are to be convened by the Board.



## Corporate Governance Report (Continued)

### **Procedures for proposal at the general meeting**

Pursuant to the Articles of Association, shareholders individually or jointly holding 3% or more of the total voting shares of the Company are entitled to propose new resolutions in writing to the Company and submit them to the convener 10 days before the meeting. The convener of the shareholders' general meeting shall issue a supplementary notice of the shareholders' general meeting to other shareholders within two days upon the receipt of such proposal.

### **Enquiry to the Board**

Shareholders and investors of the Company may send their enquiries and concerns to the Company by addressing them to the office of the Board. The contact details are as follows:

Office of the Board

Telephone: +86 0633 7381 569

Fax: +86 0633 7381 530

E-mail: rzgyl@rzportjurong.com

Address: South End, Haibin 5th Road, Rizhao City, Shandong Province, PRC

### **DIVIDEND POLICY**

The Board may declare dividends after considering (a) the operational results, financial position, cash requirements and availability and capital expenditure requirements of the Company; (b) the previous dividend payout ratio of the Company; (c) reference to other companies in the same industry listed on the Stock Exchange; and (d) other factors it may deem relevant at that time. Any declaration and payment and the amounts of dividends shall be in accordance with the Articles of Association and the relevant laws and regulations of the PRC.

### **CONSTITUTIONAL DOCUMENTS**

The amendments to the Articles of Association were considered and approved at the Company's extraordinary general meeting held in December 2019. The amended Articles of Association has taken effect upon the approval at the aforementioned meeting. For details of the amendments, please refer to the relevant announcement and circular of the Company dated 3 November 2019.

# Brief Biographies of Directors, Supervisors and Senior Management

## DIRECTORS

### Executive and Non-executive Directors

**Mr. Zhang Baohua (張保華)**, aged 50, was appointed as chairman of the Board and non-executive Director of the Company on 26 February 2018. He is mainly responsible for overseeing the management and strategic development of the Company. He served as general manager at the Company from August 2011 to November 2013.

From July 1994 to February 1995, Mr. Zhang served as assistant political engineer at political affairs division of Rizhao Port Authority Power Company (日照港務局動力公司). From February 1995 to December 2001, he served as assistant political engineer and then political engineer at commission for discipline inspection of Rizhao Port Authority (日照港務局). From December 2001 to June 2003, he served as deputy office manager at Rizhao Port Authority. He served at Rizhao Port Group as deputy office manager from June 2003 to August 2004 and office manager from August 2004 to August 2011. He also served as secretary of the board of Rizhao Port Group from June 2003 to December 2005 and from August 2008 to August 2011. He worked at the Second Harbor Branch of Rizhao Port as manager from November 2013 to December 2017. He also worked as a supervisor in Rizhao Port from November 2018 to January 2020. In addition, Mr. Zhang has been serving as deputy general manager and a member of the party committee at Rizhao Port Group from October 2017 to January 2020 and director of Rizhao Port COSCO Shipping Logistics Co., Ltd. (日照港中遠海運物流有限公司) from March 2018 to February 2020.

Mr. Zhang was recognized as senior political engineer (高級政工師) by the Senior Review Committee for Professional Positions of Ideological and Political Workers in the Enterprises and Public Institutions of Shandong Province (山東省企(事)業思想政治工作人員專業職務商級評審委員會) in December 2002.

Mr. Zhang graduated from Liaocheng Normal College (聊城師範學院) (currently known as Liaocheng University (聊城大學)) with a bachelor's degree in ideological and political science in July 1991. He obtained his master's degree in history of the Communist Party of China from Tianjin Normal University (天津師範大學) in July 1994.

**Mr. Ng Chee Keong (吳子強)**, aged 71, was appointed as deputy chairman of the Board and non-executive Director on 1 October 2016. He is mainly responsible for overseeing the management and strategic development of the Company.

Mr. Ng worked at PSA Singapore from July 1971 to January 2005 and held various positions, including but not limited to administrative officer, director, president and chief executive officer. He has been the chairman of the board at Jurong Port since 1 October 2016. In addition, he has been the director at Mecast Holdings Ltd since October 2009, Jurong Port Jakarta Holding Pte Ltd since June 2013, Jurong Port Marunda Holding Pte Ltd since June 2013, Samudera Shipping Line Ltd since July 2014, Jurong Port Hainan Holding Pte Ltd since October 2016 and JTC Corporation since April 2017.

Mr. Ng obtained his bachelor's degree in social science from National University of Singapore in June 1971. He participated in the Stanford-NUS executive program in 1984 and the advanced management program at Institute Europe'en d' Administration des Affaires in 1993.

## Brief Biographies of Directors, Supervisors and Senior Management (Continued)

**Mr. He Zhaodi (賀照第)**, aged 50, was appointed as an executive Director on 26 February 2018 and has been serving as general manager of the Company since 25 December 2017. He is primarily responsible for overseeing strategic development, overall operation and management of the Company.

Prior to joining the Company, Mr. He worked at Rizhao Port Authority Railway Transportation Company (日照港務局鐵路運輸公司) from October 1997 to December 2003 and held positions including deputy chief of safety and technology department, chief of safety and technology department, chief of technology department and deputy manager. He worked at Railway Transportation Branch of Rizhao Port Group (日照港集團鐵路運輸公司) as deputy manager from December 2003 to November 2013 and secretary of the party committee from November 2013 to January 2017. He served as chief dispatcher of production and operation department at Rizhao Port from January 2017 to December 2017.

Mr. He was recognized as senior engineer on 15 December 2003 by Human Resources and Social Security Department of Shandong Province (山東省人力資源和社會保障廳).

Mr. He obtained his bachelor's degree in electrical technology from Shandong Industry University (山東工業大學) in July 1991. He received a master's degree in transport engineering from Wuhan University of Technology (武漢理工大學) in June 2006.

**Mr. Ooi Boon Hoe (黃文豪)**, aged 53, was appointed as a non-executive Director of the Company on 24 July 2015. He is mainly responsible for participating in formulating the Company's corporate and business strategies.

From May 1987 to August 2000, Mr. Ooi served as a naval officer of Singapore Navy. He served as director of operations at Portek Systems & Equipment Pte Ltd from July 2002 to March 2005 and as executive director at Portek International from March 2005 to August 2014.

Mr. Ooi has been the director and chief executive officer of Jurong Port since August 2014. In addition, he has been the director at various companies, including YMCA of Singapore since May 2013, Jurong Port Hainan Holding Pte Ltd since November 2014, Jurong Port Jakarta Holding Pte Ltd since November 2014, Jurong Port Marunda Pte Ltd since November 2014, SDIC Jurong Yangpu Port Co. Ltd. since July 2015 and Jurong Port Tank Terminals Pte Ltd since April 2017.

Mr. Ooi graduated from Britannia Royal Naval College with a certificate in naval general training and Science, mathematics and engineering science in July 1987. He obtained his bachelor's degree in science (economics) from University of London in August 1990. He graduated from Collège Interarmées de Défense in June 1997.

**Mr. Shi Ruxin (石汝欣)**, aged 56, was appointed as a non-executive Director of the Company on 11 March 2012. He is primarily responsible for participating in formulating the Company's corporate and business strategies.

## Brief Biographies of Directors, Supervisors and Senior Management (Continued)

From March 1989 to October 1990, Mr. Shi served as assistant director at the business office of the internal bank department at Shijiu Port Authority (石臼港務局). From October 1990 to July 1993, he served as director of the internal bank department at Rizhao Port Authority. From July 1993 to May 1996, he served as director of finance department at Rizhao Port Property Development Corporation (日港物產開發總公司). From May 1996 to December 2001, he served as chief of finance department and planning and finance department at the Second Loading and Unloading Company of Rizhao Port (日照港第二裝卸公司). From December 2001 to August 2002, he worked as deputy office manager at the preparatory committee of Rizhao Luqiao Port Industry Co., Ltd (日照陸橋港業股份有限公司). From August 2002 to April 2003, he worked as deputy manager of the finance department at Rizhao Luqiao Port Industry Co., Ltd. From June 2003 to August 2011, he worked as deputy director of the financial budget department at Rizhao Port Group. From August 2011 to December 2016, he worked as financial director at Rizhao Port. He also worked as director of asset and finance department at Rizhao Port Group from December 2016 to February 2019.

Mr. Shi has been serving as chairman of the board at Rizhao Port Group (Shanghai) Financial Leasing Co., Ltd. (日照港集團上海融資租賃有限公司) since October 2018. He has been director at various companies, including Zaolin Railway Co., Ltd. (棗臨鐵路有限責任公司) since June 2012, RPG Finance since May 2016, Rizhao City Finance Guarantee Co., Ltd. since April 2017, Rizhao Port Container since September 2017, and Rizhao Port Group Shanghai Commercial Factoring Co., Ltd. since October 2018. In addition, he has been the supervisor at Rizhao Lanshan Wanhe Liquefaction Dock Co., Ltd. since March 2007, Hualu International Financial Leasing Co., Ltd. since January 2017, Rizhao Shihua Crude Oil Terminal Co., Ltd. since January 2017, Rizhao Port (Hong Kong) Company Limited since January 2017, Jincheng Blue Flame Coal Industry Co., Ltd. since January 2017, and Shandong Hyundai Wia Automotive Engine Co. since June 2017.

Mr. Shi was recognized as senior accountant by Human Resources and Social Security Department of Shandong Province in February 2006.

Mr. Shi graduated from Shanghai Harbor School (上海港灣學校) with a certificate in water transportation financial accounting in August 1983.

**Jiang Zidan (姜子旦)**, aged 56, was appointed as a non-executive Director of the Company on 7 January 2014. He is primarily responsible for participating in formulating the Company's corporate and business strategies.

From June 1989 to April 1991, Mr. Jiang served as deputy director at repair center of communication station at Shijiu Port Authority. He worked at Rizhao Port Authority Communications Company (日照港務局通信公司) as chief of business department from April 1991 to April 1995 and deputy manager from April 1995 to June 1996. He worked at communication information center of Rizhao Port Authority as deputy director from June 1996 to May 2001 and director from May 2001 to June 2003. From June 2003 to August 2011, he served as manager at Communication Branch of Rizhao Port (日照港股份通信信息公司, previously known as Communication Branch of Rizhao Luqiao Port Industry Co., Ltd (日照陸橋港業股份有限公司通信信息公司)). From August 2011 to December 2013, he served as deputy general manager at the Third Harbor Branch of Rizhao Port. From December 2013 to June 2018, he served as director of operations management department at Rizhao Port Group.

Mr. Jiang has been serving as director at Rizhao Ocean Shipping Tally Co., Ltd since January 2014, Rizhao Port Container since February 2015, Rizhao Lanshan Wanhe Liquefaction Dock Co., Ltd. since May 2016, RPG Finance since May 2016 and Rizhao City Finance Guarantee Co., Ltd. since April 2017. He has been the supervisor at Rizhao Port Group since October 2017.

## Brief Biographies of Directors, Supervisors and Senior Management (Continued)

Mr. Jiang was recognized as senior engineer by Human Resources and Social Security Department of Shandong Province in December 1996.

Mr. Jiang graduated from Dalian Maritime Transport College (大連海運學院) (currently known as Dalian Maritime University (大連海事大學)) with a bachelor's degree in radio technology in July 1983.

### Independent Non-executive Directors

**Mr. Zhang Zixue (張子學)**, aged 51, was appointed as an independent non-executive Director of the Company on 20 December 2018. Mr. Zhang is primarily responsible for supervising and providing independent judgment to the Board.

From May 1997 to September 2016, Mr. Zhang worked at the China Securities Regulatory Commission and held positions of director of supervision department of listed companies, full-time member of administrative penalty committee and deputy chief of the administrative punishment committee. He has been serving as a professor at Civil, Commercial and Economic Law School of China University of Political Science and Law (中國政法大學民商經濟法學院) since July 2016. He has been the independent non-executive director of Shenzhen Prince New Materials Co., Ltd. (深圳王子新材料股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002735) since December 2018, Bank Of Communications Schroder Fund Management Co., Ltd. (交銀施羅德基金管理有限公司) since October 2018 and Guizhou Baishan Cloud Technology Co., Ltd. (貴州白山雲科技股份有限公司) since September 2018.

Mr. Zhang obtained a bachelor's degree in law in July 1989 and a master's degree in litigation law in January 1993 from Renmin University of China (中國人民大學). He also received a master of law degree from Temple University in the U.S. in May 2002. He received his doctorate degree in corporate law and securities law from China University of Political Science and Law (中國政法大學) in June 2008. Mr. Zhang was granted the legal professional qualification certificate by the Ministry of Justice of People's Republic of China in June 1991.

**Mr. Lee Man Tai (李文泰)**, aged 43, was appointed as an independent non-executive Director of the Company on 17 December 2019. Mr. Lee is primarily responsible for supervising and providing independent judgment to the Board.

Mr. Lee has approximately 20 years of working experience in financial industry. From October 2006 to October 2012, he acted as the chief financial officer and company secretary of China Yuanbang Property Holdings Limited (中國元邦房地產控股有限公司), a company listed on Mainboard of the Singapore Exchange Limited (stock code: CYBP.SP or BCD.SI). From October 2012 to May 2014, he acted as the chief financial officer and company secretary of China 33 Media Group Limited (中國三三傳媒集團有限公司), a company listed on GEM of the Stock Exchange (stock code: 8087). He acted as the chief financial officer and company secretary of Flying Financial Service Holdings Limited (匯聯金融服務控股有限公司), a company listed on GEM of the Stock Exchange (stock code: 8030) from July 2014 to April 2015 and from August 2014 to April 2015, respectively. He also acted as the financial controller and company secretary of Chanco International Group Limited (卓高國際集團有限公司) (now known as China International Development Corporation Limited (中聯發展控股集團有限公司)), a company listed on Main Board of the Stock Exchange (stock code: 264) from April 2015 to January 2016 and from April 2015 to September 2015, respectively. Since January 2016, Mr. Lee has been an independent non-executive director of China Energy Development Holdings Limited (中國能源開發控股有限公司), a company listed on Main Board of the Stock Exchange (stock code: 228). Since November 2016, he has been an independent non-executive director of Progressive Path Group Holdings Limited (進昇集團控股有限公司), a company listed on Main Board of the Stock Exchange (stock code: 1581).

## Brief Biographies of Directors, Supervisors and Senior Management (Continued)

Mr. Lee graduated from Lingnan University, Hong Kong in 2000 with a bachelor's degree in business administration and The Hong Kong Polytechnic University in 2010 with a master's degree in business administration. He was admitted as a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants in 2012. He obtained the qualification as a licensed representative for advising on dealing in securities (type 1) and advising on corporate finance (type 6) promulgated by the Securities and Futures Commission in 2017.

**Mr. Wu Xibin (吳西彬)**, aged 50, was appointed as an independent non-executive Director of the Company on 10 January 2019. Mr. Wu is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Wu served as securities lawyer at Henan Jinyan Law Firm (河南金研律師事務所) from August 1993 to October 2001 and Beijing Liwen Law Firm (北京李文律師事務所) from October 2001 to August 2006. From May 2006 to February 2013, he served as partner at Beijing Honor Base Law Firm (北京市衡基律師事務所). He has been the senior partner of Beijing Great Wall Law Firm (北京華城律師事務所) since June 2013.

Mr. Wu has been serving as the chairman of the board of China Investment Merger and Acquisition Consulting (Beijing) Co., Ltd (中投併購管理諮詢(北京)有限公司) since July 2016. In addition, he has been the director at Shengruisi (Beijing) Sports Culture Development Co., Ltd. (勝瑞斯(北京)體育文化發展有限公司, previously known as Beijing Super Creative Culture Communication Co., Ltd. (北京超創意文化傳播有限公司)) since January 2016. He has been non-executive director at NAURA Technology Group Co., Ltd. (北方華創科技集團股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002371) since October 2016. He has been serving as supervisor at Shiqing Chao Sports Development (Beijing) Co., Ltd. (世青超體育發展(北京)有限公司) since May 2017, Beijing Sunrise Ansheng Capital Management Co., Ltd.(北京日出安盛資本管理有限公司) since June 2017, Xi'an Sunrise Weixue Enterprise Management Consulting Co., Ltd. (西安日出為學企業管理諮詢有限公司) since October 2017, and Beijing Sunrise Investment Management Co., Ltd. (北京日出投資管理有限公司) since January 2018.

Mr. Wu obtained his bachelor's degree in law at Zhongnan College of Political Science and Law (中南政法學院, later merged into Zhongnan University of Economics and Law (中南財經政法大學)) in July 1992. He received his master's degree in business administration at China Europe International Business School (中歐國際工商學院) in September 2012. Mr. Wu was granted the securities law business qualification certificate by the Ministry of Justice of People's Republic of China in October 1996.

### SUPERVISORS

**Wang Wei (王偉)**, aged 35, was appointed as chairman of the Board of Supervisors and the employee Supervisor of the Company on 10 December 2018 and on 9 December 2018, respectively. Mr. Wang is mainly responsible for supervising the performance of duties by Directors and senior management. He worked at the Company as legal and contract manager from May 2011 to November 2015 and deputy office manager from November 2015 to January 2017. He has been deputy director of marketing center at the Company since January 2017, and has been the director of marketing center at the Company since March 2019.

Mr. Wang worked at Collection and Distribution Branch of Rizhao Port Logistics Co., Ltd. (日照港物流公司集發分公司) as tally clerk from May 2008 to June 2009 and station manager from June 2009 to August 2010. He served sales specialist at Bonded Logistics Center (保稅物流中心) of Rizhao Port Logistics Company from August 2010 to May 2011.

Mr. Wang obtained his bachelor's degree in law from the Second Northwest University for Nationalities (西北第二民族學院) (currently known as North Minzu University (北方民族大學)) in July 2007.

## Brief Biographies of Directors, Supervisors and Senior Management (Continued)

**Mr. Li Weiqing (李維慶)**, aged 53, was appointed as a Supervisor of the Company on 26 February 2018. Mr. Li is primarily responsible for supervising the performance of duties by Directors and senior management.

Mr. Li worked at Lanshan Port Authority (嵐山港務局) and held positions of deputy chief of the accounting division from June 1989 to January 1993, chief of the accounting division from January 1993 to September 1997, chief accountant from September 1997 to July 2002, and deputy director from July 2002 to May 2003. He served as deputy manager at Rizhao Port Group Lanshan Port Company Limited (日照港集團嵐山港務有限公司) from May 2003 to September 2015 and from December 2016 to November 2017. He worked at Rizhao Port Group Lanshan Port Company Limited as deputy secretary of the party committee from September 2015 to December 2016. He has been the deputy director of audit department at Rizhao Port since December 2017. He has been the director of audit department at Rizhao Port since March 2019.

Mr. Li has been director at Rizhao Jinqiao Investment Co., Ltd. (日照金橋投資有限公司) since July 2003, Rizhao Laoshan Wanhe Liquefaction Dock Co., Ltd. since March 2007, Rizhao Lanshan Wansheng Harbour Company Limited since February 2011, and Rizhao Starlight Asphalt Co., Ltd. (日照星光瀝青有限公司) since February 2017. He has been supervisor at Rizhao Port COSCO Shipping Logistics Co., Ltd. since April 2018 and Rizhao Kaidi Ecological Energy Co., Ltd. since June 2018.

Mr. Li was recognized as senior accountant by Accounting Qualification Senior Review Committee of Shandong Province in December 2003.

Mr. Li graduated from Shandong Economics College (山東經濟學院) (later merged into Shandong University of Finance and Economics (山東財經大學)) in statistics and accounting in June 1985.

**Mr. Tham Wai Kong (譚偉光)**, aged 46, was appointed as a Supervisor of the Company on 14 May 2014. Mr. Tham is primarily responsible for supervising the performance of duties by Directors and senior management.

Mr. Tham served as senior lawyer at Allen & Gledhill LLP from 1999 to 2003. He served as Asian legal adviser at Tyco International Inc, Asia from 2003 to 2007 and Asian legal adviser at United Technologies Corporation from 2007 to 2012. He has been vice president of legal and company secretariat at Jurong Port Pte Ltd since February 2013.

Mr. Tham graduated from King's College London with a bachelor's degree of Laws (Honors) in 1997. Mr. Tham was admitted to the Singapore Bar in 1999.

### SENIOR MANAGEMENT

**Mr. He Zhaodi (賀照第)** is the general manager and also the executive Director of the Company. For Mr. He's biographical details, please refer to the paragraph headed "Directors - Executive and Non-executive Directors" above.

## Brief Biographies of Directors, Supervisors and Senior Management (Continued)

**Mr. Liu Naifeng (劉乃峰)**, aged 49, was appointed as deputy general manager of the Company on 13 December 2017. He is mainly responsible for asset, equipment and construction management. He served as manager of the equipment engineering department and then director of the technology department at the Company from May 2011 to December 2017.

Mr. Liu worked at the Third Harbor Company of Rizhao Port Authority (日照港務局第三港務公司) as deputy captain of mechanical team from February 2002 to April 2003. He worked as captain of mechanical team at Rizhao Port Container from April 2003 to December 2006. He successively served as captain of second equipment team, captain of third equipment team and captain of bulk grain team at the Third Harbor Branch of Rizhao Port Group from December 2006 to April 2011.

Mr. Liu was recognized as senior engineer by Human Resources and Social Security Department of Shandong Province in December 2003.

Mr. Liu received his bachelor's degree in welding technology and welders from Shandong Industry University (山東工業大學) (later merged into Shandong University) in July 1993.

**Mr. Qin Yuning (秦玉寧)**, aged 47, was appointed as deputy general manager of the Company on 30 April 2019. He is mainly responsible for safety and environmental protection, production and organization, coordination for port and collection and distribution.

Mr. Qin has a bachelor's degree in economic management (correspondence) from Qingdao University and is now an economist. From July 1996 to November 2004, he was the chief of tally station of Rizhao Port Ocean Shipping Tally Company (日照港外理公司理貨站). He worked at the Third Harbor Company of Rizhao Port Group (日照港集團第三港務分公司) from November 2004 to March 2012, and successively served as captain of freight planning of the production business division and deputy director of production business division, and deputy captain of warehouse team. From March 2012 to March 2019, he served as deputy captain, captain of third equipment team and director of production division of the Third Company of Rizhao Port (日照港股份三公司). From March 2019 to April 2019, he served as deputy manager and director of production dispatching center of the Third Harbor Company of Rizhao Port Co., Ltd.

## Brief Biographies of Directors, Supervisors and Senior Management (Continued)

**Ms. Feng Hui (馮慧)**, aged 46, was appointed as financial director of the Company on 31 December 2019. She is mainly responsible for financial and investment management.

Ms. Feng has over 24 years of experience in accounting and finance. She joined Rizhao Port Lunbo Co.\* (日照港輪駁公司) from September 1995 to January 1997, where she was responsible for accounting in the finance department. She joined Rizhao Port Group and Rizhao Port from February 1997 to September 2007 and October 2007 to March 2011, respectively, where she was responsible for accounting in the financial budget department. She was the vice manager of the finance department of the Company from April 2011 to March 2017 and the manager of the finance department of Rizhao Shihua Crude Oil Terminal Company Ltd. (日照實華原油碼頭有限公司) from March 2017 to December 2017. She joined Rizhao Port Group Lanshan Port Company Limited (日照港集團嵐山港務有限公司) as the director of the asset and finance office from December 2017 to October 2019. From October 2019 to December 2019, she was the deputy director of the asset and finance department of Rizhao Port Group.

Ms. Feng graduated from Shandong Economics University (山東經濟學院) (currently known as Shandong University of Finance and Economics (山東財經大學)) in the PRC with a college degree in marketing in July 1995 and a bachelor's degree accounting in April 2004 respectively.

Ms. Feng was accredited as a senior accountant by Shandong Senior Evaluation Committee of Qualification in Account (山東省會計專業資格高級評審委員會) in January 2007 and a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會) and Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) in October 2015.

**Mr. Zheng Shiqiang (鄭世強)**, aged 49, is the secretary of the Board. He is mainly responsible for the Board related matters, information disclosure and liaison with the securities regulatory authority. He worked at the Company as marketing manager from May 2011 to March 2013. He has been director of general office of the Company from May 2013 to March 2019. He served as the maintenance team leader of the Company from March 2019 to July 2019, and has served as the director of the securities office of the Company since August 2019.

Prior to joining our Company, Mr. Zheng worked as accountant at Rizhao Port Authority Railway Transportation Company from September 1992 to February 1993 and at planning and finance division of Rizhao Port Authority from February 1993 to March 1998. He served as financial manager at Port Service Center of Rizhao Port Industry Corporation (日照港口實業總公司港口服務中心) from March 1998 to June 1999. He served as the chief of production preparation group and executive finance team of Rizhao Port Wood and Chip Terminal (日照港木片碼頭) from June 1999 to March 2001. He worked at the Third Harbor Company of Rizhao Port Authority as deputy office manager from January 2001 to June 2001 and office manager from June 2001 to April 2003. He worked at Rizhao Port Container as officer manager from April 2003 to December 2006. He served as office manager at the Third Harbor Branch of Rizhao Port Group from December 2006 to April 2011.

Mr. Zheng was recognized as accountant in 1998 and senior economist by Human Resources and Social Security Department of Shandong Province in 2006.

Mr. Zheng obtained his bachelor's degree in finance and accounting from China University of Mining and Technology (中國礦業大學) in July 1992. After graduation, he participated in a Postgraduate training course of Shandong University on industrial economics.

The Company is pleased to present the annual report and the audited financial statements of the Company for the year ended 31 December 2019.

## PRINCIPAL BUSINESS

As at the date of this annual report, the Company is principally engaged in comprehensive port-related services, including stevedoring, berth leasing, port management, storage, and logistics agency services. The primary cargo types we handled are soybeans, woodchips, dried tapioca, and other small-volume cargo types including maize and wheat. There was no significant change in the nature of the Company's major business during the Reporting Period.

Details of the Company operating results for the Reporting Period by business segments are set out in Note 6 to the financial statements of this annual report.

## RESULTS

The results of the Company for the Reporting Period are set out in the statement of profit or loss and other comprehensive income on page 67 of this annual report.

## FINANCIAL HIGHLIGHTS

Financial highlights in respect of the Company's results, assets and liabilities for the years of 2018 and 2019 are set out on page 8 of this annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company during the Reporting Period are set out in Note 17 to the financial statements.

## FINAL DIVIDEND, WITHHOLDING OF INCOME TAX AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to recommend the payment of a final dividend of RMB0.024 per share (tax inclusive) for the year ended 31 December 2019 to all shareholders whose names appear on the register of members of the Company on 27 May 2020, subject to the consideration and approval of the same by the Shareholders at the AGM. The final dividend is expected to be paid on or before 31 August 2020.

For a non-resident enterprise shareholder of the H Shares (i.e., any shareholder holding the H Shares in the name of a non-individual shareholder, including but not limited to any holders of the H Shares registered in the name of HKSCC Nominees Limited, or any other nominee or trustee, or any other organization or group), the Company shall withhold the corporate income tax for the final dividend at the tax rate of 10% on their behalf in accordance with the Corporate Income Tax Law of the PRC and other relevant tax laws, regulations and tax treaties.

## Directors' Report (Continued)

Pursuant to the requirements of Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Cai Shui Zi [1994] No. 020) 《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994]020號), the foreign individual shareholders who hold the H Shares of the Company are exempted from individual income tax on dividends and bonus received from the Company (as foreign-invested enterprises in the PRC). If otherwise stipulated by other relevant tax laws, regulations and tax treaties, the Company will withhold and pay the individual income tax for the dividends and bonus at the rate and with the procedures in accordance with relevant provisions.

In order to determine the holders of the H Shares who will be entitled to the proposed final dividends of the H Shares, the register of members of the Company will be closed from Friday, 22 May 2020 to Wednesday, 27 May 2020 (both days inclusive), during which period no transfer of H Shares will be registered. The holders of the H Shares whose names appear on the register of members of the Company on Wednesday, 27 May 2020 are entitled to the proposed final dividend. In order for the holders of the H Shares to qualify for receiving the proposed final dividend, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any case no later than 4:30 p.m. on Thursday, 21 May 2020.

### ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Monday, 18 May 2020 and the notice convening such meeting will be published and dispatched to the Shareholders in the manner as required by the Listing Rules in due course.

In order to determine the holders of H Shares who will be entitled to attend the AGM, the register of members of the Company will be closed from Friday, 17 April 2020 to Monday, 18 May 2020 (both days inclusive), during which period no transfer of H Shares will be registered. In order for the holders of H Shares to qualify for attending the AGM, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any case no later than 4:30 p.m. on Thursday, 16 April 2020.

### BUSINESS REVIEW

A review of the Company's business, a discussion and analysis of the Company's performance during the year, the material underlying factors of its results and financial position, certain important events occurred since the end of the Reporting Period and the future development of the Company's business have been set out in the section headed "Management Discussion and Analysis" of this annual report.

### Risks and Uncertainties

The Company's business, financial position, operation results and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Company's businesses. The risk factors set out below are not exhaustive or comprehensive, and there may be other risks which are not known to the Company or which may not be material now but would become material in the future.

### (a) Risks of economic volatility

The Company's operation results may be affected by macroeconomic factors such as the economic growth rate and level of trade development which may impact cargo throughput at the ports in the PRC.

### (b) Risks relating to changes in the PRC policies

The future development of the Company's business will become uncertain due to the change in regulatory requirements, governmental policies, development plans and relevant laws and regulations in the PRC.

### (c) Foreign exchange risk

Details of the Company's foreign exchange risk management are set out in the section headed "Management Discussion and Analysis" of this annual report.

## Environmental Policies and Performance

The Company will publish a separate 2019 Environmental, Social and Governance Report in accordance with the requirements of Appendix 27 of the Listing Rules within three months after the publication of this annual report, and the summary of which is as follows.

The Company has strictly complied with applicable environmental laws and regulations, including Law of Environmental Protection of the PRC, Law of Marine Protection of the PRC, Law of the PRC on the Prevention and Control of Air Pollution, Law of the PRC on the Prevention and Control of Water Pollution, Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, Law of the PRC on Conserving Energy and Law of the PRC on the Promotion of Cleaner Production, etc. The Company strives to combine its effort in port development and resource utilization and environmental protection. We will continue to pursue sustainable development with less energy consumption, less environmental pollution, optimal growth and strong economies of scale so as to construct a green port.

The Company has formulated the "Environmental Protection Management Measures", which stipulates detailed provisions on environmental supervision and management, environmental protection management of construction projects, pollution prevention and control management, environmental contingency management, environmental monitoring management, environmental research and education, and corresponding reward and punishment measures to strengthen the port environmental protection management and prevent and control port environmental pollution.

The Company strives to improve the efficiency of resources utilization in all aspects of production and operation, and achieves the goal of resources conservation through continuous improvement and innovation of technical means and management model. The Company establishes a pollutant emission control system, actively carries out specific rectification work, reduces the impact of emissions on the environment, and ensures the compliance of the treatment of emissions.

The Company actively carries out greening work and optimizes the overall environment of the port area. In 2019, an additional 3,400 square meters of green space has been added to the port area, and more than 450 seedlings and more than 500 square meters of scindapsus will be transplanted in the port area.

For more details on the environmental matters of the Company, please refer to the "2019 Environmental, Social and Governance Report of Rizhao Port Jurong Co., Ltd." to be published by the Company separately, which will be available on the Company's website.

## Directors' Report (Continued)

### Compliance with the Relevant Laws and Regulations

To the best knowledge and information of the Company, the Company has complied with the relevant laws, regulations and other applicable requirements that have a significant impact on the Company during the Reporting Period.

### Key Relationship with Employees, Customers and Suppliers

#### (a) Employees

As at 31 December 2019, the Company had a total of 309 employees. Details of our employees and remuneration policies are set out in the section headed "Management Discussion and Analysis" of this annual report.

#### (b) Customers

The Company is committed to creating values for our customers by providing quality services to meet their needs and upholding service integrity. Through evaluation and analysis of industry background, scale of operation and credibility of the customers, we have established long-term relationships with our customers by making efforts to offer our customers personalised and refined services.

#### (c) Suppliers

The Company conducts supplier assessment on a regular basis to evaluate and analyse their operation qualification, product quality, business integrity, industry background and historical performance for the purpose of ensuring our normal operation, quality of performance while minimising costs. We have established a long-term and trusted cooperation relationship with our suppliers.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, revenue generated from the Company's five largest customers accounted for 50.58% of the Company's total revenue and our single largest customer accounted for 11.79% of the Company's total revenue.

During the Reporting Period, all of the Company's five largest suppliers are the controlling shareholders of the Company and their subsidiaries and the procurement therefrom accounted for 43.04% of the Company's total purchases. For the same period, procurement from our single largest supplier accounted for 17.64% of the Company's total purchases.

During the Reporting Period, save as disclosed above, to the best knowledge of the Directors, none of the Directors, their close associates or Shareholders which, to the best knowledge of the Directors, hold more than 5% of the Company's issued share capital, had any interest in the Company's five largest customers or suppliers.

## USE OF NET PROCEEDS FROM LISTING

The Company was listed on the Stock Exchange on 19 June 2019 by way of a global offering, under which a total of 460,000,000 H Shares (including H Shares issued upon full exercise of the over-allotment option) were issued at an offer price HK\$1.50 per share, raising total net proceeds of RMB546.414 million after deducting professional fees, underwriting commissions and other related listing expenses (the "IPO Proceeds").

## Directors' Report (Continued)

As stated in the Prospectus, the Company had plans to use the IPO Proceeds. As at 31 December 2019, the Company had used approximately RMB364.258 million for the acquisition of the West-6 berth; approximately RMB7.615 million for the procurement of equipment and machinery for the West-6 berth; and approximately RMB54.641 million for working capital and general corporate purposes.

	<b>Utilized amount as at 31 December 2019 RMB'000,000</b>	<b>Unutilized amount as at 31 December 2019 RMB'000,000</b>	<b>Expected timeline for utilizing the remaining IPO Proceeds <sup>(Note)</sup></b>
Acquisition of the West-6 berth	<b>364.258</b>	<b>18.232</b>	Expected to be fully utilized on or before 31 December 2020
Procurement of equipment and machinery	<b>7.615</b>	<b>101.667</b>	Expected to be fully utilized on or before 31 December 2020
Working capital and general corporate use	<b>54.641</b>	<b>–</b>	
<b>Total</b>	<b>426.514</b>	<b>119.9</b>	

*Note:* The expected timeline for utilizing the remaining proceeds is based on the best estimation of the Company. It will be subject to change based on the current and future development of the Company.

The Company does not have any intention to change the purposes of the IPO Proceeds as set out in the Prospectus, and will gradually utilize the residual amount of the IPO Proceeds in accordance with the intended purposes.

### NON-COMPETITION UNDERTAKINGS

On 16 November 2018 and 24 May 2019, Rizhao Port and Rizhao Port Group provided non-competition undertakings (the “**Non-competition Undertakings**”) to the Company, respectively. Details of the Non-competition Undertakings are set out in the section “Relationship with Controlling Shareholders – Non-competition Undertakings” of the Prospectus.

The independent non-executive Directors have reviewed the compliance of the relevant undertakings for the year ended 31 December 2019 and have confirmed that, to the best of their knowledge, Rizhao Port and Rizhao Port Group had not been in breach of the Non-competition Undertakings during the year ended 31 December 2019.

### RESERVES

Details of movements in reserves of the Company during the Reporting Period are set out in the statement of changes in equity on pages 72 to 73 of this annual report.

### DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company’s reserves available for distribution were RMB154.98 million, which was calculated in accordance with the generally accepted accounting principles of the PRC.

## Directors' Report (Continued)

### DONATIONS

During the Reporting Period, the charitable and other donations made by the Company amounted to RMB975,000.

### SHARE CAPITAL

The share capital structure of the Company as at 31 December 2019 is set out as follows:

<b>Class of shares</b>	<b>Number of shares</b>	<b>Proportion (%)</b>
Domestic Shares	840,000,000	50.60
H Shares	820,000,000	49.40
Total	1,660,000,000	100.00

Details of the movements in the share capital of the Company during the Reporting Period are set out in Note 32 to the financial statements.

### DEBENTURES

During the Reporting Period, the Company did not issue any debentures.

### PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, there are no provisions for pre-emptive rights which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

### SHARE OPTION SCHEME

The Company has not adopted any share option scheme.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

From the Listing Date and up to 31 December 2019, no purchase, sale or redemption of the Company's listed securities were made.

### DIRECTORS AND SUPERVISORS

During the Reporting Period and as at the date of this annual report, the Directors and the Supervisors of the Company include:

#### Executive Directors

Mr. He Zhaodi

#### Non-executive Directors

Mr. Zhang Baohua

Mr. Ng Chee Keong

Mr. Ooi Boon Hoe

Mr. Shi Ruxin

Mr. Jiang Zidan

#### Independent Non-executive Directors

Mr. Zhang Zixue

Mr. Lau Wai Leung Anders (resigned on 18 September 2019)

Mr. Wu Xibin

Mr. Lee Man Tai (appointed on 17 December 2019)

#### Supervisors

Mr. Wang Wei

Mr. Li Weiqing

Mr. Tham Wai Kong

According to the Articles of Association, the Directors and the Supervisors are appointed for a term of three years and subject to re-election upon the expiry of their terms.

### CHANGES IN INFORMATION RELATING TO DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

Mr. Lau Wai Leung Anders has resigned as an independent non-executive Director due to his personal commitments and ceased to serve as the chairman of the Audit Committee and a member of the Nomination Committee, with effect from 18 September 2019.

At the extraordinary general meeting of the Company held on 17 December 2019, Mr. Lee Man Tai was appointed as an independent non-executive Director. Mr. Lee Man Tai had also been appointed as the chairman of the Audit Committee and a member of the Nomination Committee.

Mr. Ding Dong resigned as the financial director of the Company with effect from 24 December 2019 due to personal work reasons. On 31 December 2019, Ms. Feng Hui was appointed as the financial director of the Company.

Mr. Zhang Baohua ceased to be the supervisor of Rizhao Port, the deputy general manager and the member of the party committee at Rizhao Port Group from January 2020. Mr. Zhang also ceased to be the director of Rizhao Port COSCO Shipping Logistics Co., Ltd. (日照港中遠海運物流有限公司) from February 2020.

Save as disclosed in this annual report, there was no change in any information in relation to the Directors, the Supervisors and the chief executive of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.



## Directors' Report (Continued)

### **BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Biographical details of the current Directors, Supervisors and senior management of the Company are set out on pages 33 to 40 of this annual report.

### **DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

The Company has entered into service contracts with each of the Directors and Supervisor for a term of not more than three years effected until the expiry of the term of the first session of the Board or the Supervisory Committee, which shall be terminated pursuant to relevant terms of the respective contracts.

None of the Directors and the Supervisors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

### **REMUNERATION OF DIRECTORS AND SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS**

Details of the remuneration of the Directors, the Supervisors and the five highest paid individuals during the Reporting Period are set out in Notes 11 and 12 to the financial statements.

### **INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE**

Save for the service contract, none of the Directors or Supervisors or their connected entities had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance in relation to the business of the Company to which the Company, its parent company or any of its subsidiaries or fellow subsidiaries was a party, subsisting during or at the end of the Reporting Period.

### **CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS**

Save as disclosed in the paragraph headed "Connected Transactions and Continuing Connected Transactions" in this annual report, there were no contract of significance between the Company and a controlling shareholder of the Company or any of its subsidiaries or for the provision of services to the Company by a controlling shareholder of the Company or any of its subsidiaries subsisting during or at the end of the Reporting Period.

### **INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS**

None of the Directors and the Supervisors holds any interest in business which directly or indirectly competes or is likely to compete, either directly or indirectly, with the business of the Company.

### **RIGHTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE TO ACQUIRE SHARES OR DEBENTURES**

Save as otherwise disclosed in this annual report, at no time from the Listing Date to 31 December 2019 was the Company, its parent company or any of its subsidiaries or fellow subsidiaries a party to any arrangement that would enable the Directors, the Supervisors and chief executive of the Company, or their respective spouse or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, the Supervisors and chief executive of the Company, or their respective spouse or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

### **DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 December 2019, to the best knowledge of the Directors, none of the Directors, the Supervisors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions), or required to be 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 Model Code.

## Directors' Report (Continued)

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, to the best knowledge of the Directors, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of shares interested	Class of shares	Long/short position	Percentage of shareholding to the relevant class of shares <sup>(3)</sup> (%)	Percentage to total issued share capital <sup>(4)</sup> (%)
Shandong Port Group <sup>(1)</sup>	Interest in controlled corporation	840,000,000	Domestic Shares	Long position	100	50.60
Rizhao Port Group <sup>(1)</sup>	Interest in controlled corporation	840,000,000	Domestic Shares	Long position	100	50.60
Rizhao Port	Beneficial owner	840,000,000	Domestic Shares	Long position	100	50.60
Jurong Port Pte Ltd ("Jurong Port") <sup>(2)</sup>	Interest in controlled corporation	360,000,000	H Shares	Long position	43.90	21.69
Jurong Port Rizhao Holding Pte Ltd ("Jurong Port Holding")	Beneficial owner	360,000,000	H Shares	Long position	43.90	21.69
Orient Fund Management Co., Ltd. Trustee		58,520,000	H Shares	Long position	7.14	3.52

(1) Rizhao Port Group is the controlling shareholder of Rizhao Port and directly held 43.6% of the equity interest in Rizhao Port, and indirectly held 0.88% of the equity interest in Rizhao Port through its wholly-owned subsidiary, Rizhao Port Group Lanshan Port Company Limited (日照港集團嵐山港務有限公司), as at 31 December 2019. Therefore, Rizhao Port Group is deemed to be interested in the 840,000,000 Domestic Shares held by Rizhao Port. As stated in the announcement of the Company dated 22 August 2019, Rizhao Municipal Government entered into an equity transfer agreement with Shandong SASAC and Shandong Port Group on 22 August 2019, pursuant to which inter alia, Rizhao Municipal Government agreed to gratuitously transfer the 100% equity interests in Rizhao Port Group held by it to Shandong Port Group (the "Proposed Restructuring"). Upon completion of the Proposed Restructuring, Shandong Port Group will directly own 100% of the equity interests in Rizhao Port Group, which in turn holds, in aggregate, 44.46% of the equity interests in Rizhao Port. Therefore, Shandong Port Group is deemed to be interested in the 840,000,000 Domestic Shares held by Rizhao Port. As at 31 December 2019, the Proposed Restructuring has not been completed. The Company will make further announcement(s) with regard to the progress of the Proposed Restructuring as and when required under the Takeovers Code and/or the Listing Rules.

(2) Jurong Port directly held 100% of the equity interest of Jurong Port Holding as at 31 December 2019. Therefore, Jurong Port is deemed to be interested in the 360,000,000 H Shares held by Jurong Port Holding.

(3) The calculation is based on the percentage of shareholding in the Domestic Shares or H Shares (as the case may be) as at 31 December 2019.

(4) The calculation is based on the total number of 1,660,000,000 Shares in issue comprising 840,000,000 Domestic Shares and 820,000,000 H Shares as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any persons (who were not Directors, Supervisors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

### MANAGEMENT CONTRACTS

During the Reporting Period, no contract in respect of the management or administration of the entire business or any substantial part of business of the Company was entered into or maintained by the Company.

### EQUITY-LINKED AGREEMENTS

During the Reporting Period, the Company did not enter into any equity-linked agreements.

### PERMITTED INDEMNITY PROVISION

During the Reporting Period, the Company has purchased liability insurance valid for the Reporting Period for Directors, Supervisors and senior management of the Company.

### CONNECTED TRANSACTIONS

During the Reporting Period, the Company entered into the following connected transactions as defined in Chapter 14A of the Listing Rules required to be disclosed in this annual report.

#### Connected Transaction

On 9 September 2019, the Company issued the bid winning notice to Shandong Gangwan confirming the successful bidding of the public tender conducted by the Company for the engagement of a general contractor for the phase two of the reconstruction of the bulk grain silos located at the west operation zone of Shijiu port area, Rizhao port for loading and unloading of maize (the "**Project**"). The Company shall enter into the MEC general agreement to engage Shandong Gangwan as the general contractor for the Project and the consideration is RMB27,794,641 which shall be paid in five instalments funded by the Company's internal resources. Shandong Gangwan is wholly-owned by Rizhao Port Group, a controlling shareholder of the Company, and is hence an associate of Rizhao Port Group and a connected person of the Company under Chapter 14A of the Listing Rules. For more details, please refer to the Company's announcement dated 9 September 2019.

## Directors' Report (Continued)

### Continuing Connected Transactions

A summary of the continuing connected transactions for the Reporting Period is set out as follows:

Continuing connected transactions	Connected persons involved	Annual cap permitted under the Listing Rules <i>RMB</i>	Transaction amount in 2019 <i>RMB</i>
West-6 Berth Reconstruction Agreements	Shandong Gangwan Rizhao Port Supervision	70,302,000	6,700,000
Property lease (sale) framework agreement	Rizhao Port Group	8,810,000	7,756,000
Port-related service (sale) framework agreement	Rizhao Port Group	15,700,000	531,000
Property lease (procurement) framework agreement	Rizhao Port Group	60,678,000	46,218,000
General service (procurement) framework agreement	Rizhao Port Group	143,737,000	63,324,000
Financial service framework agreement	RPG Finance		
– Maximum daily balance of deposits		300,000,000	227,207,000
– Interest income		900,000	440,000
– Settlement service		0	0
Operation Outsourcing Agreement	Lanshan Branch of Rizhao Port	10,000,000	7,093,000

- (a) In relation to the West-6 berth bulk grain operation reconstruction, the Company entered into (i) MEC general agreement dated 16 March 2018 and a supplemental agreement dated 1 March 2019 (the “**MEC General Agreements**”) and (ii) civil construction agreement dated 21 May 2018 and a supplemental agreement dated 1 March 2019 (the “**Civil Construction Agreements**”), with Shandong Gangwan. The Company also entered into the supervision agreement dated 19 May 2018 and a supplemental agreement dated 25 February 2019 (the “**Reconstruction Supervision Agreements**”) with Rizhao Port Supervision. (collectively, the “**West-6 Berth Reconstruction Agreements**”) Each of Shandong Gangwan and Rizhao Port Supervision is wholly-owned by Rizhao Port Group, a controlling shareholder of the Company, and is hence an associate of Rizhao Port Group and a connected person of the Company under Chapter 14A of the Listing Rules. For more details, please refer to the section headed “Connected Transactions” in the Prospectus.

### West-6 Berth Reconstruction Agreements

- Nature of the transaction:**
- (i) Pursuant to the MEC General Agreements, the Company agreed to procure from Shandong Gangwan the electromechanical equipment to be used for the reconstruction of West-6 berth and the relevant installation services.
  - (ii) Pursuant to the Civil Construction Agreements, the Company agreed to procure from Shandong Gangwan civil construction services including ground treatment, foundation construction, concrete placement and rail installation on West-6 berth.
  - (iii) Pursuant to the Reconstruction Supervision Agreements, the Company agreed to procure from Rizhao Port Supervision supervising services in relation to the reconstruction of West-6 berth.

**Term:** The West-6 Berth Reconstruction Agreements will terminate upon completion of the reconstruction of West-6 berth

**Pricing policy:** Shandong Gangwan and Rizhao Port Supervision were selected as the construction and supervising service providers for the reconstruction of West-6 berth through public bidding process, which were conducted pursuant to the bidding requirements under relevant laws and regulations. The fee rates are determined with reference to (i) the comparable service fee rates charged by independent third parties and (ii) the estimated workload of the reconstruction project

- (b) On 24 May 2019, the Company entered into the following framework agreements with Rizhao Port Group (for itself and on behalf of its subsidiaries). Rizhao Port Group is the controlling shareholder of the Company, and is hence a connected person of the Company under Chapter 14A of the Listing Rules. For more details, please refer to the section headed "Connected Transactions" in the Prospectus.

### Property lease (sale) framework agreement

**Nature of the transaction:** Rizhao Port Group agreed to lease from the Company the West-1 berth, West-2 berth and temporarily leased berths and other relevant properties from the Company from time to time

**Term:** Three years commencing from the Listing Date which can be renewed or extended upon written agreement by the parties

**Pricing policy:** The rent was determined through arm's length negotiation with reference to (i) area leased, geographic location and profile of the surrounding area; (ii) historical rent; (iii) independent property valuer's opinion on the fairness of the rent; and (iv) depreciation costs of such assets plus an expected rate of return.



## Directors' Report (Continued)

### Port-related service (sale) framework agreement

- Nature of the transaction:** The Company agreed to provide stevedoring services and cargo supervision services to Rizhao Port Group and other port-related services the Company may provide to Rizhao Port Group in the future from time to time
- Term:** Three years commencing from the Listing Date which can be renewed or extended upon written agreement by the parties
- Pricing policy:** The service fee rates in relation to the port-related services were determined through arm's length negotiation with reference to (i) the cost of the relevant services; and (ii) the comparable service fee rate charged by the Company for such services provided for independent third parties

### Property lease (procurement) framework agreement

- Nature of the transaction:** The Company agreed to lease from Rizhao Port Group certain assets which include land, warehouses, complex building and berths, and other properties the Company may lease from Rizhao Port Group in the future from time to time
- Term:** Three years commencing from the Listing Date and will be automatically renewed for another three years upon expiration
- Pricing policy:** The rent is determined through arm's length negotiation with reference to (i) area leased, geographic location and profile of the surrounding area; (ii) historical rent; (iii) independent property valuer's opinion on the fairness of the rent; and (iv) the rent charged by independent third parties for similar offices nearby (applicable to the complex building only). In addition, a certain percentage of the profit from the West-18 berth will be paid to Rizhao Port Group as part of the rental fee for the land occupied by and behind the West-18 berth.

### General service (procurement) framework agreement

- Nature of the transaction:** The Company agreed to procure from Rizhao Port Group services including (i) port-related services; (ii) railway services; (iii) security services; (iv) maintenance services; (v) port-related technology services; (vi) office and logistics services; and (vii) utilities and consumables, and other services the Company may procure from Rizhao Port Group in the future from time to time
- Term:** Three years commencing from the Listing Date and will be automatically renewed for another three years upon expiration

### Pricing policy:

- (i) For port-related services, the fee rates for logistics (other than container logistics), labor contracting and port cleaning services are determined with reference to (1) the comparable service fee rates charged by independent third parties and (2) the workload and the suppliers are selected through public bidding processes. The fee rates for ship traction and container logistics services are determined through arm's length negotiation with reference to (1) historical fee rates; (2) the cost of the relevant services; and (3) the fee rates charged for similar services by independent third parties (applicable to container logistics services only).
  - (ii) For railway services, the fee rates are determined through arm's length negotiation with reference to (1) relevant regulations published by the Ministry of Transport; (2) historical fee rates and (3) transportation distances.
  - (iii) For security services, the fee rates for the port facilities security services are determined by the Ministry of Transport and the fee rates for the security inspection services are determined through arm's length negotiation with reference to (1) historical fee rates and (2) the cost of the relevant services.
  - (iv) For maintenance services, the fee rates are determined with reference to (1) the comparable service fee rates charged by independent third parties, (2) the workload, (3) the construction period, and (4) the other cost of such services and the suppliers are selected through public bidding processes.
  - (v) For port-related technology services, the fee rates are determined through arm's length negotiation with reference to (1) historical fee rates and (2) the cost of the relevant services.
  - (vi) For office and logistics services, the fee rates for printing, catering, accommodation, meeting, employee benefits, garbage removal services are determined with reference to the comparable service fee rates charged by independent third parties and the suppliers are selected through public bidding processes. The fee rates for telephone, networks and protective gears supplies services are determined through arm's length negotiation with reference to (1) historical fee rates; (2) the cost of the relevant services; and (3) the fee rates charged for similar services by independent third parties.
  - (vii) For utilities and consumables, the fee rates are determined through arm's length negotiation with reference to (1) historical fee rates; (2) the market price of the utilities and consumables.
- (c) On 24 May 2019, the Company entered into the financial service framework agreement with RPG Finance. RPG Finance is respectively held as to 60% and 40% by Rizhao Port Group and Rizhao Port, each of which is a controlling shareholder of the Company. Hence, RPG Finance is an associate of each of Rizhao Port Group and Rizhao Port and is a connected person of the Company under Chapter 14A of the Listing Rules. For more details, please refer to the section headed "Connected Transactions" in the Prospectus.

## Directors' Report (Continued)

### Financial service framework agreement

- Nature of the transaction:** RPG Finance agreed to provide deposit and settlement services to the Company
- Term:** From the Listing Date to the earlier of (i) the date of one year after the Listing Date and (ii) the date of the Company's 2019 annual general meeting and can be renewed or extended upon written agreement by the parties
- Pricing policy:** The deposit interest rates are determined in accordance with the rates published by the People's Bank of China and are in line with the market rates provided by independent commercial banks. The settlement service provided by RPG Finance is free of charge.

- (d) On 18 November 2019, the Company entered into the operation outsourcing agreement (the "**Operation Outsourcing Agreement**") with Lanshan Branch of Rizhao Port. Lanshan Branch of Rizhao Port is a branch of Rizhao Port, a controlling shareholder of the Company, and is hence a connected person of the Company under Chapter 14A of the Listing Rules. For more details, please refer to the Company's announcement dated 18 November 2019 and the Company's supplemental announcement dated 22 November 2019.

### Operation Outsourcing Agreement

- Nature of the transaction:** The Company may from time to time engage Lanshan Branch of Rizhao Port to provide stevedoring, storage and delivery services of grains cargo, in Lanshan port area
- Term:** Commencing on 18 November 2019 and ending on 31 December 2020
- Pricing policy:** The fee charged for the services provided by Lanshan Branch of Rizhao Port is determined through arm's length negotiations by the parties and based on normal commercial terms with reference to (i) qualification of service providers in stevedoring of grain cargoes in Lanshan port area; (ii) the prevailing market price for the provision of similar types of services in the same or nearby service area by independent third parties; (iii) the actual services to be provided, the volume of cargoes to be handled and the duration of storage of cargoes; and (iv) the historical prices offered to independent third party service providers.
- (1) For the provision of stevedoring and delivery services of grain cargoes, the fee charged is determined through the evaluation conducted by an independent third party with reference to the operation process of the same or similar types of services in the port, the complexity of storage of the cargoes, the cost of providing such services, the fees charged within the industry, as well as the historical prices offered to independent third party service providers. The Company will also take into account that Lanshan Branch of Rizhao Port is the only port operator with the qualification of stevedoring grain cargoes approved by the governmental authority in the Lanshan port area.

- (2) For the provision of storage services of grain cargoes, the fee charged is determined with reference to the storage process, duration and quality requirements for such services, the storage prices charged by Lanshan Branch of Rizhao Port to other customers, the fee charged within the industry, as well as prices comparison of fees charged by the Company to other customers in respect of such services.

Before entering into any agreements pursuant to the Operation Outsourcing Agreement, the Company will obtain quotations from two or more independent third party service providers through price inquiry. The finance department of the Company will perform the comparison of the fee quotations in accordance with the pricing policy to ensure that the terms of the continuing connected transactions contemplated under the Operation Outsourcing Agreement are fair and reasonable and no less favourable than the terms offered to the Company from independent third parties.

The independent non-executive Directors have reviewed the foregoing continuing connected transactions and confirmed that the transactions have been entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms or better; and
- (c) in accordance with the agreement governing the transaction and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

According to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The Board has received an unqualified letter from the auditors of the Company in accordance with Rule 14A.56 of the Listing Rules containing the auditors' findings and conclusion on the above continuing connected transactions of the Company, stating that the auditors have not noticed anything that causes them to believe that any of these continuing connected transactions: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Company if the transactions involve the provision of goods or services by the Company; (c) were not entered into in accordance with the relevant agreements governing such continuing connected transactions in all material aspects; and (d) have exceeded the relevant annual caps for the financial year ended 31 December 2019. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

### RELATED PARTY TRANSACTIONS

Save as the connected transactions disclosed above, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with, none of the related party transactions as disclosed in Note 36 to the financial statements constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.



## Directors' Report (Continued)

### REMUNERATION POLICY

The remuneration policy of the Company links the remunerations of employees with performance, according to their positions, qualifications, work performance and the Company's production and operation results. For the senior management of the Company, the Company implements a basic salary and a performance-based salary policy. The employees' remunerations are reviewed and adjusted by the Company annually. The Company also provides employees with various benefits in accordance with the relevant national, municipal and city-level laws and regulations in the PRC.

The Remuneration Committee was set up for reviewing the Company's policy and structure for all remuneration of the Directors, Supervisors and senior management of the Company, having regard to the Company's operating results, comparable market practices and time commitment and responsibilities of the Directors, Supervisors and senior management of the Company.

### RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Company are set out in Notes 10 and 11 to the financial statements.

### CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 19 to 32 of this annual report.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the total issued share capital of the Company, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the Reporting Period and as at the date of this annual report.

### AUDITORS

The financial statements of the Company for the Reporting Period have been audited by Grant Thornton. A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Grant Thornton as independent auditor of the Company.

Deloitte has resigned as the auditor of the Company with effect from 26 November 2019. The appointment of Grant Thornton as the new auditor of the Company following the resignation of Deloitte was approved by the Shareholders at the extraordinary general meeting of the Company held on 17 December 2019.

On behalf of the Board

**Zhang Baohua**

*Chairman*

Rizhao, PRC, 3 March 2020



# Supervisors' Report

During the Reporting Period, the Supervisory Committee maintained the interests of the Company and the Shareholders by discharging their supervisory duties on the operations, connected transactions and other matters of the Company, pursuant to the Company Law of the PRC, the Listing Rules, the Articles of Association, the Procedural Rules of the Supervisory Committee of Rizhao Port Jurong Co., Ltd. (《日照港裕廊股份有限公司監事會議事規則》) and other applicable laws and regulations, and the rights conferred by the shareholders' general meeting, on the basis of diligence and integrity.

## **MAJOR WORK PERFORMED BY THE SUPERVISORY COMMITTEE**

During the year ended 31 December 2019, the major work performed by the Supervisory Committee included attending Board meetings; carefully reviewing the report of the Directors and profit appropriation proposal to be submitted by the Board for approval at the forthcoming AGM; strictly and effectively monitoring whether the policies and decisions made by the management of the Company had conformed with the applicable laws and regulations and the Articles of Association or safeguarded the benefits of the Shareholders. The Supervisory Committee also reviewed the performance of the Directors, general manager and senior management in the daily operation of the Company by various means, and seriously examined the Company's financial position and its connected transactions.

## **INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT ISSUES OF THE COMPANY IN 2019**

### **Operation of the Company in compliance with the law**

During the Reporting Period, the Board held board meetings and considered resolutions as well as convened and organized the general meeting and attended relevant meetings through undertaking their responsibilities and operating legally in accordance with laws and regulations and the Articles of Association. The Directors and senior management maintained the interests of the Company and the Shareholders by carrying out the resolutions made by the shareholders' general meetings and the Board, and acting diligently and responsibly in the management and operation of the Company.

None of the Directors and senior management of the Company were found to be in breach of the laws and regulations when discharging their duties and none of their acts were found to be detrimental to the interests of the Company and the Shareholders as a whole.

### **Financial position of the Company**

The Supervisory Committee duly reviewed and discussed the audited financial statements of the Company for the Reporting Period and considered that it gave an objective, true, reasonable view in compliance with the laws, regulations and the Articles of Association. It also gave a complete and objective picture of the Company without any false representations, misleading statements or material omissions.

In addition, the Supervisory Committee considered that the preparation of this annual report was in compliance with the laws, regulations and the Articles of Association and its disclosure gave a complete and true picture of the operation, management and financial position of the Company during the Reporting Period.

### **Use of IPO Proceeds**

During the Reporting Period, the use of the IPO Proceeds strictly complied with the relevant regulations and disclosed application with standard procedures and without misappropriation of the proceeds.

### **Connected Transactions**

Connected transactions (including continuing connected transactions) entered into by the Company during the Reporting Period complied with laws and regulations as well as the requirements of the relevant connected transaction agreements, and are fair and reasonable to the Company and the Shareholders without harming their interests.

### **OUTLOOK AND PROSPECTS FOR 2020**

In 2020, the Supervisory Committee will continue to carry out its supervision and inspection duties accountable to all the Shareholders in strict accordance with relevant laws and regulations and the Articles of Association in order to safeguard the legal interests of the Company and the Shareholders and effectively regulate the operation and development of the Company.

By order of the Supervisory Committee

**Wang Wei**

*Chairman of the Supervisory Committee*

Rizhao, PRC, 3 March 2020

# Independent Auditor's Report



To the members of Rizhao Port Jurong Co., Ltd.  
(incorporated in the People's Republic of China with limited liability)

## OPINION

We have audited the financial statements of Rizhao Port Jurong Co., Ltd. (the "Company") set out on pages 67 to 139, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board 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 International Standards on Auditing ("ISAs") issued by International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent Auditor's Report (Continued)

## KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### Key Audit Matter

### How the matter was addressed in our audit

#### Revenue recognition – Provision of services

*Refer to note 5 to the financial statements.*

The Company recognised revenue of approximately RMB464,655,000 for the year ended 31 December 2019 in provision of services mainly include stevedoring of goods, storage and other port operations.

We identified the above matter as a key audit matter because revenue is one of the key performance indicators of the Company and there is an inherent risk over the recognition of revenue by the management to meet specific targets or expectations.

Our key audit procedures to address the recognition of revenue included the following:

- Evaluated the design, implementation and operating effectiveness of management's internal controls over revenue recognition;
- Evaluated the appropriateness of the recognition policy with reference to the relevant accounting standard;
- Performed substantive analytical procedures to assess whether the recognised revenue was in line with the expected level;
- Selected samples from the shipment schedules and checked to underlying contracts and supporting documents to verify the revenue is recognised in accordance with the recognition policy; and
- Performed cut-off testing on a sample of revenue transactions before and after the financial year end date to assess whether the transactions were recognised in proper period by tracing to underlying contracts and supporting documents.



## Independent Auditor's Report (Continued)

### OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information included in the 2019 annual report of the Company, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 FINANCIAL STATEMENTS

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

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

The directors assisted by the Audit Committee are responsible for overseeing the Company's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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 ISAs 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



## Independent Auditor's Report (Continued)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

**Grant Thornton Hong Kong Limited**

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

3 March 2020

Tong Kin Keung

Practising Certificate No.: P07190

# Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019

	Notes	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
<b>Revenue</b>	5	<b>542,783</b>	532,061
Cost of sales		<b>(303,218)</b>	(307,917)
<b>Gross profit</b>		<b>239,565</b>	224,144
Other income	7	<b>8,170</b>	1,259
Other (losses)/gains, net	8	<b>(561)</b>	129
Impairment losses, net of reversal	9	<b>9</b>	221
Selling and distribution expenses		<b>(4,534)</b>	(2,765)
Administrative expenses		<b>(13,752)</b>	(12,243)
Listing expenses		<b>(12,363)</b>	(6,468)
Finance costs	13	<b>(27,812)</b>	(5,668)
<b>Profit before income tax</b>	10	<b>188,722</b>	198,609
Income tax expense	14	<b>(47,591)</b>	(49,457)
<b>Profit and total comprehensive income attributable to the owners of the Company for the year</b>		<b>141,131</b>	149,152
<b>Earnings per share for profit attributable to the owners of the Company</b>			
– Basic and diluted (expressed in RMB)	15	<b>9.78 cents</b>	12.43 cents

The notes on pages 74 to 139 are an integral part of these financial statements.

# Statement of Financial Position

as at 31 December 2019

	Notes	As at 31 December	
		2019 RMB'000	2018 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	1,917,310	1,262,184
Deposits for purchase of property, plant and equipment		985	7,615
Investment properties	18	310,771	318,546
Intangible assets	19	1,888	2,039
Other non-current assets	20	1,375	7,636
		<b>2,232,329</b>	1,598,020
<b>Current assets</b>			
Inventories	21	4,097	3,901
Trade and other receivables	22	67,020	34,641
Bills receivable at fair value through other comprehensive income ("FVTOCI")	23	7,956	15,808
Contract assets	24	1,733	9,687
Cash and cash equivalents	25	198,107	55,491
		<b>278,913</b>	119,528
<b>Current liabilities</b>			
Trade and other payables	26	38,014	60,052
Contract liabilities	27	84	1,603
Lease liabilities	28	13,312	–
Advance payments from lease contract	29	2,375	2,375
Bank borrowings	30	25,000	–
Income tax payable		7,171	3,276
Dividends payable		–	210,000
		<b>85,956</b>	277,306
<b>Net current assets/(liabilities)</b>		<b>192,957</b>	(157,778)
<b>Total assets less current liabilities</b>		<b>2,425,286</b>	1,440,242

# Statement of Financial Position (Continued)

as at 31 December 2019

	Notes	As at 31 December	
		2019 RMB'000	2018 RMB'000
<b>Non-current liabilities</b>			
Lease liabilities	28	207,875	–
Advance payments from lease contract	29	21,969	24,344
Bank borrowings	30	75,000	–
Deferred tax liabilities	31	6,450	8,282
		<b>311,294</b>	32,626
<b>Net assets</b>		<b>2,113,992</b>	1,407,616
<b>CAPITAL AND RESERVES</b>			
Share capital	32	1,660,000	1,200,000
Reserves		453,992	207,616
<b>Total equity</b>		<b>2,113,992</b>	1,407,616

\_\_\_\_\_  
Zhang Baohua  
Director

\_\_\_\_\_  
He Zhaodi  
Director

The notes on pages 74 to 139 are an integral part of these financial statements.

# Statement of Cash Flows

for the year ended 31 December 2019

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
<b>Cash flows from operating activities</b>		
Profit before income tax	188,722	198,609
Adjustments for:		
Depreciation of property, plant and equipment	103,131	80,329
Depreciation of investment properties	7,775	8,151
Amortisation of intangible asset	268	182
Release of lease payments received in advance	(2,375)	(2,375)
Interest income	(664)	(851)
Finance costs	27,812	5,668
Impairment loss on trade receivables, net of reversal	167	55
Reversal of impairment loss on contract assets	(174)	(278)
(Reversal of impairment loss)/Impairment loss on other receivables	(2)	2
Loss/(Gain) on disposal of property, plant and equipment	907	(7)
Operating cash flows before working capital changes	325,567	289,485
Decrease/(Increase) in other non-current assets	135	(26)
(Increase)/Decrease in inventories	(196)	16
Increase in trade and other receivables	(32,544)	(17,018)
Increase in bills receivable at FVTOCI	(9,650)	(26,248)
Decrease in contract assets	8,128	12,955
(Decrease)/Increase in trade and other payables	(3,029)	12,793
Decrease in contract liabilities	(1,519)	(5,570)
Cash generated from operations	286,892	266,387
Income tax paid	(45,528)	(54,139)
Net cash from operating activities	241,364	212,248
<b>Cash flows from investing activities</b>		
Payments and deposits placed for property, plant and equipment	(513,036)	(18,042)
Proceeds from disposal of property, plant and equipment	34	9
Payments of intangible assets	(117)	(932)
Interest received	664	851
Net cash used in investing activities	(512,455)	(18,114)

## Statement of Cash Flows (Continued)

for the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
<b>Cash flows from financing activities</b>			
Proceeds from issuing shares		606,822	–
Proceeds from bank borrowings		250,000	–
Repayments of bank borrowings		(150,000)	(158,867)
Decrease in amounts due to related parties		(9,507)	–
Payment of lease liabilities		(12,219)	–
Interest paid		(27,812)	(5,928)
Dividends paid		(202,000)	(40,000)
Payments of costs of issuing shares		(41,577)	–
Deferred costs of issuing shares		–	(307)
Net cash from/(used in) financing activities		413,707	(205,102)
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		55,491	66,459
<b>Cash and cash equivalents at end of year, represented by bank balances and cash</b>			
	25	198,107	55,491

The notes on pages 74 to 139 are an integral part of these financial statements.

# Statement of Changes in Equity

for the year ended 31 December 2019

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
<b>Balance at 1 January 2018</b>		1,170,000	–	–	48,471	289,993	1,508,464
<b>Total comprehensive income for the year</b>							
Profit and total comprehensive income for the year		–	–	–	–	149,152	149,152
<b>Transactions with owners</b>							
Conversion into joint stock limited liability Company		30,000	–	159,077	(48,471)	(140,606)	–
Appropriation for statutory reserve		–	–	–	16,385	(16,385)	–
Dividends	16	–	–	–	–	(250,000)	(250,000)
Total transactions with owners		30,000	–	159,077	(32,086)	(406,991)	(250,000)
<b>Balance at 31 December 2018</b>		1,200,000	–	159,077	16,385	32,154	1,407,616

## Statement of Changes in Equity (Continued)

for the year ended 31 December 2019

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
<b>Balance at 1 January 2019</b>		1,200,000	–	159,077	16,385	32,154	1,407,616
<b>Total comprehensive income for the year</b>							
Profit and total comprehensive income for the year		–	–	–	–	141,131	141,131
<b>Transactions with owners</b>							
Issue of new shares in the public offer	32	400,000	127,820	–	–	–	527,820
Issue with shares in over-allotment	32	60,000	19,002	–	–	–	79,002
Listing expense	32	–	(41,577)	–	–	–	(41,577)
Appropriation for statutory reserve		–	–	–	14,378	(14,378)	–
Total transactions with owners		460,000	105,245	–	14,378	(14,378)	565,245
<b>Balance at 31 December 2019</b>		1,660,000	105,245	159,077	30,763	158,907	2,113,992

The notes on pages 74 to 139 are an integral part of these financial statements

# Notes to the Financial Statements

for the year ended 31 December 2019

## 1. GENERAL INFORMATION

Rizhao Port Jurong Co., Ltd. (the “**Company**”) is a joint stock company incorporated in the People's Republic of China (the “**PRC**”) with limited liability. The registered office and headquarter of the Company is at South End, Haibin 5th Road, Rizhao City, Shandong Province, the PRC.

The Company's immediate holding company is Rizhao Port Co., Ltd. (“**Rizhao Port**”), a joint stock company with limited liability company incorporated in the PRC and its shares are listed for trading on the Main Board of Shanghai Stock Exchange (Stock Code: 600017). The directors of the Company consider the ultimate holding company to be Rizhao Port Group Co., Ltd. (“**Rizhao Port Group**”), a company incorporated in the PRC with limited liability.

The Company is primarily engaged in port operation in Rizhao City, Shandong Province of the PRC, which includes handling grains, woodchips and dried tapioca along with berth leasing, port services such as warehousing, cargo storage, transportation, and related supporting business.

Unless otherwise stated, financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

The financial statements for the year ended 31 December 2019 were approved for issue by the board of directors on 3 March 2020.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

These annual financial statements have been prepared in accordance with the International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”). The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost basis except for bills receivable which are stated in fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Foreign currency translation

The financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

### 2.3 Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below and cost of right-of-use assets as described in note 2.12) are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The useful lives of each category of assets are as follows:

Buildings	10 – 40 years
Terminal facilities	50 years
Storage facilities	10 – 40 years
Loading equipment	8 – 15 years
Machinery equipment	8 – 12 years
Motor vehicles	6 years
Communication facilities and other equipment	5 – 8 years

Upon the application of IFRS 16, accounting policy for depreciation of right-of-use assets is set out in note 2.12.

Estimates of residual value, depreciation methods and useful lives are reviewed and adjusted if appropriate, at each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Property, plant and equipment (Continued)

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

Construction in progress represents terminal facilities under construction and is stated at cost less any impairment losses. Cost includes cost of construction and other direct costs (such as costs of materials, direct labour and borrowing costs).

No provision for depreciation has been provided for construction in progress until such time relevant assets are available for use, at which time they will be transferred to terminal facilities.

### 2.4 Prepaid lease payments

Prepaid lease payments (which meet the definition of right-of-use assets upon initial application of IFRS 16) represent the upfront payment for long-term land lease in which the payment can be reliably measured. It is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the term of the right-of-use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Company from use of the land.

### 2.5 Investment properties

Investment properties are terminal facilities which are owned or held under a leasehold interest (see note 2.12) to earn rental income/or for capital appreciation.

On initial recognition, investment property is measured at cost. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation of investment properties is calculated on the straight-line basis over the expected useful life. The principal expected useful life for this purpose is as follows:

Terminal facilities	40 – 50 years
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Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Software	10 years
Rights to use sea area	40 years

Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses.

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets, with finite lives, are tested for impairment as described below in note 2.16.

### 2.7 Financial instruments

#### Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### Financial assets

##### *Classification and initial measurement of financial assets*

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the statement of profit or loss and other comprehensive income.

The Company's financial assets are classified as financial assets at amortised cost or FVOCI.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Financial instruments (Continued)

#### Financial assets (Continued)

##### *Classification and initial measurement of financial assets (Continued)*

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for expected credit losses (“**ECL**”) of trade receivables which is presented within impairment losses, net of reversal.

##### *Subsequent measurement of financial assets*

Debt investments – Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Company's trade and other receivables and cash and cash equivalents fall into this category of financial instruments.

Debt investments – Financial assets at FVOCI – recycling

If the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Financial instruments (Continued)

#### Financial liabilities

##### *Classification and measurement of financial liabilities*

The Company's financial liabilities include trade and other payables, leases liabilities dividend payable and bank borrowings.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method except for derivatives which are not designated and effective as hedging instruments and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or other income.

Accounting policies of lease liabilities are set out in note 2.12.

#### Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the bank borrowings using the effective interest rate method.

Bank borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

#### Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

### 2.8 Impairment of financial assets and contract assets

IFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and contract assets recognised and measured under IFRS 15.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Impairment of financial assets and contract assets (Continued)

The Company considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“**Stage 1**”) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“**Stage 2**”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month ECL” are recognised for the Stage 1 category while “lifetime ECL” are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

#### *Trade receivables and contract assets*

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Company has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

#### *Other financial assets measured at amortised cost and debt investments at FVOCI*

The Company measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Impairment of financial assets and contract assets (Continued)

*Other financial assets measured at amortised cost and debt investments at FVOCI (Continued)*

In assessing whether the credit risk has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Company assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Detailed analysis of the ECL assessment of trade receivables, contract assets, other financial assets measured at amortised cost and debt investments at FVOCI are set out in note 39.4.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method.

### 2.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.11 Contract assets and contract liabilities

A contract asset is recognised when the Company recognises revenue (see note 2.15) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.8 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.7).

A contract liability is recognised when the customer pays consideration before the Company recognises the related revenue (see note 2.15). A contract liability would also be recognised if the Company has an unconditional right to receive consideration before the Company recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.7).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

### 2.12 Leases

#### (a) Definition of a lease and the Company as a lessee

*Policy applicable from 1 January 2019*

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Leases (Continued)

#### (a) Definition of a lease and the Company as a lessee (Continued)

*Policy applicable from 1 January 2019 (Continued)*

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

Except for those right-of-use assets meeting the definition of investment properties and those relating to a class of property, plant and equipment to which revaluation model was applied, the Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Company is reasonably certain to obtain ownership at the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Leases (Continued)

#### (a) Definition of a lease and the Company as a lessee (Continued)

*Policy applicable from 1 January 2019 (Continued)*

Measurement and recognition of leases as a lessee (Continued)

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payment of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less. Low-value assets comprise machinery equipment and small items of office equipment.

On the statement of financial position, right-of-use assets that do not meet the definition of investment property have been included in "property, plant and equipment". The prepaid lease payments for storage facilities are presented as right-of-use assets in "property, plant and equipment" under non-current assets.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Leases (Continued)

#### (a) Definition of a lease and the Company as a lessee (Continued)

*Policy applicable before 1 January 2019 (Continued)*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

##### (i) Classification of assets leased to the Company

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases.

##### (ii) Operating lease charges as the lessee

Where the Company has the right to use of assets held under operating leases, payments made under the leases are charged to profit and loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### (b) The Company as a lessor

As a lessor, the Company classifies its leases as operating leases or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Company also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.13 Provisions and contingent liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

### 2.14 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued at the reporting date.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent that they are incremental costs directly attributable to such equity transaction.

### 2.15 Revenue recognition

Revenue arises mainly from provision of facilities or services in port operations and gross rental income from properties under operating lease arrangement.

To determine whether to recognise revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 Revenue recognition (Continued)

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Company's revenue recognition policies are as follows:

#### **Stevedoring service**

Stevedoring service primarily involves bulk cargo, bulk grains, woodchips and dried tapioca. Stevedoring service is recognised over time for unloading the goods from vessels at rates per tonne of the goods handled as specified in the contract.

#### **Storage service**

The Company offers short-term storage service to meet the need of customers who require temporary storage for bulk cargos before they transport the cargos to the next destination. The storage service is recognised over time and charged at daily rates specified in the contract.

#### **Port management services**

The Company provides a variety of port-related services including berthing services and port facility security services. Port management services are recognised over time for vessel berthing at the berths and for the maintenance and repair of public facilities at the berths. The consideration for berthing service and port facility security services are charged at daily rates and rates per tonne of the goods handled, respectively, as specified in the contract.

#### **Logistics agency services**

The Company offers logistics services between the customers and various rail freighters and logistics providers. Relevant revenue is recognised at a point in time when the services are delivered.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 Revenue recognition (Continued)

#### Interest income

Interest income is recognised on an accrual basis using the effective interest method.

#### Rental income

Rental income is recognised according to accounting policy as set out in note 2.12.

### 2.16 Impairment of non-financial assets (other than contract assets)

Property, plant and equipment (including right-of-use assets), investment properties and intangible assets are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and 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 assessment of time value of money and the risk specific to the asset.

For the purpose of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level.

Impairment losses is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.17 Employee benefits

#### Retirement benefits scheme

Retirement benefits to employees are provided through two kinds of retirement benefit plans including the basic pensions and the corporate annuity.

#### (a) Basic pensions

The Company's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retired, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees and included into the profit or loss for the corresponding period.

#### (b) Corporate annuity

Employees who retire on and subsequent to 1 January 2016 enjoy the corporate annuity plan set up by the Company in accordance with State's Corporate Annuity Regulations apart from basic pensions. The annuity is accrued by the Company in proportion to the payroll and the expenditure is included into profit or loss for the corresponding period.

#### Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

### 2.18 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowing, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Company has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Accounting for income tax (Continued)

The Company presents deferred tax assets and deferred tax liabilities in net if, and only if, (Continued)

- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) 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.

### 2.20 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Board of Directors of the Company for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a major of criteria.

### 2.21 Government subsidies

Government subsidies are recognised at their fair value where there is a reasonable assurance that the subsidies will be received and the Company will comply with all attached conditions. Government subsidies are deferred and recognised in profit or loss over the period necessary to match them with the costs that the subsidies are intended to compensate. Government subsidies relating to the purchase of assets are included in liabilities as deferred government subsidies in the statement of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets.

Government subsidies relating to income is presented gross under "other income" in profit or loss.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if:

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

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

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 3. ADOPTION OF NEW AND AMENDED IFRSs

### New and amended IFRSs that are effective for annual periods beginning or on after 1 January 2019

In the current year, the Company has applied for the first time the following new and amended IFRSs issued by IASB, which are relevant to the Company's operations and effective for the Company's financial statements for the annual period beginning on 1 January 2019:

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

Other than as noted below, the adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior period have been prepared and presented.

#### IFRS 16 Leases (“IFRS 16”)

IFRS 16 “Leases” replaces IAS 17 “Leases” along with three Interpretations (IFRIC – Int 4 “Determining whether an Arrangement contains a Lease”, SIC-Int 15 “Operating Leases-Incentives” and SIC – Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”). IFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current year. Prior years have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC – Int 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC – Int 4.

#### *As a Lessee*

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The Company has already recognised the land use rights where the Company is a lessee. The application of IFRS 16 does not have impact on these assets except for the whole balance is now presented as right-of-use assets in ‘Property, plant and equipment’ under non-current assets.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 3. ADOPTION OF NEW AND AMENDED IFRSs (CONTINUED)

#### New and amended IFRSs that are effective for annual periods beginning on or after 1 January 2019 (Continued)

##### IFRS 16 Leases (“IFRS 16”) (Continued)

###### As a Lessee (Continued)

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The incremental borrowing rates applied to lease liabilities recognised under IFRS 16 are ranged from 6.55% to 9.82%.

The Company has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	<b>At 1 January 2019</b> <i>RMB'000</i>
Total operating lease commitments disclosed at 31 December 2018	<b>284,182</b>
Less: Recognition exemption – short-term leases	<b>(312)</b>
Gross operating lease obligations at 1 January 2019	<b>283,870</b>
Discounting	<b>(118,410)</b>
Lease liabilities discounted at relevant incremental borrowing rates at 1 January 2019	<b>165,460</b>
Add: Renewal options reasonably certain to be exercised	<b>57,523</b>
Total lease liabilities recognised under IFRS 16 at 1 January 2019	<b>222,983</b>
Classified as:	
Current	<b>10,385</b>
Non-current	<b>212,598</b>
	<b>222,983</b>

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 3. ADOPTION OF NEW AND AMENDED IFRSs (CONTINUED)

#### New and amended IFRSs that are effective for annual periods beginning on or after 1 January 2019 (Continued)

##### IFRS 16 Leases (“IFRS 16”) (Continued)

###### *As a Lessor*

Upon initial application of IFRS 16, the Company is not required to make any adjustment on transition for leases in which the Company is a lessor but account for these leases in accordance with IFRS 16. Comparative information is not restated.

###### *Total impact arising from transition to IFRS 16*

The following table summarises the impact of transition to IFRS 16 on the Company’s statement of financial position at 1 January 2019:

	<b>At 1 January 2019</b> <i>RMB'000</i>
Increase in property, plant and equipment	<b>229,109</b>
Decrease in prepayment for premises under operating leases included in other non-current assets	<b>(6,126)</b>
Increase in lease liabilities	<b>222,983</b>

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 3. ADOPTION OF NEW AND AMENDED IFRSs (CONTINUED)

### Issued but not effective IFRSs

At the date of authorisation of these financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Company.

IFRS 17	Insurance Contracts <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to IFRS 3	Definition of a Business <sup>5</sup>
Amendments to IFRS 9, IAS39 and IFRS 7	Interest Rate Benchmark Reform <sup>1</sup>
Amendments to IAS 1 and IAS 8	Definition of Material <sup>1</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>4</sup> Effective date not yet determined

<sup>5</sup> Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors anticipate that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Company's accounting policies is provided below. Other new and amended IFRSs are not expected to have a material impact on the Company's financial statements.

#### Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments clarify the definition of material and state that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Materiality depends on nature or magnitude of information or both.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 3. ADOPTION OF NEW AND AMENDED IFRSs (CONTINUED)

### Issued but not effective IFRSs (Continued)

#### Amendments to IAS 1 and IAS 8 “Definition of Material” (Continued)

The amendments also:

- introduce the concept of obscuring information when considering materiality and provide some examples of circumstances that may result in material information being obscured;
- clarify that materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions by replacing the threshold “could influence” with “could reasonably be expected to influence” in the definition of material; and
- clarify that materiality assessment will need to take into account of information provided to primary users of general purpose financial statements (i.e. existing and potential investors, lenders and other creditors that rely on general purpose financial statements for much of the financial information they need).

Amendments to IAS 1 and IAS 8 are effective for annual reporting period beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The directors expect that the amendments have no material impact on these consolidated financial statements.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Estimate uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### **Depreciation and impairment assessment of property, plant and equipment and investment properties**

Property, plant and equipment and investment properties (notes 17 and 18 respectively) are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The Company reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during the reporting period. The useful lives are based on the Company’s historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

### 4.1 Estimate uncertainty (Continued)

#### **Depreciation and impairment assessment of property, plant and equipment and investment properties (Continued)**

Property, plant and equipment and investment properties are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates on uncertain matters, such as the amount of tariffs which may have changed, the throughput capacity of the berths, etc. The impairment reviews and calculations are based on assumptions that are consistent with the Company's business plan. Details of the terminal facilities and loading equipment included in the property, plant and equipment and investment properties are set out in notes 17 and 18 respectively.

#### **Provision for impairment of trade and other receivables and contract assets within the scope of under IFRS 9**

The Company makes allowances on items subjects to ECL (including trade and other receivables, contract assets and other financial assets) based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 2.8. As at 31 December 2019, the aggregate carrying amounts of trade and other receivables, and contract assets amounted to RMB31,853,000 (net of ECL allowance of RMB847,000), RMB1,733,000 respectively (2018: RMB21,753,000, net of ECL allowance of RMB682,000 and RMB9,687,000, respectively).

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade receivables and other items within the scope of ECL under IFRS 9 and credit losses in the periods in which such estimate has been changed.

### 4.2 Critical accounting judgement

#### **Determination of the lease term in lease contracts and discount rate**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension options, or not exercise a termination option. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by the Company;
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Company's needs); and
- significance to the Company's operation.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

### 4.2 Critical accounting judgement (Continued)

#### Determination of the lease term in lease contracts and discount rate (Continued)

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated), which in turn affect the carrying amounts of lease liabilities and corresponding right-of-use assets.

In determining the discount rate, the Company is required to exercise considerable judgement in relation to determining the discount rate taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and effective date of the modification.

## 5. REVENUE

The Company's principal activities are disclosed in note 1 to the financial statements. The Company's revenue recognised during the year is as follows:

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue from contracts with customers – Provision of services	<b>464,655</b>	455,768
Rental income from investment properties	<b>78,128</b>	76,293
	<b>542,783</b>	532,061

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 5. REVENUE (CONTINUED)

#### Disaggregation of revenue from contracts with customers with the scope of IFRS 15

The Company derives revenue from the provision of services over time and at a point in time in the following types of services in the PRC:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Types of services</b>		
Stevedoring service	406,315	413,751
Storage service	23,551	19,573
Port management services	11,673	13,587
Logistics agency services	23,116	8,857
Total	<b>464,655</b>	455,768
<b>Timing of revenue recognition</b>		
Over time	441,539	446,911
At a point in time	23,116	8,857
Total	<b>464,655</b>	455,768

### 6. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from rendering stevedoring and storage goods and ancillary services.

The management of the Company considers that the Company has one reportable operating segment. No operating segment information is presented other than the entity-wide disclosures.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 6. SEGMENT INFORMATION (CONTINUED)

### Geographic information

The Company's revenue and profit are all derived from PRC. All non-current assets are located in the PRC.

### Information about major customers

The following table sets out the revenue from customers contributing over 10% of the total revenue of the Company during the reporting period.

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Customer A	<b>64,017</b>	78,615
Customer B	<b>58,581</b>	<i>(Note)</i>

*Note:* The Company had transactions with this customer but the amount of the transactions was less than 10% of revenue for 2018.

## 7. OTHER INCOME

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Interest income	<b>664</b>	851
Government subsidies <i>(note)</i>	<b>6,000</b>	–
Others	<b>569</b>	408
Exchange gains	<b>937</b>	–
	<b>8,170</b>	1,259

*Note:* Government subsidies mainly relates to the subsidies granted by the government in respect of operating and development activities and to provide financial support to the Company which are unconditional grants.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 8. OTHER (LOSSES)/GAINS, NET

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
(Loss)/Gain on disposal of property, plant and equipment	<b>(907)</b>	7
Others	<b>346</b>	122
	<b>(561)</b>	129

### 9. IMPAIRMENT LOSSES, NET OF REVERSAL

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Impairment losses on trade receivables, net of reversal	<b>(167)</b>	(55)
Impairment losses reversed/(recognised) on other receivables	<b>2</b>	(2)
Impairment losses reversed on contract assets	<b>174</b>	278
	<b>9</b>	221

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after (crediting)/charging the following:

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Rental income from investment properties	<b>78,128</b>	76,293
Less: direct operating expenses incurred from investment properties	<b>(7,775)</b>	(7,811)
Net rental income from investment properties	<b>70,353</b>	68,482
Auditor's remuneration	<b>1,607</b>	1,319
Depreciation:		
– Property, plant and equipment	<b>84,031</b>	80,329
– Right-of-use assets (including prepaid lease payments upon initial adoption of IFRS16)	<b>19,100</b>	–
– Investment properties	<b>7,775</b>	8,151
Amortisation of intangible assets	<b>268</b>	182
Total depreciation and amortisation charged to profit or loss	<b>111,174</b>	88,662
Lease charges:		
– Operating lease expense for berth, warehouse and land use rights in the PRC	–	58,721
– Short-term leases or leases with lease term less than 12 months under initial application of IFRS 16	<b>457</b>	–
– Leases of low-value items	<b>470</b>	–
Directors' and supervisors' emoluments ( <i>note 11</i> )	<b>863</b>	883
Other staff costs (exclude directors' and supervisors' emoluments):		
– Salaries, allowances and other benefits	<b>41,951</b>	36,075
– Retirement benefit scheme contributions	<b>14,232</b>	12,003
Total staff costs	<b>57,046</b>	48,961

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

Name	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
<b>Year ended 31 December 2019</b>						
<i>Executive director:</i>						
Mr. He Zhaodi		–	230	160	105	495
<i>Non-executive directors:</i>						
Mr. Zhang Baohua		–	–	–	–	–
Mr. Ng Chee Keong		–	–	–	–	–
Mr. Ooi Boon Hoe		–	–	–	–	–
Mr. Shi Ruxin		–	–	–	–	–
Mr. Jiang Zidan		–	–	–	–	–
<i>Independent non-executive directors</i>						
Mr. Zhang Zixue		32	–	–	–	32
Mr. Lee Man Tai	(i)	3	–	–	–	3
Mr. Lau Wai Leung Anders	(ii)	–	–	–	–	–
Mr. Wu Xibin	(iii)	32	–	–	–	32
<i>Supervisors</i>						
Mr. Wang Wei		–	127	96	78	301
Mr. Li Weiqing		–	–	–	–	–
Mr. Tham Wai Kong		–	–	–	–	–
		67	357	256	183	863

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Name	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
<b>Year ended 31 December 2018</b>						
<i>Executive directors:</i>						
Mr. He Zhaodi	(iv)	–	230	213	106	549
Mr. Ma Changjian	(v)	–	35	–	17	52
<i>Non-executive directors:</i>						
Mr. Zhuang Guang'an	(vi)	–	–	–	–	–
Mr. Zhang Baohua	(vii)	–	–	–	–	–
Mr. Ng Chee Keong		–	–	–	–	–
Mr. Ooi Boon Hoe		–	–	–	–	–
Mr. Shi Ruxin		–	–	–	–	–
Mr. Jiang Zidan		–	–	–	–	–
<i>Independent non-executive directors</i>						
Mr. Zhang Zixue	(ii)	–	–	–	–	–
Mr. Lau Wai Leung Anders	(ii)	–	–	–	–	–
<i>Supervisors</i>						
Mr. Wang Wei	(viii)	–	86	124	72	282
Mr. Li Weiqing	(ix)	–	–	–	–	–
Mr. Tham Wai Kong		–	–	–	–	–
Mr. Zhang Chunsheng	(x)	–	–	–	–	–
		–	351	337	195	883

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

- (i) Mr. Lee Man Tai appointed as an non-executive director of the Company on 17 December 2019.
- (ii) Mr. Zhang Zixue and Mr. Lau Wai Leung Anders were appointed as independent non- executive directors of the Company on 20 December 2018. Mr. Lau Wai Leung Anders resigned on 18 September 2019.
- (iii) Mr. Wu Xibin was appointed as an non-executive director of the Company on 10 January 2019.
- (iv) Mr. He Zhaodi was appointed as an executive director of the Company on 26 February 2018.
- (v) Mr. Ma Changjian resigned as an executive director of the Company on 26 February 2018.
- (vi) Mr. Zhuang Guang'an resigned as Chairman of the Board and non-executive director of the Company on 26 February 2018.
- (vii) Mr. Zhang Baohua was appointed as Chairman of the Board and non-executive director of the Company on 26 February 2018.
- (viii) Mr. Wang Wei was appointed as the Chairman of the Board of Supervisors on 10 December 2018 and employee supervisor on 9 December 2018.
- (ix) Mr. Li Weiqing was appointed as supervisor of the Company on 26 February 2018.
- (x) Mr. Zhang Chunsheng resigned as supervisor of the Company on 26 February 2018.

The executive directors' emoluments shown above were paid for their services in connection with the management of the operation affairs of the Company.

The supervisors' emoluments shown were paid for their services as supervisors.

Certain non-executive directors and supervisors did not receive any emoluments from the Company during the years ended 31 December 2019 and 2018. They received their emoluments from Rizhao Port and Jurong Port Holding (collectively "**Shareholding Companies**") because they hold positions at the Shareholding Companies.

The bonuses are discretionary and are determined by reference to the Company's and the individuals' performance.

No emoluments were paid by the Company to any directors as an inducement to join or upon joining the Company or as compensation for loss of office during the year (2018: nil).

During the year ended 31 December 2019, an independent non-executive director voluntarily agreed to waive his remuneration of RMB15,000 from the Company (2018: nil).

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 12. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five individuals whose emoluments were the highest in the Company for the year include one (2018: two) director(s) whose emoluments are reflected in the analysis presented above. The aggregate emoluments payable to the remaining four (2018: three) individuals during the year are as follows:

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Salaries and other emoluments	<b>642</b>	700
Discretionary bonuses	<b>413</b>	458
Retirement benefit scheme contributions	<b>316</b>	285
	<b>1,371</b>	1,443

The remuneration of the remaining four (2018: three) individuals fell within the following band:

	<b>2019</b>	2018
Nil – HK\$1,000,000	<b>4</b>	3

No emoluments were paid by the Company to any of the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office during the year (2018:nil).

### 13. FINANCE COSTS

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Interest expense</b>		
– Interest on bank borrowings	<b>6,175</b>	5,668
– Interest on lease liabilities	<b>21,637</b>	–
	<b>27,812</b>	5,668

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 14. INCOME TAX EXPENSE

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Current tax</b>		
– PRC enterprise income tax (“EIT”)	49,423	46,875
– Over provision of EIT in prior year	–	(483)
	<b>49,423</b>	46,392
<b>Deferred tax (note 31)</b>	<b>(1,832)</b>	3,065
	<b>47,591</b>	49,457

The provision for EIT were made based on estimation taxable profits calculated in accordance with income tax laws and regulations applicable in the PRC.

Under the Enterprise Income Tax Law of the PRC (the “EIT Law”) and Provision for Implementation of the EIT Law, the tax rate of the Company is 25% for 2019 (2018: 25%).

Reconciliation between income tax expense and accounting profit at applicable tax rate is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit before income tax	188,722	198,609
Tax on profit before income tax of 25% (2018: 25%)	47,181	49,652
Tax effect of non-deductible expenses	410	288
Over provision in prior year	–	(483)
<b>Income tax expense</b>	<b>47,591</b>	49,457

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 15. EARNINGS PER SHARE

#### (a) Basic earnings per share

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Earnings</b>		
Profit for the year attributable to the owners of the Company	<b>141,131</b>	149,152
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,443,232,877</b>	1,200,000,000
<b>Basic earnings per share (RMB cents)</b>		
	<b>9.78</b>	12.43

The weighted average number of ordinary shares for the purposes of calculating basic earnings per share for the year ended 31 December 2019 comprises (i) 1,200,000,000 ordinary shares issued during the year; (ii) 214,794,521 ordinary shares represent the weighted average number of 400,000,000 ordinary shares issued under the offering (Note 32), and iii) 28,438,356 ordinary shares represent the weighted average number of 60,000,000 over-allotment of ordinary shares (Note 32). The ordinary shares for the purposes of calculating basic earnings per share for the year ended 31 December 2018 represent the number of ordinary shares of the Company after share reform on 19 December 2018, and such shares were assumed to have issued on 1 January 2018.

#### (b) Diluted earnings per share

There are no dilutive potential ordinary shares in issue for the years ended 31 December 2019 and 2018. Therefore, the diluted earnings per share are equal to the basic earnings per share.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 16. DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of RMB0.024 (tax inclusive) per share, totaling approximately RMB40,000,000 for the year ended 31 December 2019. Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or before 31 August 2020 to shareholders whose names appear on the register of members of the Company on 27 May 2020 (2018: the Company declared dividends of RMB250,000,000, which were declared prior to the share reform of the Company on 19 December 2018).

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Rizhao Port	—	175,000
Jurong Port Holding	—	75,000
<b>Total</b>	<b>—</b>	<b>250,000</b>

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Terminal facilities	Storage facilities	Loading equipment	Machinery equipment	Motor vehicles	Communication facilities and other equipment	Construction in Progress	Right-of-use assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2018</b>										
Cost	89,913	504,426	544,293	503,687	320,707	6,109	11,642	24,308	-	2,005,085
Accumulated depreciation	(27,776)	(88,992)	(143,192)	(307,466)	(111,528)	(1,955)	(7,834)	-	-	(688,743)
<b>Net book amount</b>	<b>62,137</b>	<b>415,534</b>	<b>401,101</b>	<b>196,221</b>	<b>209,179</b>	<b>4,154</b>	<b>3,808</b>	<b>24,308</b>	<b>-</b>	<b>1,316,342</b>
<b>Year ended 31 December 2018</b>										
Opening net book amount	62,137	415,434	401,101	196,221	209,179	4,154	3,808	24,308	-	1,316,342
Additions	178	-	3,376	1,946	276	254	192	19,951	-	26,173
Transfers	14,270	-	-	28,830	-	-	-	(43,100)	-	-
Disposals	-	-	-	-	-	-	(2)	-	-	(2)
Depreciation	(4,926)	(9,778)	(11,243)	(24,220)	(28,439)	(862)	(861)	-	-	(80,329)
<b>Closing net book amount</b>	<b>71,659</b>	<b>405,656</b>	<b>393,234</b>	<b>202,777</b>	<b>181,016</b>	<b>3,546</b>	<b>3,137</b>	<b>1,159</b>	<b>-</b>	<b>1,262,184</b>
<b>At 31 December 2018 and 1 January 2019</b>										
Cost	104,361	504,426	547,669	534,463	320,983	6,363	11,795	1,159	-	2,031,219
Accumulated depreciation	(32,702)	(98,770)	(154,435)	(331,686)	(139,967)	(2,817)	(8,658)	-	-	(769,035)
Net book amount as at 31 December 2018	71,659	405,656	393,234	202,777	181,016	3,546	3,137	1,159	-	1,262,184
Adjustment from the adoption of IFRS 16 (note 3)	-	-	-	-	-	-	-	-	229,109	229,109
<b>Net book amount as at 1 January 2019, restated</b>	<b>71,659</b>	<b>405,656</b>	<b>393,234</b>	<b>202,777</b>	<b>181,016</b>	<b>3,546</b>	<b>3,137</b>	<b>1,159</b>	<b>229,109</b>	<b>1,491,293</b>
<b>Year ended 31 December 2019</b>										
Opening net book amount as at 1 January 2019, restated	71,659	405,656	393,234	202,777	181,016	3,546	3,137	1,159	229,109	1,491,293
Additions	3,707	-	-	1,699	172	-	1,311	489,663	33,537	530,089
Transfers	-	271,028	9,096	-	-	-	-	(280,124)	-	-
Disposals	-	-	(186)	(13)	(738)	(4)	-	-	-	(941)
Depreciation	(5,493)	(12,152)	(11,534)	(26,339)	(26,839)	(771)	(903)	-	(19,100)	(103,131)
<b>Closing net book amount</b>	<b>69,873</b>	<b>664,532</b>	<b>390,610</b>	<b>178,124</b>	<b>153,611</b>	<b>2,771</b>	<b>3,545</b>	<b>210,698</b>	<b>243,546</b>	<b>1,917,310</b>
<b>At 31 December 2019</b>										
Cost	108,068	775,454	556,302	536,100	318,376	6,282	13,106	210,698	262,646	2,787,032
Accumulated depreciation	(38,195)	(110,922)	(165,692)	(357,976)	(164,765)	(3,511)	(9,561)	-	(19,100)	(869,722)
<b>Net book amount</b>	<b>69,873</b>	<b>664,532</b>	<b>390,610</b>	<b>178,124</b>	<b>153,611</b>	<b>2,771</b>	<b>3,545</b>	<b>210,698</b>	<b>243,546</b>	<b>1,917,310</b>

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2019, included in the net carrying amount of property, plant and equipment are right-of-use assets (2018: nil) as follows:

	Carrying amount		Depreciation
	As at 31 December 2019	As at 1 January 2019	For the year ended 31 December 2019
	RMB'000	RMB'000	RMB'000
Buildings	841	–	136
Terminal facilities	10,466	20,931	10,465
Storage yards	199,192	204,021	4,829
Storage facilities	5,608	7,477	1,869
Prepaid lease payments	4,594	6,126	1,532
Land use rights	22,845	–	269
	243,546	238,555	19,100

During the year ended 31 December 2019, the total addition to right-of-use assets included in property, plant and equipment amounting to RMB33,537,000. The details in relation to these leases are set out in note 28.

As at 31 December 2019, the net carrying amounts for buildings located in the PRC of RMB69,873,000 (2018: RMB71,659,000) were held under lease arrangement with ultimate holding company as set in note 28.

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 18. INVESTMENT PROPERTIES

### Terminal facilities

RMB'000

#### At 1 January 2018

Cost	399,318
Accumulated depreciation	(72,621)

#### Net book amount

326,697

#### Year ended 31 December 2018

Opening net book amount	326,697
Depreciation	(8,151)

#### Closing net book amount

318,546

#### At 31 December 2018 and 1 January 2019

Cost	399,318
Accumulated depreciation	(80,772)

#### Net book amount

318,546

#### Year ended 31 December 2019

Opening net book amount	318,546
Depreciation	(7,775)

#### Closing net book amount

310,771

#### At 31 December 2019

Cost	399,318
Accumulated depreciation	(88,547)

#### Net book amount

310,771

As at 31 December 2019, the fair value of the Company's investment properties was RMB359,913,000 (2018: RMB358,910,000). The fair value has been arrived at on the basis of a valuation carried out by the management's expertise (2018: Jones Lang LaSalle Corporate Appraisal and Advisory Limited) who have the relevant experience to determine the fair value of the Company's Investment properties.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 18. INVESTMENT PROPERTIES (CONTINUED)

Taking into considerations that the underlying land use right of the investment properties is leased from the related party as detailed in note 28 and the lack of comparable market information for similar lease arrangement, the corresponding properties have been valued by the cost approach with reference to their depreciated replacement cost, which falls into the category of fair value measurement using significant unobservable inputs (Level 3) including replacement costs, estimated use life, etc. The directors of the Company are of the view that it is the best estimate of the fair value of these investment properties.

### 19. INTANGIBLE ASSETS

	Software <i>RMB'000</i>	Rights to use sea area <i>RMB'000</i>	Total
<b>At 1 January 2018</b>			
Cost	1,688	–	1,688
Accumulated amortisation	(399)	–	(399)
<b>Net book amount</b>	<b>1,289</b>	<b>–</b>	<b>1,289</b>
<b>Year ended 31 December 2018</b>			
Opening net book amount	1,289	–	1,289
Addition	932	–	932
Amortisation	(182)	–	(182)
<b>Closing net book amount</b>	<b>2,039</b>	<b>–</b>	<b>2,039</b>
<b>At 31 December 2018 and 1 January 2019</b>			
Cost	2,620	–	2,620
Accumulated amortisation	(581)	–	(581)
<b>Net book amount</b>	<b>2,039</b>	<b>–</b>	<b>2,039</b>
<b>Year ended 31 December 2019</b>			
Opening net book amount	2,039	–	2,039
Additions	99	18	117
Amortisation	(267)	(1)	(268)
<b>Closing net book amount</b>	<b>1,871</b>	<b>17</b>	<b>1,888</b>

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 19. INTANGIBLE ASSETS (CONTINUED)

	Software RMB'000	Rights to use sea area RMB'000	Total
<b>At 31 December 2019</b>			
Cost	2,719	18	2,737
Accumulated amortisation	(848)	(1)	(849)
<b>Net book amount</b>	<b>1,871</b>	<b>17</b>	<b>1,888</b>

### 20. OTHER NON-CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Taxes prepaid for rental income from properties under operating lease arrangement ( <i>note</i> )	1,375	1,510
Prepayments for premises under operating leases	–	6,126
	<b>1,375</b>	<b>7,636</b>

*Note:* Taxes prepaid represents the business tax and surcharges paid related to the advance received of lease payments as set out in note 29.

### 21. INVENTORIES

	2019 RMB'000	2018 RMB'000
Low value consumables, at cost	4,097	3,901

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 22. TRADE AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	32,700	22,333
Less: ECL allowance of trade receivables	(847)	(680)
	<b>31,853</b>	21,653
Other receivables	–	100
Less: ECL allowance of other receivables	–	(2)
Prepayments	272	1,860
Value-added tax receivables	34,895	3,985
Deferred issue costs	–	7,045
	<b>35,167</b>	12,988
Total trade and other receivables	<b>67,020</b>	34,641

The directors of the Company consider that the fair values of the trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The Company grants a credit period ranging from 15 to 90 days to its customers. Based on the invoice dates, the ageing analysis of the trade receivables, net of ECL allowance, was as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
0 – 30 days	20,383	18,295
31 – 60 days	9,057	3,358
61 – 90 days	2,048	–
Over 90 days	365	–
	<b>31,853</b>	21,653

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 22. TRADE AND OTHER RECEIVABLES (CONTINUED)

The movement in the ECL allowance of trade receivables is as follows:

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Balance at 1 January	<b>680</b>	625
ECL allowance recognised during the year	<b>167</b>	55
Balance at 31 December	<b>847</b>	680

The movement in the ECL allowance of other receivables is as follows:

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Balance at 1 January	<b>2</b>	–
ECL allowance (reversed)/recognised during the year	<b>(2)</b>	2
Balance at 31 December	<b>–</b>	2

### 23. BILLS RECEIVABLE AT FVTOCI

The following is the ageing analysis of the bills receivables based on the maturity date:

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	<b>7,956</b>	14,708
Over 3 months but within 1 year	<b>–</b>	1,100
	<b>7,956</b>	15,808

As at 31 December 2019, the Company had transferred to suppliers by endorsing the bills receivables of RMB9,502,000 (2018: RMB48,933,000).

As those bills are issued by banks with high credit ratings, the directors of the Company had assessed and satisfied that the Company had transferred substantially all of the risks and rewards relating to those bills. The Company had derecognised the full carrying amount of the bills receivables and the corresponding trade payables.

The fair value measurements of the Company's bills receivable has been measured as described in note 39.5.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 24. CONTRACT ASSETS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Provision of stevedoring service	1,771	9,899
Less: ECL allowance of contract assets	(38)	(212)
	<b>1,733</b>	9,687

*Note:* The contract assets primarily relate to the Company's right to consideration for work completed but not billed because the Company is entitled to bill only upon collection of the goods by the customer. The contract assets are transferred to trade receivables when the corresponding billing is issued.

The movement in the ECL allowance of contract assets is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Balance at 1 January	212	–
ECL allowance (reversed)/recognised during the year	(174)	212
Balance at 31 December	<b>38</b>	212

### 25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents balances carried interest at prevailing market interest rates ranging from 0.35% – 1.35% (2018: 0.3% – 1.54%) per annum during the year ended 31 December 2019. All cash and cash equivalents balances are denominated in RMB.

At 31 December 2019, cash and cash equivalents balances comprised of cash deposited in Rizhao Port Group Finance Co., Ltd. (日照港集團財務有限公司) (“**RPG Finance**”), a subsidiary of Rizhao Port Group, amounted to RMB86,610,000 (2018: RMB55,491,000).

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 26. TRADE AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables		
– Due to related parties ( <i>note 36</i> )	7,519	3,730
– Due to third parties	6,835	8,819
	<b>14,354</b>	12,549
Other payables		
– Amounts due to related parties ( <i>note 36</i> )	14,672	24,179
– Other tax payables	409	349
– Payroll payable	2,779	2,645
– Retention payable due within one year	1,576	2,021
– Accrued issue cost and listing expenses	–	12,929
– Other payables	4,224	5,380
	<b>23,660</b>	47,503
Total trade and other payables	<b>38,014</b>	60,052

The Company was granted by its suppliers credit periods ranging 30 – 90 days. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
0 – 30 days	11,674	8,654
31 – 60 days	1,419	819
61 – 90 days	947	879
Over 90 days	314	2,197
	<b>14,354</b>	12,549

All amounts are short-term and hence the carrying values of the Company's trade and other payables are considered to be a reasonable approximation of fair value.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 27. CONTRACT LIABILITIES

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Amounts received in advance		
– Provision of services	<b>84</b>	1,603

Contract liabilities represent the deposits received from the customers in advance of rendering services to customers.

There was no revenue recognised in the reporting period that related to performance obligation that were satisfied in prior year.

Contract liabilities outstanding at the beginning of the year amounting to RMB1,603,000 (2018: RMB7,173,000) have been recognised as revenue during the year.

### 28. LEASE LIABILITIES

	<b>2019</b> <i>RMB'000</i>
Total minimum lease payments:	
Due within 1 year	<b>34,136</b>
Due within 2 to 5 years	<b>86,441</b>
Due more than 5 years (include reasonably certain to be exercised of renewal options)	<b>634,971</b>
	<b>755,548</b>
Less: future lease liabilities finance charges	<b>(534,361)</b>
Present value of lease liabilities	<b>221,187</b>

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 28. LEASE LIABILITIES (CONTINUED)

	<b>2019</b> <b>RMB'000</b>
Present value of minimum lease payments:	
Due within 1 year	<b>13,312</b>
Due within 2 to 5 years	<b>6,465</b>
Due more than 5 years	<b>201,410</b>
	<b>221,187</b>
Less: payment due within 1 year (presented under current liabilities)	<b>(13,312)</b>
Payment due after 1 year	<b>207,875</b>

*Note:* Included in the above balance, the present value of RMB10,820,000 and RMB210,367,000 with total minimum lease payments of RMB11,207,000 and RMB744,341,000 represent lease liabilities payable to Rizhao Port and Rizhao Port Group, respectively.

During the year ended 31 December 2019, the total cash outflow for the leases are RMB34,783,000.

The Company has initially applied IFRS 16 using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current year, to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 has not been restated. Details for transitions to IFRS 16 are set out in note 3.

As at 31 December 2019, lease liabilities amounting to RMB221,187,000 (2018: nil) are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Company.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 28. LEASE LIABILITIES (CONTINUED)

#### Details of the lease activities

As at 31 December 2019, the Company has entered into leases for the items listed as follows:

Types of right-of-use assets	Financial statements items of right-of-use assets included in	Number of leases	Range of remaining lease term	Particulars
Buildings	Property, plant and equipment	1	2.58 years	<ul style="list-style-type: none"> <li>Only subject to monthly fixed rental payment</li> </ul>
Terminal facilities	Property, plant and equipment	1	1 year	<ul style="list-style-type: none"> <li>Contract contains an option to terminate the lease by giving one month notice to the landlord</li> </ul>
Storage yards	Property, plant and equipment	2	41.25 years	<ul style="list-style-type: none"> <li>Contracts contain an option to renew the lease for additional 30 years on the expiry of the original contracts</li> </ul>
Storage facilities	Property, plant and equipment	1	3 years	<ul style="list-style-type: none"> <li>Only subject to monthly fixed rental payment</li> </ul>
Prepaid lease payments	Property, plant and equipment	2	3 years	<ul style="list-style-type: none"> <li>All lease payments were prepaid upon entering the contracts</li> </ul>
Land use rights in PRC	Property, plant and equipment	1	38.25 years	<ul style="list-style-type: none"> <li>All lease payments were prepaid upon obtained the land use rights certificate</li> </ul>

Except for the storage yards that the Company considered renewal options are reasonably certain to be exercised because the leases are critical to the Company's main operation, the Company considered that no extension option or termination option in the other lease contracts would be exercised at the lease commencement date.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 29. ADVANCE PAYMENTS FROM LEASE CONTRACT

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Lease payments received in advance	<b>24,344</b>	26,719
Less: Advance payments from lease contract	<b>(2,375)</b>	(2,375)
Non-current portion of lease payments	<b>21,969</b>	24,344

### 30. BANK BORROWINGS

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Bank borrowings		
– Unsecured and unguaranteed	<b>100,000</b>	–

At the reporting date, the Company's bank borrowings were repayable as follows:

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 1 year or on demand	<b>25,000</b>	–
After 1 year but within 2 years	<b>75,000</b>	–
After 2 years but within 5 years	<b>–</b>	–
Less: Amount due within 1 year or on demand shown under current liabilities	<b>(25,000)</b>	–
Amount due after 1 year shown under non-current liabilities	<b>75,000</b>	–

All bank borrowings are denominated in RMB and interest-bearing of 4.75% (2018: nil) per annum, which is the benchmark lending rate of the People's Bank of China.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 31. DEFERRED TAX

The movement during the year in the deferred tax assets/(liabilities) is as follows:

	<b>Loss allowance for receivables and contract assets</b>	<b>Accrued expenses</b>	<b>Unbilled revenue</b>	<b>Temporary difference arising from depreciation of property, plant and equipment</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>(note (a)) RMB'000</i>	<i>(note (b)) RMB'000</i>	<i>RMB'000</i>
At 1 January 2018	279	956	(6,452)	–	(5,217)
Recognised in profit or loss ( <i>note 14</i> )	(55)	65	4,232	(7,307)	(3,065)
At 31 December 2018 and 1 January 2019	224	1,021	(2,220)	(7,307)	(8,282)
Recognised in profit or loss ( <i>note 14</i> )	(12)	(1,087)	2,220	711	1,832
<b>At 31 December 2019</b>	<b>212</b>	<b>(66)</b>	<b>–</b>	<b>(6,596)</b>	<b>(6,450)</b>

Notes:

- (a) The deferred tax liabilities are recognised in respect of the unbilled revenue and will become taxable when the corresponding billing is issued.
- (b) The deferred tax liabilities are recognised in respect of the temporary difference arising from one-time tax deduction for low valued equipment applied by the Company pursuant to the corresponding preferential tax regulation effective since 1 January 2018.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 32. SHARE CAPITAL

	Foreign shares	Domestic shares	H shares	Number of shares	RMB'000
<b>Issued and fully paid-up ordinary shares with par value of RMB1 each</b>					
At 1 January 2018	351,000,000	819,000,000	–	1,170,000,000	1,170,000
Conversion into joint stock limited liability Company	9,000,000	21,000,000	–	30,000,000	30,000
At 31 December 2018 and 1 January 2019	360,000,000	840,000,000	–	1,200,000,000	1,200,000
Foreign shares converted to H shares	(360,000,000)	–	360,000,000	–	–
Issue of share capital	–	–	460,000,000	460,000,000	460,000
<b>At 31 December 2019</b>	<b>–</b>	<b>840,000,000</b>	<b>820,000,000</b>	<b>1,660,000,000</b>	<b>1,660,000</b>

On 19 December 2018, the share capital of the Company has been increased to RMB1,200,000,000 upon the completion of conversion into a joint stock company with limited liability. Rizhao Port and Jurong Port Rizhao Holding Pte Ltd subscribes 70% and 30% of the total issued shares.

360,000,000 shares were foreign shares as at 31 December 2018 and 1 January 2019, which were converted into H shares upon the listing on 19 June 2019.

On 19 June 2019, 400,000,000 H shares of the Company with par value of RMB1 each have been issued at an issue price of HK\$1.50 each.

On 12 July 2019, additional 60,000,000 over-allotment were exercised and correspondingly issued 60,000,000 H shares of the Company with par value of RMB1 each have been issued at an issue price of HK\$1.50 each.

Issued at offer price of HK\$1.50 per share, with proceeds raised from the issue amounted to RMB606,822,000 on the main board of the Stock Exchange after deduction of professional fees, underwriting commissions and other related listing expenses of RMB60,408,000, of which RMB41,577,000 were capitalised and RMB18,831,000 were expensed, the aggregate net proceeds amounted to RMB546,414,000.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 33. RESERVES

#### (a) Share premium

Share premium represents the excess of the net proceeds from issuance of the shares of the Company over its par value.

#### (b) Capital reserve

The capital reserve represents the transferred of retained earnings and statutory reserve of the Company upon conversion to a joint stock limited liability company in the PRC in 2018.

#### (c) Statutory reserve

In accordance with the relevant laws and regulations for the Company, it is required to transfer at least 10% of its annual net profit determined in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of PRC, after offsetting any prior years' losses, to the statutory reserve. When the balance of such a reserve reaches 50% of the registered capital of the respective company, any further appropriation is at the discretion of shareholders. The statutory reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing share holding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the reserve after such an issue is not less than 25% of registered capital. The statutory reserve is non-distributable.

### 34. LEASE ARRANGEMENT

#### (a) As lessor

At 31 December 2019 and 2018, the Company had future aggregate minimum lease receivables under non-cancellable operating leases in respect of premises as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within one year	73,984	71,108
After one year but with two years	73,942	70,399
After two years but within three years	73,942	70,399
After three years but within four years	73,941	70,399
After four years but within five years	73,941	70,399
Over five years	416,842	516,276
	<b>786,592</b>	868,980

Operating lease receivables represents rental receivable by the Company for its properties under operating lease arrangements. Lease are negotiated with fixed lease term ranging 1 to 20 years.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 34. LEASE ARRANGEMENT (CONTINUED)

#### (b) As lessee

At the reporting date, there is no lease commitments for short-term leases (2018: total future minimum lease payments payable by the Company under non-cancellable operating leases in respect of rented berth and land use rights).

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Within one year	–	33,305
In the second to fifth year inclusive	–	97,531
Over five years	–	153,346
	–	284,182

As at 31 December 2018, the Company leases buildings, terminal facilities, storage yards and storage facilities under operating leases. Leases are negotiated for terms ranging from 1 to 20 years with fixed rentals, apart from an operating lease of terminal facilities which is based on a fixed rental plus an amount determined based on the profits generated from the underlying leased berth. Certain leases carried an extension option to renew the lease. None of the leases include contingent rentals.

### 35. CAPITAL COMMITMENTS

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Capital expenditure contracted but not provided for acquisition of property, plant and equipment	<b>99,406</b>	61,300

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 36. CONNECTED AND RELATED PARTY TRANSACTIONS

The Company's accounting policies on related parties are disclosed in note 2.22. In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Company had the following material transactions with related parties:

**(a) During the year, the connected and related parties that had transactions with the Company were as follows:**

Name of related parties	Relationship with the Company
Rizhao Port Group	Ultimate holding company
Rizhao Port	Immediate holding company
Rizhao Port Information Technology Co., Ltd.# (日照口岸信息技術有限公司) ("Rizhao Port Information")	Subsidiary of Rizhao Port Group
Rizhao Port Power Engineering Co., Ltd.# (日照港工程動力有限公司) ("Rizhao Port Power")	Subsidiary of Rizhao Port Group
Shandong Gangwan Construction Group Co., Ltd.# (山東港灣建設集團有限公司) ("Shandong Gangwan")	Subsidiary of Rizhao Port Group
Rizhao Port Construction and Supervision Co., Ltd.# (日照港建設監理有限公司) ("Rizhao Port Supervision")	Subsidiary of Rizhao Port Group
Rizhao Port Machinery Engineering Co., Ltd.# (日照港機械工程有限公司) ("Rizhao Port Machinery")	Subsidiary of Rizhao Port Group
Rizhao Gangtong Communication Engineering Co., Ltd.# (日照港通通信工程有限公司) ("Rizhao Gangtong Communication")	Subsidiary of Rizhao Port Group
Rizhao Port Handling Co., Ltd.# (日照海港裝卸有限公司) ("Rizhao Port Handling")	Subsidiary of Rizhao Port Group
Rizhao Zhongran Marine Fuel Supply Co., Ltd.# (日照中燃船舶燃料供應有限公司) ("Rizhao Zhongran Marine Fuel")	Subsidiary of Rizhao Port Group
Rizhao Port Property Co., Ltd.# (日照港物業有限公司) ("Rizhao Port Property")	Subsidiary of Rizhao Port Group
Rizhao Port Container Development Co., Ltd.# (日照港集裝箱發展有限公司) ("Rizhao Port Container")	Subsidiary of Rizhao Port Group
Rizhao Port Group Finance Co., Ltd. (日照港集團財務有限公司) ("RPG Finance")	Subsidiary of Rizhao Port Group
Rizhao Port Property Co., Ltd. Youth Hostel (日照港物業有限公司青年公寓) ("Rizhao Port Youth Hostel")	Subsidiary of Rizhao Port Group
Shangdong Lanxiang Construction Engineering Co. Ltd. (山東藍象建築工程有限公司) ("Shangdong Lanxiang")	Subsidiary of Rizhao Port Group
Lanshan Branch of Rizhao Port Co., Ltd. (日照港股份有限公司嵐山裝卸分公司) ("Lanshan Branch of Rizhao Port")	Subsidiary of Rizhao Port Group

# The English translation of the name of the company established in the PRC is for reference only. The official name of this company is in Chinese.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 36. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

(b) During the year, the material transactions with related parties of the Company were as follows:

		2019 RMB'000	2018 RMB'000
Rizhao Port Group	Lease of land use rights and warehouse in the PRC	–	24,482
Rizhao Port Group	Interest paid on lease liabilities	20,565	–
Rizhao Port Group	Acquisition of terminal facilities	56,516	–
Rizhao Port	Interest paid on lease liabilities	1,072	–
Rizhao Port	Procurement of utility services and berth leasing expense	24,155	52,451
Rizhao Port Container	Acquisition of terminal facilities	392,263	–
Rizhao Port Container	Acquisition of land use rights in PRC	15,479	–
Rizhao Port Container	Berth leasing income	7,418	7,264
Shandong Gangwan	Procurement of construction service	16,224	19,425
Rizhao Port Handling	Procurement of port related services	49,102	48,976
Rizhao Zhongran Marine Fuel	Procurement of utility services	4,104	4,991
RPG Finance	Interest income	440	851
Rizhao Port Power	Procurement on utility services	18,445	–
Lanshan Branch of Rizhao Port	Procurement of port related services	7,093	–

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 36. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

#### (c) Related party balances

##### Amounts due to related parties (non-trade nature)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Rizhao Port Machinery	72	63
Rizhao Gangtong Communication	–	48
Rizhao Port Power	52	52
Rizhao Port Supervision	25	25
Shandong Gangwan	14,441	23,933
Rizhao Port Information	19	58
Rizhao Port Property	49	–
Shangdong Lanxiang	14	–
	<b>14,672</b>	24,179

The amounts due are unsecured, interest-free, and repayable on demand.

##### Amounts due to related parties (trade nature)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Rizhao Port	–	1,774
Rizhao Port Handling	–	1,956
Lanshan Branch of Rizhao Port	7,519	–
	<b>7,519</b>	3,730

##### Deposits paid to related parties for acquisition of property, plant and equipment

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Shandong Gangwan	–	6,700
Rizhao Port Youth Hostel	101	–

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 36. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

#### (c) Related party balances (Continued)

##### Lease liabilities payables

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Rizhao Port	10,820	–
Rizhao Port Group	210,367	–
	<b>221,187</b>	–

##### Right-of-use assets – Prepaid lease payments/Prepayments to related company for premises under operating lease

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Rizhao Port Group	4,594	6,126

#### (d) Cash and cash equivalents balances placed with related company

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
RPG Finance	86,610	55,491

#### (e) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Salaries, allowances and benefits in kind	1,528	1,640
Pension contributions	468	391
	<b>1,996</b>	2,031

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Company arising from financing activities can be classified as follows:

	Bank borrowings	Dividends payable	Interest payables	Amounts due to related parties	Accrued issue cost	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1 January 2019	-	210,000	-	-	6,738	-	216,738
Impact on initial application of IFRS 16 (note 3)	-	-	-	-	-	222,983	222,983
1 January 2019 (adjusted)	-	210,000	-	-	6,738	222,983	439,721
Cash-flows:							
- Repayment	(150,000)	(202,000)	(6,175)	(14,507)	(6,738)	-	(379,420)
- Proceeds	250,000	-	-	29,179	-	-	279,179
- Capital element of lease rentals paid	-	-	-	-	-	(12,219)	(12,219)
- Interest element of lease rentals paid	-	-	-	-	-	(21,637)	(21,637)
Non-cash:							
- Entering into new leases	-	-	-	-	-	10,423	10,423
- Interest expenses	-	-	6,175	-	-	21,637	27,812
- Settlement by bills receivables	-	(8,000)	-	-	-	-	(8,000)
31 December 2019	100,000	-	-	14,672	-	221,187	335,859
1 January 2018	158,867	-	260	-	-	-	159,127
Cash-flows:							
- Repayment	(158,867)	(40,000)	(5,928)	-	(307)	-	(205,102)
Non-cash:							
- Issue cost accrued	-	-	-	-	7,045	-	7,045
- Interest expenses	-	-	5,668	-	-	-	5,668
- Dividends (note 16)	-	250,000	-	-	-	-	250,000
31 December 2018	-	210,000	-	-	6,738	-	216,738

# Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

## 38. NON-CASH TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the financial statements, during the year, the Company had the following major non-cash transactions:

- (i) During the year ended 31 December 2019, the Company entered into certain lease contracts in which additions to right-of-use assets and lease liabilities amounting to RMB10,423,000 was recognised at the lease commencement date.
- (ii) During the year ended 31 December 2019, the Company settled dividend payable to an intermediate holding company by bills receivables of RMB8,000,000.

## 39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Company is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

In light of the simplicity of the operations, the risk management of the Company is carried out by the board of directors (the "Board") directly. The Board generally adopts conservative strategies on its risk management and limits the Company's exposure to these risks to a minimum.

There has been no change to the types of the Company's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

### 39.1 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Financial assets</b>		
Financial assets at amortised cost		
– Trade and other receivables	31,853	21,751
– Cash and cash equivalents	198,107	55,491
Financial assets at FVTOCI		
– Bills receivable at FVTOCI	7,956	15,808
	<b>237,916</b>	93,050

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 39.1 Categories of financial assets and liabilities (Continued)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost		
– Trade and other payables	37,605	57,058
– Lease liabilities	221,187	–
– Bank borrowings	100,000	–
– Dividends payable	–	210,000
	<b>358,792</b>	267,058

#### 39.2 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. The Company is also exposed to cash flow interest rate risk in relation to floating-rate balances deposited with banks and financial institution.

The Company manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management review the proportion of borrowings in floating rates and ensure they are within reasonable range.

Based on the balance of its interest-bearing borrowings as at 31 December 2019, it is estimated that should there be a general increase/decrease of 50 basis points in the lending rates of the People's Bank of China with all other variables being held constant, this would have the effect of decreasing/increasing the Company's profit for the year ended 31 December 2019 and retained profits as at 31 December 2019 by approximately RMB375,000 (2018: nil). The above sensitivity analysis is prepared based on the assumption that the borrowings as at 31 December 2019 and 2018 existed throughout the whole respective financial year.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 39.3 Liquidity risk

Liquidity risk refers to the risk in which the Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Company's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The management of the Company monitors the Company's cash flow positions on a regular basis to ensure the cash flows of the Company are positive and strictly controlled. The Company aims to maintain flexibility and shareholders' capital contributions in funding by keeping committed credit limits available.

The following table details the Company's remaining contract period for its non-derivative financial liabilities based on the agreed repayment terms or the estimated repayment schedule if certain covenant is breached. The table has been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows:

	Within 1 year or on demand <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total undiscounted amount <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
<b>At 31 December 2019</b>						
Trade and other payables	38,014	–	–	–	38,014	38,014
Lease liabilities	34,136	45,708	40,733	634,971	755,548	221,187
Bank borrowings – at floating rate	77,681	31,964	–	–	109,645	100,000
	<b>149,831</b>	<b>77,672</b>	<b>40,733</b>	<b>634,971</b>	<b>903,207</b>	<b>359,201</b>
<b>At 31 December 2018</b>						
Trade and other payables	57,058	–	–	–	57,058	57,058
Dividends payable	210,000	–	–	–	210,000	210,000
	267,058	–	–	–	267,058	267,058

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 39.4 Credit risk

Credit risk refers to the risk that a customer or counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Company. The Company considers all elements of credit risk exposure such as counterparty default risk and sector risk for risk management purposes.

The Company's maximum exposure to credit risk on recognised financial assets is limited to their carrying amounts as disclosed in note 39.1.

##### (i) Trade receivables and contract assets

The Company trades only with recognised and creditworthy customers. It is the Company'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 ongoing basis to ensure that follow-up action is taken to recover balances based on provision matrix.

The Company has applied the simplified approach in IFRS 9 to measure the impairment loss at lifetime ECL. The Company determines that the ECL on these items is estimated on an individual basis for customers with significant balance and collectively by using a provision matrix based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Company writes off trade receivables and contract assets when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. For years ended 31 December 2019 and 2018, none of the trade receivables and contract assets that had been written off as the directors of the Company assessed that no counterparties were in severe financial difficulty and the prospect of recovery was still realistic.

In order to minimise credit risk, the Company has tasked its operation management committee to develop and maintain the Company's credit risk rating to categorise exposures according to their degree of risk of default.

The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Company's own trading records to rate its major customers and other debtors. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The following table provides information about the exposure to credit risk for gross trade receivables and contract assets which are assessed on an individual basis for customers with significant balance and collectively assessed by using a provision matrix as at 31 December 2019 within lifetime ECL (not credit impaired).

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 39.4 Credit risk (Continued)

##### (i) Trade receivables and contract assets (Continued)

Internal credit rating

	Average loss rate %	Trade receivables RMB'000	Contract assets RMB'000
<b>At 31 December 2019</b>			
Low risk	2.15%	12,559	1,771
Watch list	6.28%	20,141	–
		<b>32,700</b>	<b>1,771</b>
<b>At 31 December 2018</b>			
Low risk	2.15%	17,097	9,899
Watch list	6.28%	5,236	–
		<b>22,333</b>	<b>9,899</b>

The Company's credit risk grading framework in respect of financial assets other than trade receivables comprises the following categories:

Internal credit rating	Description	Basis for recognising ECL
Low risk	The debtor has historically made payments on time, and has a low risk of default	12 month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date or the turnover days of debtor exceeds the credit term granted	12 month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 39.4 Credit risk (Continued)

##### (ii) Other financial assets

Other financial assets at amortised cost include other receivables and cash and cash equivalent.

The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables are considered to be low.

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 2.8 and, thus, ECL recognised is based on 12-month ECL and the impact of ECL is insignificant.

The credit risk on cash and cash equivalents are considered to be insignificant as the counterparties are banks with high credit ratings and a fellow subsidiary of the Company which only provides financial services to counterparties with high credit rating. The directors continuously monitor the quality and financial conditions of this counterparty.

The credit risk on bills receivable at FVTOCI are considered to be insignificant as the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

#### 39.5 Fair values measurements of financial instruments

Financial assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

## Notes to the Financial Statements (Continued)

for the year ended 31 December 2019

### 39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 39.5 Fair values measurements of financial instruments (Continued)

The level in the fair value hierarchy within which the financial assets is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

As at 31 December 2019 and 2018, the Company had only Level 3 bills receivable at FVTOCI. There were no transfers between Levels 1, 2 and 3 during the years ended 31 December 2019 and 2018.

The fair values of financial assets at FVTOCI are determined using discounted cash flow at a discount rate that reflects the current borrowing rate at the end of the reporting period. The director of the Company considers the fluctuation in the discount rate would not result in a significant change in the fair value.

### 40. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that the Company will be able to operate continuously and maximise the return to owners of the Company through the optimisation of the balance between debt and equity. The Company's overall strategy remains unchanged throughout the years ended 31 December 2019 and 2018.

The capital structure of the Company consists of net debt, which includes bank borrowings, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued paid-in capital and reserves.

The management of the Company reviews the capital structure from time to time. As a part of this review, the management of the Company considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Company, the Company will balance its overall capital structure through the payment of dividends, the issue of new shares or new debts or the redemption of existing debts.

# Four-Year Financial Summary

	Year ended 31 December			<b>2019</b> <i>RMB'000</i>
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	
<b>Results</b>				
Revenue	488,214	520,514	532,061	<b>542,783</b>
Profit (loss) before tax	104,813	170,386	198,609	<b>188,722</b>
Taxation	(26,411)	(43,404)	(49,457)	<b>(47,591)</b>
Profit (loss) for the year	78,402	126,982	149,152	<b>141,131</b>
<b>As at 31 December</b>				
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	<b>2019</b> <i>RMB'000</i>
<b>Assets and liabilities</b>				
Total assets	1,826,381	1,762,771	1,717,548	<b>2,511,242</b>
Total liabilities	(391,359)	(253,767)	(309,932)	<b>(397,250)</b>
	1,435,022	1,509,004	1,407,616	<b>2,113,992</b>
<b>Capital and reserves</b>				
Capital and reserves				
Share capital	1,170,000	1,170,000	1,200,000	<b>1,660,000</b>
Reserves	265,022	339,004	207,616	<b>453,992</b>
<b>Total equity</b>	<b>1,435,022</b>	<b>1,509,004</b>	<b>1,407,616</b>	<b>2,113,992</b>