2019 年報
ANNUAL REPORT

股份代號 Stock Code: 301

三和精化集團有限公司
SANVO Fine Chemicals Group Limited
(於開曼群島註冊成立之有限公司)
(Incorporated in the Cayman Islands with limited liability)

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Chen Bingqiang *(Chairman)*
Mr. Chen Bingyao
Mr. Ng Cheuk Lun

INDEPENDENT NON-EXECUTIVE DIRECTORS
Ir. Daniel Lai
Mr. Xu Kai
Mr. Yeung Chun Yue David

AUDIT COMMITTEE
Mr. Yeung Chun Yue David *(Chairman)*
Ir. Daniel Lai
Mr. Xu Kai

REMUNERATION COMMITTEE
Ir. Daniel Lai *(Chairman)*
Mr. Xu Kai
Mr. Yeung Chun Yue David
Mr. Chen Bingqiang

NOMINATION COMMITTEE
Mr. Xu Kai *(Chairman)*
Ir. Daniel Lai
Mr. Yeung Chun Yue David
Mr. Chen Bingyao

COMPANY SECRETARY
Mr. Ng Cheuk Lun

AUTHORISED REPRESENTATIVES
Mr. Chen Bingqiang
Mr. Ng Cheuk Lun

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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
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INDEPENDENT AUDITOR
Moore Stephens CPA Limited
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HONG KONG LEGAL ADVISER
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PLACE OF LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
301

COMPANY'S WEBSITE
www.sanvo.com

FINANCIAL SUMMARY

	For the Year Ended 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**814,016**	769,171	669,274	512,219
Gross profit	**224,532**	185,812	152,936	133,743
Gross profit margin	**27.6%**	24.2%	22.9%	26.1%
Profit before income tax	**26,724**	27,526	24,339	29,143
Profit for the year	**23,935**	22,734	20,406	24,181
Listing expenses	**12,753**	8,549	3,129	—

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**410,053**	345,109	394,848	370,823
Total liabilities	**(325,477)**	(317,336)	(313,892)	(300,693)
Total equity	**84,576**	27,773	80,956	70,130

Notes

(1) The summary of the consolidated results and financial position of the Group for the years ended 31 December 2016, 2017 and 2018 are extracted from the Company's prospectus dated 27 December 2019 (the "**Prospectus**").

(2) No financial information of the Group for the year ended 31 December 2015 has been published.

CHAIRMAN'S STATEMENT

2020 is a year of great commemoration for SANVO Fine Chemicals Group Limited (the "Company" or "SANVO Fine Chemicals") and its subsidiaries (the "Group" or "us"). On 16 January 2020, SANVO Fine Chemicals successfully listed on the main board of the Stock Exchange, raising net proceeds of approximately HK$75,200,000. The successful listing not only enhanced our capital strength and market publicity but also represented the capital market's recognition of our business, an important milestone for us.

On behalf of the Board of the Company, I hereby submit to the shareholders, the first annual report of SANVO Fine Chemicals after its listing for the year ended 31 December 2019.

The Group recorded profit after tax of approximately RMB23.94 million in 2019, representing a year-on-year increase of 5.3%. The increase was mainly attributable to sales and gross profit margin growth. The Company proposes to declare a final dividend to shareholders for 2019 of HK2.4 cents per ordinary share.

As at the end of 2019, we have established a team of over 880 staff, and 5 production bases located in Guangdong Province, China. This foundation will allow us to continue the development policies and opportunities provided in the Greater Bay Area, thereby expanding our national sales network and overseas market expansion.

Finally, on behalf of SANVO Fine Chemicals, I would like to express my heartfelt appreciation to our shareholders, customers, suppliers and professional teams. We will continue to seize the development opportunities of the industry and reward the trust of our shareholders with continuous business development and improvement of business management to create greater value.

Chen Bingqiang
Chairman

Guangdong, China, 24 April 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is a well established fine industrial chemical products manufacturer based in the People's Republic of China (the "**PRC**"). The Group focuses principally on the manufacture, research and development, and sale of a diversified portfolio of fine industrial chemical products, which can serve a range of purposes, including as hardware and building materials and towards automotive maintenance. The Group's products can be broadly categorised into the following segments: (i) aerosols, (ii) organic silicone adhesives, (iii) synthetic adhesives, and (iv) other miscellaneous products such as architectural coatings, oil products and wood paints.

The Group has two principal lines of business operations, namely the manufacture and sale of fine industrial chemical products: (i) under the brands of "SANVO 三和" and "FullTeam 芙田", and (ii) on an original equipment manufacturing ("**OEM**") basis whereby products are manufactured in accordance with the customer's design and specification and are marketed under the customer's brand name.

For the year ended 31 December 2019 ("**Year 2019**"), the Group maintained a similar net earning level compared to the year ended 31 December 2018 ("**Year 2018**"). The Group's total production output for Year 2019 was approximately 53,800 tonnes as compared to Year 2018 of approximately 53,700 tonnes. Aerosols related products remain as the major revenue source of the Group which accounted for over 59% of the Group's total revenue for Year 2019.

As at 31 December 2019, the Group had 881 employees (31 December 2018: 880), including the executive directors of the Company ("**Directors**"). The Group's total employee benefit expenses (including Directors' remuneration and salaries in research and development expenses) were RMB78,758,000 for Year 2019 (Year 2018: RMB63,722,000). Employee benefit expenses comprised of (i) salaries, allowances and benefits in kind, (ii) discretionary bonus, and (iii) retirement benefit scheme contributions.

The recent outbreak of COVID-19 has a significant impact on global and regional economy (i.e. currency fluctuation, temporary suspension of operation and logistic arrangements and etc.), the Group expects that inventories will need to be replenished and economic activities are expected to pick up quickly following the outbreak.

In view of the subsequent effect of the outbreak, the Group will continue focus on the development of (i) the domestic sales network and overseas OEM customers and (ii) the production site located at Shazi Industrial Park, Minzhong Town, Zhongshan City, Guangdong, the PRC (the "**MV Production Site**") in order to increase its production capacity for aerosols related products.

FINANCIAL REVIEW

Revenue

The total revenue of the Group amounted to RMB814,016,000 for Year 2019, representing an increase of approximately 5.8% from RMB769,171,000 for Year 2018. The increase of revenue was mainly attributable to the increase in average selling price of the Group's products.

Gross profit and gross profit margin

Gross profit of the Group amounted to RMB224,532,000 for Year 2019, representing an increase of approximately 20.8% from RMB185,812,000 for Year 2018. Gross profit margin increased from approximately 24.2% for Year 2018 to approximately 27.6% for Year 2019. The above increase was mainly due to the combined effect of increase in average selling price and decrease in average unit cost of sales arising from the decrease in purchase price of raw materials.

Other income and gains

Other income and gains of the Group increased from RMB2,878,000 for Year 2018 to RMB2,944,000 for Year 2019. The increase was mainly attributable to the slight increase in the government unconditional subsidies.

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB90,238,000 for Year 2018 to RMB102,135,000 for Year 2019. The increase was mainly due to increase in (i) advertising and promotion expenses, (ii) freight charge and (iii) commission to merchandiser for overseas OEM orders.

Administrative expenses

Administrative expenses of the Group increased from RMB62,163,000 for Year 2018 to RMB80,843,000 for Year 2019. The increase was mainly due to the increase in (i) research and development costs, (ii) staff salaries and allowances, (iii) depreciation expenses and (iv) auditor's remuneration.

Listing expenses

The Group incurred listing expenses of RMB12,753,000 for Year 2019 as compared to RMB8,549,000 for Year 2018. These listing expenses were recognised according to the stage of the professional parties completed during the years.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance costs
Finance costs of the Group decreased from RMB5,061,000 for Year 2018 to RMB4,379,000 for Year 2019. The reason for the decrease was caused by the increase in interest capitalised into property, plant and equipment in Year 2019.

Income tax expense
Income tax expense of the Group decreased from RMB4,792,000 for Year 2018 to RMB2,789,000 for Year 2019. The decrease was mainly due to over-provision of income tax expense in prior year.

Profit for the year
The Group's profit for Year 2019 was RMB23,935,000, representing an increase of approximately 5.3% as compared to the profit for Year 2018 of RMB22,734,000.

DIVIDENDS
The Board has recommended a final dividend of HK2.4 cents per ordinary share for Year 2019, subject to the approval of the shareholders of the Company at the forthcoming general meeting (the "**AGM**").

The Board endeavours to strike a balance between the interests of the shareholder and prudent capital management with a sustainable dividend policy. In proposing any dividends, the Board shall take into consideration of, among others, the following factors:

1. operations and financial performance;

2. business development;

3. prospects;

4. capital requirements;

5. economic outline; and

6. any other factors that the Board consider appropriate.

The Board will review the dividend policy as appropriate from time to time.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE
Capital structure
The shares of the Company (the "**Shares**") were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 January 2020 (the "**Listing Date**") and there has been no change in capital structure of the Group since then.

Liquidity and financial resource
The Group recorded net current liabilities of RMB74,269,000 as of 31 December 2019 (31 December 2018: RMB111,796,000). The decrease in net current liabilities was primarily due to (i) increase in trade and bills receivables and (ii) capitalisation of amount due to a director of RMB33,184,000.

The current ratio, calculated by dividing the current assets by current liabilities, was 0.72 as at 31 December 2019 (31 December 2018: 0.58). The gearing ratio, calculated by dividing total interest-bearing bank borrowings by equity of the Group, was 1.5 as at 31 December 2019 (31 December 2018: 3.4). The decrease in gearing ratio of approximately 55.9% was mainly attributable to the increase in the total equity as a result of (i) capitalisation of amount due to a director of RMB33,184,000 and (ii) profit for the year of RMB23,935,000 recorded in Year 2019.

For Year 2019, the Group had funded its growth principally from cash generated from the sale of its products and debt financing, and the Group had generated sufficient cash and cash equivalents to meet its capital requirements. As at 31 December 2019, the Group had cash and bank deposits (including pledged bank deposits) of RMB39,468,000 (31 December 2018: RMB30,108,000).

TREASURY POLICY
The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements all the time.

PROPERTY, PLANT AND EQUIPMENT
The Group's property interests, which were stated at cost in the consolidated statement of financial position, were valued at RMB178.8 million as at 30 September 2019 in the Prospectus. Had the Group's property interests been included in the consolidated financial statements at such valuation amount, an additional depreciation charge of approximately RMB1.0 million would have been recognised in the consolidated statement of comprehensive income in the Year 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to various risks and uncertainties. The following are the key risks and uncertainties faced by our Group:

Price of Raw Materials

Our production process requires reliable and stable sources of large quantities of raw materials from third parties. We generally maintain a certain level of inventory of our raw materials for future production or to meet future demand according to our production plan and we do not have hedging arrangements against fluctuations in raw material prices and therefore we bear the risks associated with raw material cost fluctuations. The pricing of our raw materials is also sensitive to supply disruptions, general economic conditions, and many other factors that are beyond our control. We expect the prices of some of our key raw materials may increase in the future. If we are unable to reflect increases in the price of raw materials efficiently or adequately in the selling prices of our products, our cost base may increase, which may lead to a reduction in our gross profit margin, and the operating results for our products may be materially and adversely affected.

Market Risks

The market in which we operate is highly competitive and fragmented. Competitive factors include product quality, price, design and development capability, timely delivery, valuable service, scale and capacity, and efficiency. We face competition from existing and new players in the fine industrial chemicals industry worldwide, including numerous manufacturers in the PRC and elsewhere which offer similar fine industrial chemical products at lower prices than we do, as well as other enterprises which offer an increasing number of related products which could be used as substitutes for our products.

We expect competition in our industry to intensify in the future. There can be no assurance that we can stay competitive due to improvements by our competitors or other factors. To compete effectively, we may be forced, among other actions, to reduce prices, provide more sales incentives to customers and increase capital expenditures in our labour force, plant, property and equipment. Any intensification of the competition or failure by us to compete successfully with our competitors could have an adverse impact on the demand for, and pricing of, our products, and as a result, could result in a reduction of our market share and have an adverse effect on our business, financial condition, results of operations and prospects.

Compliance Risks

Under relevant PRC laws and regulations, we are required to hold various licences and permits in order to conduct our business. We are also required to comply with applicable regulations and standards in relation to our production and the quality of our products. These registrations, licenses, permits and certificates may only be valid for a limited period of time and may be subject to periodic reviews and renewal by the relevant authorities. Failure to comply with these laws and regulations, or the loss of or failure to renew our licences and permits or any change in the government policies, could lead to temporary or permanent suspension of some of our business operations or the imposition of penalties on us, which could adversely affect our results of operations and financial condition.

BANK BORROWINGS AND PLEDGE OF ASSETS

As at 31 December 2019, the Group had interest-bearing bank borrowings of RMB124,810,000 (31 December 2018: RMB94,918,000). The interest rate of the relevant banking borrowings was charged in the range of 5.56% to 6.47% per annum for Year 2019 (Year 2018: 5.88% to 6.75%).

As at 31 December 2019, the total pledged bank deposits of the Group was RMB23,000,000 (31 December 2018: RMB11,290,000) were placed with a bank as securities for, amongst others, issues of bills payables for the Group's purchase of raw materials and guarantee to complete construction work for the leasehold land acquired in Year 2018.

At the end of each reporting period, the Group's interest-bearing bank borrowings were secured by the following assets:

	Year 2019	Year 2018
	RMB'000	RMB'000
Property, plant and equipment	**37,967**	30,691
Prepaid lease payments	—	43,193
Right-of-use assets	**89,093**	—
Inventories	**16,406**	2,558

All personal guarantees and securities provided by the controlling shareholder of the Company, Mr. Ernest Chen, and one of the executive Directors as at 31 December 2019 for our interest-bearing bank borrowings had been released subsequently.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FOREIGN EXCHANGE EXPOSURE

Majority of the Group's transaction are settled in RMB in the PRC, the Directors are of the view that the Group's foreign exchange rate risks are not significant. The Group has not entered into any derivative contracts to hedge against the foreign exchange rate risk for Year 2019 and Year 2018.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments related to capital expenditures for acquisition and construction of property, plant and equipment which the Group has contracted for but not yet incurred as at 31 December 2019 were RMB26,936,000 (31 December 2018: RMB27,991,000).

Save as disclosed in Note 36 to the consolidated financial statements of this report, the Group had no material contingent liabilities as at 31 December 2019 and 2018.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During Year 2019, the Group did not have any significant investment held, any material acquisitions or disposals of subsidiaries or associated companies apart from the corporate reorganisation as disclosed in the Prospectus.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Group did not have other future plans for material investments or capital assets during Year 2019.

USE OF PROCEEDS

The net proceeds received by the Group after deducting the related underwriting commissions and other listing expenses, were approximately HK$75.2 million (the "IPO Proceeds"). The IPO Proceeds are intended to be utilised in accordance with the proposed application as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at the date of this annual report, the utilisation of the IPO Proceeds is as follows:

	Allocation as disclosed in the Prospectus	Amount utilised as at the date of this report	Remaining balance as at the date of this report
	HK$'000	HK$'000	HK$'000
Investment in new manufacturing facility at the MV Production Site	60,200	—	60,200
Sales and marketing activities to enhance brand recognition in the PRC and overseas	7,500	—	7,500
Working capital and other general corporate purpose	7,500	—	7,500
Total	**75,200**	**—**	**75,200**

As at the date of this report, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong and the PRC. The Directors regularly evaluate the Group's business objective and may change or modify plans against the changing market condition to ascertain the business growth of the Group. From the Listing Date up to the date of this report, the Board considered that no modification of the use of proceeds described in the Prospectus was required.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Bingqiang

Mr. Chen Bingqiang ("**Mr. Ernest Chen**"), aged 51, is the chief executive officer, an executive Director, the chairman of the Board, a member of the remuneration committee and the elder brother of Mr. Leo Chen. Mr. Ernest Chen is primarily responsible for overseeing our overall management, strategic planning and business development of the Group. He was appointed as a Director of the Company on 12 April 2018 and redesignated as an executive Director on 15 April 2019. Mr. Ernest Chen is also a director of other members of the Group.

Mr. Ernest Chen has over 17 years of experience in the chemicals industry. Mr. Ernest Chen worked as a director in Foshan City Shunde District Sanvo Industrial Co., Ltd.* (佛山市順德區三和實業有限公司)("**Foshan Sanvo**"), a company engaged in the manufacture of plastic products, textiles, knitwear, auto parts and interior decoration materials from March 1995 to June 2007, where he was mainly responsible for the overall management of the company. He joined the Group in April 2002. Mr. Ernest Chen graduated from the China Pharmaceutical University in Jiangsu province with a bachelor's degree in science, majoring in chemical pharmaceutics in July 1991, and from the Chinese University of Hong Kong with a master's degree in business administration in November 2016.

Mr. Ernest Chen was a legal representative of Foshan Sanvo, a company established in the PRC which was deregistered in accordance with PRC laws in June 2007. Mr. Ernest Chen was also a supervisor of Beijing Shangshan Zhiyuan Chemical Technology Research Institute Co., Ltd.*(北京上繕致遠化工技術研究院有限公司), a company established in the PRC and engaged in engineering and technology research and experimental development, which was deregistered in accordance with PRC laws in August 2015. He was also an executive Director and manager of Zhongshan Fullteam Chemical Co., Ltd.*(中山芙田化學有限公司), a company established in the PRC and engaged in production, sales and research of among other things, water based paint and water based high performance resin which was deregistered in accordance with PRC Laws in March 2019.

Mr. Ernest Chen has been a registered pharmacist as recognised by the Shunde City Science and Technology Bureau*(順德市科技局)in the PRC since July 1993. He has also been accredited as an intermediate engineer by the Guangdong Coating Industry Association(廣東省塗料行業協會)in the PRC since July 2015. Mr. Ernest Chen was also co-awarded with Mr. Leo Chen the accredited patent award of Zhongshan for a product named "nano mildew neutral silicone sealant" in July 2012.

Details of Mr. Ernest Chen's interests in the Shares are set out in the paragraph headed "Interests and Short Positions of the Directors and the Chief Executive of the Company in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" of this Report.

Mr. Chen Bingyao

Mr. Chen Bingyao ("**Mr. Leo Chen**"), aged 46, is an executive Director of the Company, a member of the nomination committee and the younger brother of Mr. Ernest Chen. He is also the chief technical engineer of the Group. Mr. Leo Chen is primarily responsible for overseeing our overall management, research and development, quality control of the products offered by the Group. He was appointed as a Director of the Company on 12 April 2018 and redesignated as an executive Director on 15 April 2019.

Mr. Leo Chen is also a director of Zhongshan Minhe Chemical Industry Technology Limited* (中山市珉和化工科技有限公司), Guangdong Sanvo Holdings Co., Limited*(廣東三和控股有限公司), Guangdong Sanvo Chemical Industry Technology Limited* (廣東三和化工科技有限公司) ("**Guangdong Sanvo**") and Guangdong Fuvo Industrial Co., Limited* (廣東阜和實業 有限公司)("**Guangdong Fuvo**"); and a supervisor of Guangdong Sanvo, Guangdong Fullteam Chemicals Limited*(廣東芙田化學有限公司) and Guangdong Shunde Sanvo Chemical Industry Technology Limited* (廣東順德三和化工有限公司).

Mr. Leo Chen has over 16 years of experience in the chemicals industry. Prior to joining the Group, he worked in Guangdong Mediworld Pharmaceutical Co., Ltd., a company engaged in research, development, manufacture, and sale of Chinese medicines, as a technician from July 1997 to May 1999, where he was responsible for production and technical guidance of drug manufacture. He then worked as an engineer at Foshan Sanvo, from June 1999 to July 2002. Since August 2002, he has been a senior engineer in charge of supervision of the technology development at Guangdong Sanvo and was subsequently promoted to person-in-charge of project development (all-purpose adhesives and paints and coatings) in July 2005. Mr. Leo Chen graduated from the China Pharmaceutical University in Jiangsu province with a diploma in chemical pharmaceutics in July 1997.

Mr. Leo Chen has been a senior chemical engineer as recognised by the Human Resources and Social Security Department of Guangdong Province(廣東省人力資源和社會保障廳)in the PRC since November 2014. He was appointed as the committee member of the Chemical Engineering Testing Specialised Committee of the Shenzhen Analytical and Testing Committee*(深圳市分析測試協會理事會化工測試技術專業委員會)from May 2013 to May 2016. In March 2015, Mr. Leo Chen was appointed as a member of the Energy Testing Solutions Professional Working Group of the National Committee of Standard Product Quality Testing Monitoring Methods*(全國產品質量監管重點產品檢驗方法標準化技術委員會能源檢驗方法專業工作組). Mr. Leo Chen was also co-awarded with Mr. Ernest Chen the accredited patent award of Zhongshan for a product named "nano mildew neutral silicone sealant" in July 2012.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

EXECUTIVE DIRECTORS (CONTINUED)

Mr. Ng Cheuk Lun

Mr. Ng Cheuk Lun ("**Mr. Ng**"), aged 43, is an executive Director and the company secretary of the Company. Mr. Ng is primarily responsible for management of investor relationship, strategic planning, business development and company secretarial matters of the Group. He has been appointed as the company secretary of the Company since 7 August 2018 and an executive Director since 15 April 2019. Mr. Ng has been a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants since July 2011 as well as a Certified Practising Accountant of CPA Australia since August 2004.

Mr. Ng has over 12 years of experience in finance and audit. He has been a director of MN CPA Limited, Certified Public Accountants since May 2012, and a director of MN Corporate Services Limited since July 2011, a company engaged in providing business consultancy services, where he is responsible for overall management.

From August 2007 to January 2011, Mr. Ng worked in Grant Thornton, an auditing firm where his last position was Senior Manager in the Assurance Division. Due to a merger between Grant Thornton and BDO Limited, he was transferred to BDO Limited and employed as Senior Manager from January 2011 to July 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ir. Daniel Lai

Ir. Daniel Lai ("**Ir. Lai**"), *BBS, JP*, aged 73, was appointed as an independent non-executive Director on 13 December 2019, and is responsible for providing independent advice and judgment to the Board. Ir. Lai is also the chairman of the remuneration committee as well as a member of the audit committee and the nomination committee.

Ir. Lai has over 40 years of experience in the information technology sector. Ir. Lai has also been a director of PRD IT Cooperation and Exchange Centre Company Limited, a company engaged in fostering collaboration between information technology professionals in Hong Kong and the Greater Bay Area since October 2015. He has been a director of Digital Technology and Consultancy Company Limited since March 2016, a company engaged in information technology consultancy, education and advisory services. He has also been a member of the governing council of the Hong Kong Quality Assurance Agency, an organisation established by the Hong Kong Government to help industry and commence in the development of quality, environmental, safety, hygiene, social and other management systems standards since November 2017. From June 1978 to January 1999, he has held various positions at The Hong Kong Jockey Club (formerly known as The Royal Hong Kong Jockey Club) and Hong Kong Jockey Club Systems (Australia) Pty. Ltd., respectively, with his last position as the IT facilities management controller. From February 1999 to December 2011, he was the head of information technology of MTR Corporation Limited (a company listed on the Main board of the Stock Exchange, stock code: 0066). From January 2012 to January 2015, Ir. Lai was the Government Chief Information Officer of the Hong Kong Government. From March 2015 to September 2015, he was the interim vice president (administration) in the office of the president of the Hong Kong Polytechnic University. From September 2015 to September 2017, he was the professor of practice (computing) in the department of computing of the Hong Kong Polytechnic University. Ir. Lai graduated from the Hong Kong Polytechnic University with a diploma in management studies (commercial) in November 1975 and from the Griffith University in Australia with a master's degree in technology management in March 1995.

Ir. Lai has been a distinguished fellow member of the Hong Kong Computer Society since February 2005, a fellow of The Hong Kong Institute of Engineers since July 2012, a fellow of The Hong Kong Institute of Directors since August 2015, and a full member of the Hong Kong Management Association since March 1995. In July 2004, Ir. Lai was awarded the bronze bauhinia star and he was appointed a justice of peace in July 2001. Further, he has held various public service positions such as the president of the Hong Kong Computer Society from 1988 to 2004, and the chairman of the Department of Computing Advisory Committee of the Hong Kong Polytechnic University from April 2012 to April 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Mr. Xu Kai

Mr. Xu Kai ("**Mr. Xu**"), aged 54, was appointed as an independent non-executive Director on 13 December 2019, and is responsible for providing independent advice and judgment to the Board. Mr. Xu is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee.

Mr. Xu has over 24 years of experience in the field of chemistry. He has been a Professor of Polymer Chemistry and Physics, researcher and deputy head of the Guangdong Specialised Laboratory of Electronic Organic Polymer Materials*(廣東省電子有機聚合物材料重點實驗室)under the Guangzhou Chemical Laboratory of the Chinese Academy of Sciences since May 2009, where he was responsible for management of the laboratory. From May 1997 to December 2001, he was the head of the Department of Technology of the Guangzhou Chemical Laboratory of the Chinese Academy of Sciences*(中國科學院廣州化學研究所科技處), where he was responsible for management of the laboratory. From March 1995 to December 1996, he was the secretary of the Specialised Laboratory of Cellulose Chemistry*(纖維素化學重點實驗室)under the Chinese Academy of Sciences where he was responsible for administration of the laboratory. Mr. Xu graduated from the Guangzhou Chemical Laboratory of the Chinese Academy of Sciences in Beijing with a doctoral degree in polymer chemistry and physics and a master's degree in polymer chemistry and physics in March 2005 and June 1991, respectively.

Mr. Xu has been a member of the Specialised Committee of Coating*(塗料專業委員會)under the Chemical Industry and Engineering Society of Guangdong since September 2008. He is also the deputy head of the Centre of Functional High Polymer Materials and Fine Chemicals of Foshan City*(佛山市功能高分子材料與精細化學品專業中心)under the Chinese Academy of Sciences and has been the reviewer of various international academic journals since 2005. Mr. Xu was awarded the Silver Award for Science and Technology Progress in Guangdong*(廣東省科技進步二等獎)in July 2009.

Mr. Yeung Chun Yue David

Mr. Yeung Chun Yue David ("**Mr. Yeung**"), aged 38, was appointed as an independent non-executive Director on 13 December 2019, and is responsible for providing independent advice and judgment to the Board. He is also the chairman of the audit committee and a member of the remuneration committee and the nomination committee.

Mr. Yeung has over 14 years of experience in accounting and tax advisory. Mr. Yeung has been a director and the managing partner of D & Partners CPA Limited since September 2017. From July 2004 to September 2017, Mr. Yeung worked in Cheng & Cheng Limited, Certified Public Accountants with his last position as a director. Mr. Yeung graduated from the City University of Hong Kong with a bachelor of business administration in accountancy in November 2004.

Mr. Yeung has been an independent non-executive director of Aeso Holding Limited (a company listed on GEM of the Stock Exchange, stock code: 8341) since 12 April 2019. From December 2014 to March 2017, Mr. Yeung served as an independent non-executive director of Mega Expo Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1360 and currently known as NOVA Group Holdings Limited).

SENIOR MANAGEMENT

Mr. Yang Lingzhen

Mr. Yang Lingzhen ("**Mr. Yang**") , aged 52, was appointed as the head of finance of the Company on 8 June 2015, and is responsible for the daily management of financial matters of the Group.

Mr. Yang has over 30 years of experience in the financial accounting sector. From August 1988 to July 1991, he was an auditing officer of the Bureau of Audit of Tianhe District of Guangzhou municipality*(廣州市天河區審計局). From December 1991 to January 1999, he was the deputy head of the finance department of the Guangzhou Haizhu Shopping Centre*(廣州市海珠購物中心), an entity engaged in the business of retail sales, where he was responsible for financial management. From February 2000 to May 2002, he was the manager overseeing the IT and logistics departments of Guangzhou Dongze Electronic Appliances Limited*(廣州東澤電器有限公司), a company engaged in the sale and installation of electrical appliances. From June 2002 to October 2005, Mr. Yang was a consultant of Dongguan Nanhua Printing Factory* (東莞南華印刷廠), a company engaged in the printing business, where he was responsible for enterprise resource planning consulting. From October 2005 to June 2015, he was the project manager of Chuangrui Software Technology (Shenzhen) Limited*(創鋭軟件科技(深圳)有限公司), a company engaged in software development, sales and related services, where he was responsible for project management. Mr. Yang joined Guangdong Sanvo as the head of finance in June 2015. Mr. Yang graduated from the Guangdong Radio and TV University(廣東廣播電視大學)in the PRC with a certificate in auditing in July 1988 and obtained the qualification certificate of specialty and technology in accounting conferred by the Ministry of Finance of the PRC(中華人民共和國財政部)in May 1997.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT (CONTINUED)

Mr. Han Wanyu

Mr. Han Wanyu ("**Mr. Han**"), aged 46, was appointed as the head of logistics and operations of the Company on 1 January 2017, and is responsible for the daily management of logistical and operational matters of the Group.

Mr. Han has over 20 years of experience in the logistics and operational management sector. From July 1997 to February 2008, Mr. Han worked at Haixin Kelong Electronic Appliance Company Limited*（海信科龍電器股份有限公司）(a company listed on the Main Board of the Stock Exchange, stock code: 0921 and currently known as Hisense Home Appliances Group Co., Ltd.), a company engaged in the manufacture of refrigerators, air conditioners, cooling cabinets and other white goods with his last position as a logistics manager. From February 2008 to May 2009, he was the director of logistics of the logistics department of Guangdong Zhida Textile and Decorations Limited*（廣東志達紡織裝飾有限公司）, a company engaged in curtains and bedding manufacturing. From June 2009 to February 2014, Mr. Han was the director of logistics of Guangdong Xinyao Photoelectric Limited*（廣東新耀光電股份有限公司）, a company engaged in auxiliary battery receiver components and power generation systems. Mr. Han joined Guangdong Sanvo in March 2014 and has been the head of logistics and operations since January 2017. Mr. Han graduated from the Foshan University（佛山科學技術學院）in Guangdong Province in the PRC with a certificate in law in January 2009.

Ms. Zhong Ruiqin

Ms. Zhong Ruiqin ("**Mr. Zhong**"), aged 42, was appointed as the head of administration on 1 March 2016, and is responsible for the daily management of administrative and human resources matters of the Group.

Ms. Zhong has over 21 years of working experience. From July 1997 to December 2007 she worked at Haixin Kelong Electrical Appliance Company Limited*（海信科龍電器股份有限公司）(a company listed on the Main Board of the Stock Exchange, stock code: 0921 and currently known as Hisense Home Appliances Group Co., Ltd.), a company engaged in the manufacture of refrigerators, air conditioners, cooling cabinets and other white goods, as a quality control team leader, where she was responsible for managing product quality. Ms. Zhong joined Guangdong Sanvo in March 2013 as a member of the factory office and has been our head of administration since 1 March 2016. Ms. Zhong studied human resources at the Peking University in Beijing in the PRC and graduated with a diploma in June 2017.

Mr. Ai Shuyi

Mr. Ai Shuyi ("**Mr. Ai**"), aged 38, was appointed as the head of production of the Company in October 2011 and is responsible for the daily management of our factories and production related matters of the Group.

Mr. Ai has over 20 years of experience in the production and manufacturing sector. From October 1998 to December 1999, he served as the maintenance technician of Sichuan Chongzhou City Pearl Water-proof Building Materials Company Limited*（四川崇州市明珠防水建築材料有限公司）, a company engaged in glass asbestos tiles and asbestos fibers. From February 2000 to August 2002, he was the head of maintenance of Sichuan Chengdu Qianfeng Water Heater Company Limited*（四川成都前鋒熱水器有限公司）, a company engaged in household electric and gas water heaters where he was responsible for overseeing installation works. From December 2002 to October 2003, he was the head of electronics installation and engineering of Sichuan Mechanical and Electrical Installation Engineering Company Limited*（四川機電安裝工程有限公司）, a company engaged in electrical equipment installation where he was responsible for overseeing installation works. From January 2004 to September 2011, Mr. Ai worked at Guangdong Sanvo with his last position as the production manager where he was responsible for production management. Mr. Ai joined Guangdong Fuvo as the head of production in October 2011 and since August 2018 he has been a director of Guangdong Fuvo where he responsible for factory and production management. Mr. Ai graduated from Shunde Polytechnic*（順德職業技術學院）in Guangdong Province in the PRC with a diploma in business administration in June 2011.

In recognition of his contribution and achievement in the industrial chemical production sector, Mr. Ai was awarded the Top 10 Excellent Staff Model*（十佳優秀員工標兵）by the municipal government of Zhongshan in September 2010.

COMPANY SECRETARY

Mr. Ng Cheuk Lun was appointed as the company secretary of the Company on 7 August 2018.

Please refer to the subsection headed "Directors — Executive Directors" in this section for Mr. Ng's biography.

DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is an established fine industrial chemical products manufacturer based in the PRC. The principal activities of the Group are researching, developing, manufacturing and sales of a diversified portfolio of fine industrial chemical products, which can serve a range of purposes, including as hardware and towards building materials and automotive maintenance.

BUSINESS REVIEW

General

Further discussion and analysis of the Group's principal activities, including a business review for the Year 2019 ("**Year 2019**"), and an indication of the likely future developments of the Group's business can be found in the Chairman's Statement and the Management Discussion and Analysis as set out on pages 4 to 8 of this report. These discussions from part of this directors' report.

Environmental policies and performance

The Group is committed to its corporate and social responsibility in promoting a sustainable and environmentally friendly environment. The Group strives to minimise the environmental impact in daily course of business.

Further details of the Group's environmental policies and performance are set out in the Environmental, Social and Governance Report of the Company on pages 29 to 41 of this report.

Compliance with laws and regulations that have a significant impact on the Group

The Group and its business are governed by certain laws and regulations that have a significant impact on the Group. To the best of the Directors' knowledge, information and belief, during the Year 2019, there was no material breach of or non-compliance with the applicable laws and regulations by the Group. The Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

Relationships with employees, customers and suppliers

Relationship with customers

We have long-term and well-established relationships with the majority of our major customers. We had established relationships with our five largest customers who have been conducting business with us for an average of more than seven years. We believe that being able to maintain long-term customer relationships demonstrates the Group's ability to provide high-quality products on time and enables us to maintain our extensive distribution channels and network.

The Group's largest customer and five largest customers for the Year 2019 accounted for approximately 3.0% and 11.1% respectively of the Group's total turnover for the year.

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers at any time during the Year 2019.

Relationship with suppliers

We believe that our industry reputation and on-time settlement help us in building a stable network of suppliers which cover all aspects of the Group's raw materials needs. Establishing a good relationship with major suppliers enables the Group to have more flexibility in resources allocation compared with our competitors. We had established relationships with our five largest suppliers who have been conducting business with us for an average of over ten years. We believe our established relationships also enables us to procure the necessary supplies when we require them, reducing the risk of shortage or delay in delivery of materials or services causing material disruption to our works. The Directors consider that partnering with these suppliers is one of the key success factors for us to deliver high quality products in a timely manner to our customers.

The Group's largest supplier and five largest suppliers for the Year 2019 accounted for approximately 6.4% and 24.8% respectively of the Group's total purchases for the year.

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest suppliers at any time during the Year 2019.

DIRECTORS' REPORT (CONTINUED)

Relationship with employees

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff are reasonably remunerated and provides them with health and safety and other developmental training and has proper whistle blowing procedures.

EVENTS AFTER THE REPORTING DATE

Save as disclosed in Note 37 to the consolidated financial statements of this report, there were no significant events after the reporting period up to the date of this report.

RESULTS AND DIVIDEND

The results of the Group for the Year 2019 are set out in the consolidated statement of comprehensive income of this report.

The Board recommended the payment of a final dividend of HK2.4 cents per ordinary share for the Year 2019 to shareholders of the Company. The proposed final dividend for the Year 2019 has been approved at the Company's Board meeting on 31 March 2020 and is subject to approval by shareholders at the forthcoming annual general meeting of the Company. Details of the dividends for the Year 2019 are set forth in note 12 to the consolidated financial statements of this report.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out in the section headed "Financial Summary" of this report.

SHARE CAPITAL

Details of the share capital for the Year 2019 are set out in note 27 to the consolidated financial statements of this report.

RESERVES

Movements in the reserves of the Company during Year 2019 are set out in Note 28 to the consolidated financial statements of this report. Under the laws of the Cayman Islands, share premium of the Company is available for distributions or paying dividends to the shareholders subject to the provisions of its Memorandum and Articles of Association ("Articles") and a statutory solvency test. Pursuant to the Articles, dividends may be declared and paid out of the profits of the Company or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared or paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the applicable law of the Cayman Islands.

PROFITS AVAILABLE FOR DISTRIBUTION

Profit available for distribution of the Company as at 31 December 2019, calculated under Part 6 of the Companies Ordinance, amounted to RMB26,472,000 (31 December 2018: RMB7,029,000)

ISSUE OF SHARES

For information on the Company's issue of shares, please refer to the paragraph headed "Use of Net Proceeds from the Share Offer" of this report.

EQUITY-LINKED AGREEMENTS

During the Year 2019, the Company did not enter into any equity-linked agreements in respect of the Shares.

CHARITABLE DONATIONS

During the Year 2019, the Group made charitable donations amounted to RMB79,000 (Year 2018: RMB200,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

From the Listing Date up to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company had maintained a sufficient public float as required under the Listing Rules from the Listing Date up to the date of this report.

DIRECTORS OF THE COMPANY

The Directors during the Year 2019 and up to the date of this report were:

Mr. Chen Bingqiang	Executive Director, chairman of the Board and chief executive officer
Mr. Chen Bingyao	Executive Director
Mr. Ng Cheuk Lun	Executive Director
Ir. Daniel Lai	Independent non-executive Director
Mr. Xu Kai	Independent non-executive Director
Mr. Yeung Chun Yue David	Independent non-executive Director

The biographical details of the Directors and senior management of the Company are set out in "Biographies of the Directors and Senior Management" on pages 9 to 12 of this report.

In accordance with the Articles, Mr. Chen Bingqiang, Mr. Chen Bingyao, Mr. Ng Cheuk Lun, Ir. Daniel Lai, Mr. Xu Kai and Mr. Yeung Chun Yue David shall retire by rotation at the forthcoming annual general meeting of the Company and they, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors had entered into a service contract with the Company on 13 December 2019 for a term of three years commencing on the Listing Date, until terminated by either party giving not less than three months' notice in writing to the other.

Each of the independent non-executive Directors had entered into an appointment letter with the Company on 13 December 2019 for a term of three years commencing on Listing Date, until terminated by either party giving not less than three months' notice in writing to the other.

None of the Directors who is proposed for re-election at the forthcoming annual general meeting of the Company has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as the related party transactions disclosed in Note 30 to the consolidated financial statements in this report, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year 2019 or at any time during the Year 2019.

CHANGES IN DIRECTOR'S BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE LISTING RULES

There has been no other change in Directors' biographical details which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules from the Listing Date up to the date of this report.

DIRECTORS' REPORT (CONTINUED)

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the date of this report, the Directors and the chief executive had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director(s)/ chief executive	Capacity/nature of interest	Relevant company (including associated corporation)	Number and class of Shares (Note 1)	Approximate percentage of shareholding in the total issued share capital of the Company
Mr. Chen Bingqiang	Interest of controlled corporation	Sanvo Fine Chemicals Limited (Note 2)	314,000,000	73.45%

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the date of this report, so far as was known to the Directors or chief executive of the Company, the following persons (other than the interests disclosed above in respect of the Directors and chief executive of the Company) has, or is deemed to have, interests or short positions in the Shares or underlying Shares of the Company as recorded in the register to be kept under Section 336 of the SFO are set out below:

Name	Capacity/nature of interest	Number and class of Shares (Note 1)	Approximate percentage of shareholding in the total issued share capital of the Company
Sanvo Fine Chemicals Limited (Note 2)	Beneficial owner	314,000,000	73.45%
Ms. Liang Yinsheng (Note 3)	Interest of spouse	314,000,000	73.45%

Notes:

(1) All the above Shares are held in long position.

(2) Sanvo Fine Chemicals Limited is wholly-owned by Mr. Chen Bingqiang. Mr. Chen Bingqiang is deemed to be interested in the 314,000,000 Shares held by Sanvo Fine Chemicals Limited pursuant to the SFO.

(3) Ms. Liang Yinsheng, the spouse of Mr. Chen Bingqiang, is deemed to be interested in the 314,000,000 Shares held by Mr. Chen Bingqiang through his controlled corporation, Sanvo Fine Chemicals Limited.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the Year 2019, none of the Directors, directors of the Company's subsidiaries, controlling shareholders of the Company or their respective associates, had interests in business (apart from the business of the Group) which competes or is likely to compete either directly or indirectly with the business of the Group which would require disclosure pursuant to the Listing Rules.

PERMITTED INDEMNITY PROVISION

Subject to applicable laws, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices, pursuant to the Articles. Such provisions were in force throughout the Year 2019 and are currently in force. The Company has arranged for appropriate insurance cover for Directors' liabilities in respect of legal actions that may be brought against the Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Year 2019.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 13 December 2019. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Purpose

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

(ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Eligible Participant

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph below to the following persons ("**Eligible Participants**"):

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and

(iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:

(aa) contribution to the development and performance of the Group;

(bb) quality of work performed for the Group;

(cc) initiative and commitment in performing his duties; and

(dd) length of service or contribution to the Group.

Maximum number of shares

The maximum number of Shares pursuant to which options may be granted under the Share Option Scheme shall not exceed 42,750,000 Shares, which represented 10% of the then issued share capital of the Company as at the Listing Date and the date of this annual report. This limit may be renewed at any time provided that the new limit must not exceed 10% of the total number of Shares in issue as at the date of the Shareholders' approval for the renewal.

Notwithstanding anything to the contrary in the Share Option Scheme, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time must not exceed 30% of the Shares in issue from time to time. No options may be granted under any schemes of the Company if such grant will result in this 30% limit being exceeded.

DIRECTORS' REPORT (CONTINUED)

Maximum entitlement of each Eligible Participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

Time of exercise of option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The minimum period for which an option must be held before it can be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme by the Shareholders of the Company on 13 December 2019 (the "**Adoption Date**"). Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date.

Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the grantee when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance of nominal consideration of HK$1.00, is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer for grant of an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option.

Basis of determining the exercise price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme for the Year 2019 and there was no outstanding share option as at 31 December 2019.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

At no time during the Year 2019 was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the related party transactions disclosed in note 30 to the consolidated financial statements in this report, no controlling shareholder of the Company had a material interest, either directly or indirectly, in any contract of significance (whether for the provision of services to the Company or not) to the business of the Group to which the Company or any of its subsidiaries was a party during the Year 2019.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year 2019 are set out in note 30 to the consolidated financial statements in this report.

The related party transactions set out in note 30 to the consolidated financial statements constitute "connected transaction" or "continuing connected transactions" (as defined under Chapter 14A of the Listing Rules) which are fully exempted from the disclosure requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Save as the related party transactions disclosed in note 30 to the consolidated financial statements in this report, during the Year 2019, the Group did not conduct any continuing connected transaction (as defined under Chapter 14A of the Listing Rules) which is subject to shareholders' approval, reporting and annual review requirements under the Listing Rules.

USE OF NET PROCEEDS FROM THE SHARE OFFER

On the Listing Date, the Company issued 90,000,000 new Shares at the offer price of HK$1.3 per Share through an initial public offering (the "**Share Offer**"). The net proceeds raised from the Share Offer, after deducting the related underwriting commissions and other estimated listing expenses payable by the Company, amounted to approximately HK$75.2 million.

As stated in the Prospectus, the intended uses of the IPO Proceeds are set out as follows:

- approximately 80.0%, or HK$60.2 million, will be used for investment in new manufacturing facility at the MV Production Site;
- approximately 10.0%, or HK$7.5 million, will be used for sales and marketing activities to enhance brand recognition in the PRC and overseas; and
- the remaining amount of approximately HK$7.5 million, representing no more than 10.0% of the net proceeds, will be used for working capital and other general corporate purposes.

As at the date of this report, the utilisation of the IPO Proceeds is as follows:

	Allocation as disclosed in the Prospectus	Amount utilised as at the date of this report	Remaining balance as at the date of this report
	HK$'000	HK$'000	HK$'000
Investment in new manufacturing facility at the MV Production Site	60,200	—	60,200
Sales and marketing activities to enhance brand recognition in the PRC and overseas	7,500	—	7,500
Working capital and other general corporate purpose	7,500	—	7,500
Total	**75,200**	**—**	**75,200**

The IPO Proceeds are intended to be utilised in accordance with the proposed application as set out in the Prospectus.

ANNUAL GENERAL MEETING

The Company will hold its annual general meeting on Thursday, 18 June 2020 (the "**2020 AGM**"). The notice of the 2020 AGM will be sent to the Shareholders at least 20 clear business days before the 2020 AGM.

CLOSURE OF BOOK FOR REGISTER OF MEMBERS AND DIVIDEND PAYMENT

For determining the entitlement of the shareholders of the Company to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020 (both dates inclusive), during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the 2020 AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 12 June 2020.

The Board recommends the payment of a final dividend of HK2.4 cents per Share for the Year 2019 to shareholders whose names appear on the register of members of the Company as at the close of business on Tuesday, 30 June 2020. In order to be eligible to be entitled to the final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 24 June 2020. Subject to the Shareholders' approval at the 2020 AGM, the proposed final dividend is expected to be paid on or about Friday, 10 July 2020.

DIRECTORS' REPORT (CONTINUED)

AUDITOR

The financial statements for Year 2019 have been audited by Moore Stephens CPA Limited ("**Moore Stephens**") who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Moore Stephens as auditor of the Company will be proposed at 2020 AGM.

TAX RELIEF

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

On behalf of the Board
Chen Bingqiang
Chairman

Guangdong, China, 24 April 2020

CORPORATE GOVERNANCE REPORT

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. As the Shares were listed on the Main Board of the Stock Exchange on 16 January 2020, the CG Code was not applicable to the Company during the Year 2019. Except for the deviation from code provision A.2.1 of the CG Code, the Company had no material deviation from the CG Code as set forth in Appendix 14 to the Listing Rules from the Listing Date up to the date of this report. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ernest Chen is the chairman of the Board and the chief executive officer of the Company. In view that Mr. Ernest Chen has been assuming day-to-day responsibilities in operating and managing the Group, the Board believes that with the support of Mr. Ernest Chen's extensive experience and knowledge in the business of the Group, vesting the roles of both chairman and chief executive officer of the Company in Mr. Ernest Chen strengthens the solid and consistent leadership and thereby allows for efficient business planning and decision which is in the best interest to the Group.

The Directors consider that the deviation from provision A.2.1 of the CG Code is appropriate in such circumstances. Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations, and sufficient checks and balances are in place. The Board will continue to review and consider segregating the roles of chairman of the Board and the chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole. The Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders as a whole. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. Any such deviation shall however be carefully considered, and the reasons for such deviation shall be given in the Company's interim report and annual report in respect of the relevant period.

BOARD OF DIRECTORS

Responsibilities

The Board is charged with promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

Composition

The Board currently comprises six Directors, with three executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Chen Bingqiang *(chairman and chief executive officer)*
Mr. Chen Bingyao
Mr. Ng Cheuk Lun

Independent non-executive Directors

Ir. Daniel Lai
Mr. Xu Kai
Mr. Yeung Chun Yue David

The biographical details of each of the Directors are set out in the section headed "Biographies of the Directors and Senior Management" on pages 9 to 12 of this report.

There is no alternate director being appointed to the Board.

Responsibilities of executive Directors

The executive Directors are responsible for the leadership and control of the Company and overseeing the Group's business development, strategic planning and promoting the success of the Group.

Responsibilities of independent non-executive Directors

The independent non-executive Directors participate in the Board meetings to bring in an independent judgment to bear on the issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts and scrutinize the Company's performance in achieving agreed corporate goals and objectives. They are also responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as providing a balance in the Board in order to effectively exercise an independent judgment on the corporate actions of the Company so as to protect Shareholders' interest and the overall interest of the Group.

Throughout the Year 2019, the Company had three independent non-executive Directors, which met the requirements of the Listing Rules that the number of independent non-executive Directors must represent at least one-third of the Board and should not be less than three, and that at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

Responsibilities of independent non-executive Directors (Continued)

Each of the independent non-executive Directors has made an annual confirmation of independence in writing pursuant to Rule 3.13 of the Listing Rules and the Board is satisfied that all the independent non-executive Directors have been independent and met the independence guidelines set out in Rule 3.13 of the Listing Rules during the Year 2019 and up to the date of this report.

Term of Directors

Each of the executive Directors has entered into a service contract with the Company and the Company has issued appointment letters to each of the independent non-executive Directors. The principal particulars of these service contracts and letters of appointment are (i) for a term of three years commencing from their respective effective dates; and (ii) subject to termination in accordance with their respective terms. The term of the service contracts and the letters of appointment may be renewed in accordance with the Articles and the applicable Listing Rules.

Remuneration

The Directors and the senior management receive remuneration in the form of salaries, fees, discretionary bonuses and other allowances and benefits in kind (where applicable).

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) paid or payable to the Directors for the Year 2019 was approximately RMB911,000.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, experience, time commitment and responsibilities of the Directors and performance of the Group. Details of the remuneration of the Directors for the Year 2019 are set out in note 10 to the consolidated financial statements. In addition, pursuant to Code Provision B.1.5 of the CG Code, the annual remuneration of the senior management of the Company by band for the Year 2019 is set out below:

	Number of senior management
Nil-HK$1,000,000	10

Save as disclosed in this report, (i) no remuneration was paid to the Directors or the five highest paid individuals as an inducement to join, or upon joining, the Group; (ii) no compensation was paid to, or receivable by, the Directors or past Directors or the five highest paid individuals during the Year 2019 for the loss of office as director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group; and (iii) none of the Directors waived any emoluments during the same period.

Save as disclosed in this report, no Director or none of the five highest paid individuals has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of us.

Continuous Professional Development

Newly appointed Director will be arranged a comprehensive, formal and tailored induction which includes provision of key guidelines, documents and publications relevant to their roles, responsibilities and ongoing obligations; a briefing on the Company's structure, businesses, risk management and other governance practices and meeting with other fellow Directors so as to help the newly appointed Directors familiarize with the management, business and governance policies and practices of the Company, and ensure that they have a proper understanding of the operations and businesses of the Company.

The Company encourages its directors to participate in continuous professional development courses and seminars organized by professional institutions or professional firms and study materials on relevant topics so that they can continuously update and further improve their relevant knowledge and skills.

Prior to the listing of the Shares on the Main Board of the Stock Exchange, the Company organized a training session conducted by its legal adviser as to Hong Kong law, for the Directors on their duties, responsibilities and obligations under the Listing Rules. All the Directors attended the training session. During the Year 2019, the Directors were provided with reading materials relevant to corporate governance, director's duties and responsibilities, the Listing Rules and other relevant ordinances.

BOARD OF DIRECTORS (CONTINUED)

Meeting of Board and Board Committees and Directors' Attendance Records

Notice of regular Board meetings is served on all Directors at least 14 days before the meeting. For other Board and Board committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board or Board committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management of the Company where necessary.

The minutes of Board and Board committee meetings are kept by the company secretary and are open for inspection by any Director. The minutes of Board and Board committee meetings record in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of minutes are sent to all Directors for their comment and records respectively, within a reasonable time after the meetings are held. The number of Board meeting held and attendance of each of the Directors is as follow:

Name of Director	General meeting attended/ eligible to attend	Board meeting attended/ eligible to attend
Mr. Chen Bingqiang	N/A	1/1
Mr. Chen Bingyao	N/A	1/1
Mr. Ng Cheuk Lun	N/A	1/1
Ir. Daniel Lai	N/A	1/1
Mr. Xu Kai	N/A	1/1
Mr. Yeung Chun Yue David	N/A	1/1

The chairman of the Board will at least annually hold meetings with the independent non-executive Directors without the presence of the Directors.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the Code Provision D.3.1 of the CG Code. The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and written employee guidelines, and the Company's compliance with the CG Code and disclosure in this corporate governance report.

BOARD COMMITTEES

The Board delegates certain responsibilities to the Audit Committee, Remuneration Committee and Nomination Committee (together, the "**Committees**"). In accordance with the Listing Rules, the Articles and the relevant laws and regulations in the Cayman Islands, the Board has established the Committees for effective and efficient corporate governance. These Committees are established and operated in accordance with the specific written terms of reference, which are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee consists of three members, namely Mr. Yeung Chun Yue David (Chairman), Ir. Daniel Lai and Mr. Xu Kai. The primary duties of the Audit Committee are, among others:

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) where more than one audit firm is engaged, to discuss with each of the audit firms the nature and scope of the audit and reporting obligations and ensure co-ordination between audit firms before the audit commences;

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Audit Committee (Continued)

(d) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

(e) to monitor the integrity of the Company's, financial statements and annual report and, accounts, interim report and quarterly, reports, and to review significant financial, reporting judgments contained in them;

(f) in reviewing these reports (the Company's annual report and accounts, interim report and quarterly report) before submission to the Board, the Audit Committee should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from the audit;

(iv) the going concern assumption and any qualifications;

(v) compliance with accounting standards;

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group and whether such connected transactions, if any, have been carried out in accordance with the terms of the agreement governing such transactions;

(viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosures give a fair view of the Group's financial conditions;

(ix) any significant or unusual items that are, or may need to be, reflected in such reports and accounts;

(x) the cashflow position of the Group; and

(xi) and to provide advice and comments thereon to the Board;

(g) in regard to (f) above:

(i) members of the Audit Committee should liaise with the Board and senior management of the Group and the Audit Committee must meet, at least twice a year, with the Company's auditors; and

(ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(h) to discuss problems and reservations with the auditors arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

Oversight of the Company's financial reporting system, risk management and internal control procedures

(i) to review the Company's financial controls, internal control and risk management systems;

(j) to discuss the risk management and internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

BOARD COMMITTEES (CONTINUED)

Oversight of the Company's financial reporting system, risk management and internal control procedures (Continued)

(k) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(l) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(m) to review the Group's financial and accounting policies and practices;

(n) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(p) to report to the Board on the matters set out above; and

(q) to consider and implement other matters, as defined or assigned by the Board from time to time.

The Audit Committee did not hold any meetings during the Year 2019 because the Shares were listed on the Main Board of the Stock Exchange on 16 January 2020. The Audit Committee will fully comply with its terms of reference.

The Audit Committee has recommended to the Directors the nomination of Moore Stephens for re-appointment as external auditor of the Company at the forthcoming annual general meeting of the Company.

The Company's annual results for the Year 2019 have been reviewed by the Audit Committee.

Remuneration Committee

The Renumeration Committee consists of four members, namely Ir. Daniel Lai (Chairman), Mr. Xu Kai, Mr. Yeung Chun Yue David and Mr. Chen Bingqiang. The primary duties of the Remuneration Committee are, among others, to make recommendations to the Board:

(i) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) to review and approve the Group's management's remuneration proposals with reference to the Board's corporate goals and objectives;

(iii) either to determine, with delegated responsibility, or to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, this should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(iv) to make recommendations to the Board on the remuneration of non-executive Directors;

(v) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

(vi) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(vii) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(viii) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

No meeting of the Remuneration Committee was held during the Year 2019.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Nomination Committee

The Nomination Committee consists of four members, namely Mr. Xu Kai (Chairman), Ir. Daniel Lai, Mr. Yeung Chun Yue David and Mr. Chen Bingyao. The primary duties of the Nomination Committee are, among others:

(i) to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iii) to assess the independence of the independent non-executive Directors; and

(iv) to make recommendations to the Board on the appointment or re-appointment of Directors succession planning for Directors, in particular the chairman and the chief executive.

No meeting of the Nomination Committee was held during the Year 2019.

Board Diversity Policy

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions. Following specific enquires of all the Directors, all the Directors confirm that they have complied with the required standards of dealing as set out in the Model Code from the Listing Date up to the date of this report.

EXTERNAL AUDITOR AND REMUNERATION

Moore Stephens is appointed as the external auditor of the Company.

For the Year 2019, the fees paid to Moore Stephens for the audit of the annual financial statements of the Group were HK$1,000,000 (excluding the expenses on the non-audit service provided by Moore Stephens).

The non-auditing services fees charged by Moore Stephens were approximately HK$1,606,000 which mainly represents fee in acting as the reporting accountant for the listing of the Shares on the Main Board of the Stock Exchange.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge that they have the responsibility for the preparation of the consolidated financial statements in order to give a true and fair view of the financial position of the Group, the financial performance and cash flow during the Year 2019. In preparing the consolidated financial statements for the Year 2019, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement from the external auditors regarding their reporting responsibilities on the consolidated financial statements is set out in the section headed "Independent Auditor's Report" of this report.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for maintaining sound and effective internal control and risk management systems in order to safeguard the Group's assets and Shareholders' interests and reviewing the effectiveness of the Company's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. The Group has pursuant to Code Provision C.2.5 of the CG Code established an internal audit team for carrying out, among other things, the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The internal audit team reports the findings to the Board on, at least, an annual basis.

The Group's internal control system includes a well-established organisational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

During the Year 2019, the Board had reviewed the effectiveness of the internal control and risk management systems of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the review also covered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions. The review was made by discussions with the management of the Company and the assessment conducted by the Audit Committee. The Board believes that the existing internal control system is adequate and effective, in particular, for financial reporting and Listing Rules compliance.

INSIDE INFORMATION

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company takes seriously of its obligations under Part XIVA of the SFO and the Listing Rules. All the inside information identified by the Directors shall be published and disclosed to the public in a timely manner through the Company's publications and communications, unless the information falls within safe harbours as prescribed in the SFO.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDER RIGHTS

The Company's annual general meeting remains the principal forum for dialogue with the Shareholders. The Shareholders are encouraged to participate in the proceedings of and ask questions about the resolutions being proposed and the operations of the Group. The Articles allow a Shareholder entitled to attend and annual general meeting vote to appoint more than one proxy to attend and vote on behalf of the Shareholder and also provide that a proxy need not be a shareholder.

Code Provision E.1.3 of the CG Code stipulates that the issuer should arrange for the notice to Shareholders to be sent in the case of the annual general meeting at least 20 clear business days before the meeting and in the case of all other general meetings at least 10 clear business days before the meeting. The Company has been in compliance with such code provision.

All resolutions put forward at Shareholder meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each Shareholder meeting.

Procedures for Shareholders to convene an extraordinary general meeting

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals at general meeting

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2016 Revision). However, Shareholders who wish to propose resolutions may follow Article 64 of the Articles for requisitioning an extraordinary general meeting and including a resolution at such meeting. The relevant requirements and procedures are set out above. As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDER RIGHTS (CONTINUED)

Procedures for putting enquiries to the Company and contact details

Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to directors or management of the Company. Such questions, requests and comments can be addressed to the company secretary of the Company by email to stella@sanvo.com.

DIVIDEND POLICY

The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

CONSTITUTIONAL DOCUMENTS

The Company adopted the amended and restated memorandum and articles of association on 13 December 2019 which took effect on the Listing Date, a copy of which is available on the websites of the Company (www.sanvo.com) and the Stock Exchange (www.hkexnews.hk), respectively. Save as disclosed above, there has not been any change in the constitutional documents of the Company.

COMPANY SECRETARY AND PRIMARY CONTACT OF THE COMPANY

The company secretary of the Company is Mr. Ng Cheuk Lun who is also an executive Director and the primary contact of the Company. Mr. Ng has been a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants as well as a Certified Practising Accountant of CPA Australia.

In compliance with Rule 3.29 of the Listing Rules, Mr. Ng Cheuk Lun has undertaken not less than 15 hours of relevant professional training during the Year 2019. All the Directors have access to the advice and services of the company secretary on corporate governance and Board practice and matters.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

SANVO Fine Chemicals Group Limited (the "Company" together with its subsidiaries, collectively, "we", "us", "our" or the "Group") is pleased to present our first annual Environmental, Social and Governance Report (the "ESG Report") to provide an overview of the Group's management of significant issues affecting the operation, including environmental, social and governance ("ESG") issues.

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board.

REPORTING PERIOD

The ESG Report illustrated the Group's initiative and performance on the environmental and social aspects for the period from 1 January 2019 to 31 December 2019 (the "Reporting Period").

REPORTING SCOPE

This ESG Report covers all subsidiaries of the Group in the PRC with core business that principally engaged in researching, developing, manufacturing and sales of hardware and building materials and automotive maintenance industrial chemical products in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the ESG Report.

REPORTING BASIS

This ESG Report was prepared in accordance to the Environmental, Social, and Governance Reporting Guide ("ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. The Group has complied with the disclosure requirements of the "comply or explain" provisions set out in the ESG Reporting Guide. In view of our first time disclosure of certain key performance indicators ("KPIs"), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs. This ESG Report was prepared and published in both English and Chinese. In the event of contradiction or inconsistency, the English version shall prevail. For more information on our corporate governance, please refer to the "Corporate Governance Report" on pages 21 to 28 of the annual report of the Company for the year ended 31 December 2019.

CONTACT INFORMATION

The Group welcomes your feedback on the ESG Report for our sustainability initiatives. Please contact us through our Company website www.sanvo.com.

STAKEHOLDERS ENGAGEMENT

We identified the key stakeholder of our business operations. We interact with our stakeholders regularly through various communication channels. The following table illustrates the issues of concern of our major stakeholders and the ways we communicate with stakeholders:

Stakeholder	Expectation	Engagement channel	Measures
Government, public and communities	— To comply with the laws — Proper tax payment — Ensure production safety, environmental protection and social responsibility — Promote regional economic development and employment	— On-site inspections and checks — research and discussion through work conferences, work reports preparation and submission for approval	— Operated, managed and paid taxes according to laws and regulations, strengthened safety management, obtained/renewed license timely, accepted the government's supervision, inspection and evaluation, and actively undertook social responsibilities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

STAKEHOLDERS ENGAGEMENT (CONTINUED)

Stakeholder	Expectation	Engagement channel	Measures
Shareholders and Investors	— Return on the investment — Stable operation — Risk minimisation — Information disclosure and transparency — Protection of interests and fair treatment of shareholders to avoid information asymmetry — True, accurate and timely reporting	— Annual general meeting and other shareholder meetings — Interim reports, annual reports and announcements — Company website — Meeting with investors — Roadshow	— Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/ circulars, interim report and annual report in the year. Carried out different forms of investor activities with an aim to improve investors' recognition. Disclosure of company contact details on website and in reports and ensured all communication channels available and effective
Employees	— Safeguard the rights and interests of employees — Salary and welfare — Working environment — Career development opportunities — Self-actualisation — Health and safety	— Feedback box — Training, seminars, briefing sessions — Team activities	— Provided a healthy and safe working environment; developed communication channel with management; developed a fair mechanism for promotion; cared for employees by helping those in need and organizing employee activities
Customers	— Assurance on quality and quantity of product — Stable relationship — Group reputation and brand image — Market demand — Market development and expansion	— Site visit — Exhibition — Email and customer service hotline — Feedback forms — Regular meeting and training — Market research	— Organised marketing activities, site visit, product training and exhibition
Suppliers/ Partners	— Long-term partnership — Honest cooperation — Fair, open — Information resources sharing — Timely payment	— Strategical co-operation — Regular meeting — Tendering process — Site visit and inspection	— Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and subcontractors
Peer/Industry associations	— Experience sharing — Corporations — Fair competition	— Industry conference and meeting	— Stuck to fair play, cooperated with peers, shared experiences and attended seminars and meetings of the industry so as to promote sustainable development of the industry
Financial Institution	— Compliance with the law and regulations — Disclosure information	— Consulting — Information disclosure — Reports	— Complied with regulatory requirements in a strict manner, disclosed and reported true information in a timely and accurate manner according to law
Bank	— Timely repayment of loan — Honest cooperation — Stable operation	— Regular meeting — Business and operation update	— Paid interest according to instalment schedule and cooperated with bank for inspection and monitoring

A. ENVIRONMENTAL ASPECTS

ASPECT A1: EMISSIONS

To demonstrate commitment to sustainable development and compliance with laws and regulations relating to environmental protection, the Group endeavors to minimise the environmental impact of the business activities and maintain green operations and green office practices.

Our Group's operations are subject to certain environmental requirements pursuant to the laws in the PRC, including but not limited to PRC Environmental Protection Law*（《中華人民共和國環境保護法》）, the PRC Law on Prevention and Control of Water Pollution*（《中華人民共和國水污染防治法》）, the Law on Prevention and Control of Atmospheric Pollution of the PRC*（《中華人民共和國大氣污染防治法》）, the Law on Prevention and Control of Environmental Noise Pollution of the PRC*（《中華人民共和國環境噪聲污染防治法》）, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes（《中華人民共和國固體廢物污染環境防治法》）and the Guangdong Province Work Programme on the Comprehensive Treatment and Emission Reduction on Volatile Organic Compounds (2018-2020)*（廣東省揮發性有機物（VOCs）整治與減排工作方案（2018-2020年））. We continuously observe the laws and regulations in relation to environmental protection in the PRC and have been in strict compliance with them. We have implemented environmental protection measures in our operations including having environmental protection procedures in place to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations. Dust, wastewater, noise and different sorts of pollutants are generated during our production processes. We have established environmental and pollution control policies with various measures in place to process and dispose of our industrial wastes to minimise the impact on the environment include, amongst other things:

Air pollution

There are increasingly stringent environmental and safety requirements in the PRC fine industrial chemical industry especially for emission of Volatile Organic Compounds ("**VOCs**"). Certain of our subsidiary has been listed as one of the VOCs emission enterprises under supervision and required to compile a VOCs emission comprehensive control scheme（VOCs排放綜合整治方案）(the "Control Scheme"). Thus our Group aims to increase the number and proportion of our products which are water-based/low-VOCs to adhere to the prevailing and more stringent industry environmental standards in order to minimise any adverse impact on the environment resulting from our business activities and monitor technological trends in our industry in the PRC, which is evident from (i) 118 out of 207 of our fine industrial chemical products (representing approximately 57.0% of our products) are currently water-based/low-VOCs, and (ii) our Group holds various patents (such as "zero VOC nano tranquil emulsion paint" and "high-hardness wear-resistant double-group water based wood paint and its preparation method") in relation to the manufacture of environmentally friendly fine industrial chemical products which are water-based and/or low-VOCs.

In order to minimise the emission of VOCs, the Group had implemented measures as below:

— upgrading the oil paint to water paint;

— change of raw material such as toluene and acetone to ethanol;

— the propellant LPG is replaced by dimethyl ether ("DME") in which DME is more soluble;

— adding cover for containers that are not fully sealed in order to reduce the volatilisation of organic waste gas;

— optimising the production plan so as to reduce various emission and waste by cleaning devices due to change of raw materials for production;

— renovating exhaust gas and dust collecting channels in production workshops to reduce emission from the hazardous substances effectively;

— upgrading the original waste gas treatment facilities in the paint workshop and installing an activated carbon adsorption device to improve the waste gas treatment capacity;

— installing a new set of liquid medicine absorption spray tower with UV photolysis device and activated carbon adsorption equipment in the paint workshop to improve the efficiency of waste gas collection and treatment; and

— planting more trees in a systematic way to ensure an evergreen environment.

Other than VOCs, our operation also generates airborne pollutants in our production and transportation processes. Our vehicles are regularly inspected to ensure exhaust emissions are within regulated limits.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

A. ENVIRONMENTAL ASPECTS (CONTINUED)

ASPECT A1: EMISSIONS (CONTINUED)

Waste control

Our hazardous waste produced mainly consists of wasted mineral oils used during the production process. Non-hazardous waste mainly includes domestic waste. They are separately stored and handled with the ledger for record. As our production process involves the use and storage of hazardous materials, it is always our top concern to comply with the applicable environmental laws and regulations in the PRC and avoid the occurrence of any environmental contamination event during our production activities. As a result, we continuously observe the laws and regulations in relation to environmental protection as amended from time to time in the PRC. In practice, in order to properly control the disposal of our production wastes, we have formulated detailed environmental protection rules and guidance for our staff to follow during production. We also engage qualified recycling companies to perform waste disposal and treatment, especially for hazardous waste, so as to minimize the impact on nature. In addition, to ensure that the quantities and rates of our production discharge are in compliance with the applicable environmental laws and regulations, we engage qualified third-party pollutant supervision companies to examine, monitor and provide advices on our pollutant discharge conditions for not less than once in each financial year.

Other pollution

With respect to wastewater, we have filters installed in our sewage pipelines and carry out regular cleaning of our sewers and pipelines to ensure pollutants do not directly enter the sewer. We also install soundproof walls to control the noise generated during any renovation or maintenance works carried out at our production sites.

Our Group strictly adheres to the standards, metric and targets set or issued by the PRC Government environment-related compliance (including those issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and Standardization Administration of the PRC) in assessing and managing our impact on the environment resulting from our business activities, including without limitation our consumption or use of hazardous or harmful substances in our fine industrial chemical products. In addition, given the increasingly stringent environmental and safety requirements in the PRC fine industrial chemical products industry, our Group places emphasis on minimising adverse impact on the environment, particularly through research and development on eco-friendly products, in order to strengthen and maintain our competitiveness such as by establishing research and development centers, the objectives and functions of which include (i) research and development on new products and designing new solutions and/or formulae, and (ii) gathering market intelligence and closely monitoring the technological trends in our industry in the PRC and also globally. We also strive to produce high quality products, which includes limiting the use of harmful and non-eco-friendly substances in the production process. For example, certain of our subsidiary has been accepted as a member of the Motor Vehicle Brake Fluids Industry Quality Alliance*（機動車輛制動液產業品質聯盟）, which is an association aimed at promoting the industrial adjustment through enhancing the technical merit and quality of brake fluids products, and the Guangdong Association of Quality Inspection（廣東省質量檢驗協會）and has participated in relevant association activities, such as staff trainings and seminars on quality inspection. In addition, our Group has been keeping apprised close attention to the newly published or amended environmental laws, regulations or rules enacted by the environmental protection governmental authorities of national or local level from time to time and is willing to assume social responsibilities to assist in building up a more environmentally friendly, pollutant-free and recyclable society by focusing on improving clean production and has joined, among others, the Guangdong Clean Production Association（廣東省清潔生產協會）by certain subsidiary of our Group. Moreover, we have also participated in academic research relating to clean production and a number of our management and employees have published papers with respect to environmental issues caused by the production of relevant hazardous chemicals in various periodicals in the PRC. We will continue to encourage our management and employees to conduct or take part in research relating to environmental protection issues, especially in areas connecting with manufacture of, among others, aerosols, adhesives, painting and coating products.

In light of the above measures, we believe the discharge of each of the key pollutants generated during our production process shall remain within prescribed regulatory limits and thus our business operations do not have a material adverse impact on the environment.

During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations related to environmental protection.

* For identification purpose only

A. ENVIRONMENTAL ASPECTS (CONTINUED)

ASPECT A1: EMISSIONS (CONTINUED)

Major air pollutants emission from our operation during the Reporting Period as follows:

Air Pollutant Emission

Type of Air Pollutants	Air Pollutant Emission (kg)
Sulphur Dioxide	72.87
Nitrogen Oxides	1,223.22
Particulate Matter	61.33

During the Reporting Period, the Greenhouse Gas ("**GHG**") emission from the operation is set out below:

GHG Emission

Type of GHG emissions	Equivalent CO_2 emission (tons)
Scope 1 Direct emissions	470.22
Scope 2 Indirect emissions	4,670.48
Scope 3 Other indirect emissions	24.14
Total	5,164.84
Intensity (tons/ Revenue RMB'000)	0.0063

Note:

The calculation of the GHG gas is based on the "A Corporate Accounting and Reporting Standard" from The GHG Protocol.

Scope 1: Direct emission from vehicles that are owned by the Group

Scope 2: Indirect emissions from the generation of purchased electricity consumed by the Group

Scope 3: Other indirect emissions is optional disclosure that includes employee's business travel only

Hazardous and non-hazardous waste

	(tons)
Hazardous waste	31.00
Non-hazardous waste	120.00
Total	**151.00**
Intensity (tons/ Revenue RMB'000)	**0.00019**

ASPECT A2: USE OF RESOURCES

The Group places high priority on the efficient use of resources. The major resources used by the Group are electricity and water. For usage of water, the Group did not encounter any problems in sourcing water that is fit for purpose. The Group strives to improve the efficient use of natural resources, such as minimising waste/emissions and implementing effective recycling program. Practical measures are implemented as follows:

— Switching off lights and turning off unnecessary energy-consuming devices when staff leaves the office;

— Adopting LED lighting in some production workshops and offices;

— Utilising materials that facilitate clean production environment to effectively reduce the consumption of detergents and running water;

— Bringing our own cups to avoid using paper cups;

— Improving product packaging forms to conserve the consumption of carton materials;

— Collection of carton box and sold to recycling companies;

— Setting the temperature of air-conditioning system in a range between 25˚C to 26˚C;

— Adopting "one vehicle one card" policy so as to monitor the usage of fuel by each vehicle and to avoid wastage by private usage;

— Regular maintenance of vehicles with good condition for operational efficiency;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

A. ENVIRONMENTAL ASPECTS (CONTINUED)

ASPECT A2: USE OF RESOURCES (CONTINUED)

— Using online office system to minimise the use of paper. Promoting double side printing in office;

— Focus on quality management so as to reduce wastage and scrap for less pollution resulted;

— Enhancing the monitoring for the use of food in canteen to reduce wastage; and

— Establishing management system of idle resources in order to fully utilise the resources of the Group.

Consumption of energy, water and packaging materials by the Group during the Reporting Period is set out below:

Energy Consumption

Type of energy	**Energy consumed (kWh)**
Unleaded petrol	771,754.67
Diesel	1,124,016.92
Purchased electricity	6,944,545.00
LPG	75,268.50
Total	8,915,585.09
Energy intensity (kWh/ Revenue RMB'000)	10.95

Water Consumption

	(tons)
Running water consumed	118,326.00
Intensity (tons/ Revenue RMB'000)	0.15

Packaging materials

Type of packaging materials	**(tons)**
Metal	13,618.99
Plastic	5,391.84
Paper	4,211.92

ASPECT A3: THE ENVIRONMENT AND NATURE RESOURCES

The Group raises staff's awareness on environmental issues through education and training and enlist employees' support in improving the Group's performance, promote environmental awareness amongst the customers, business partners and shareholders and support community activities in relation to environmental protection and sustainability and evaluate regularly and monitor past and present business activities impacting upon health, safety and environmental matters. With the integration of policies mentioned in sections "Emissions" and "Use of Resources", the Group strives to minimise the impacts to the environment and natural resources.

B. SOCIAL ASPECTS

ASPECT B1: EMPLOYMENT

The Group believes that a key to our success is our ability to recruit, retain, motivate and develop talented and experienced staff members. We endeavor to attract and retain appropriate and suitable personnel to serve our Group. Our group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group. The Group's employment handbook sets out our standards for compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, anti-discrimination, and other benefits and welfare.

The Group entered into separate labour contracts with each of our employees in accordance with the applicable labour laws of PRC. The package includes basic wages, over-time work allowances, bonuses, retirement benefits and other staff benefits such as various PRC government sponsored employee benefit funds. We have devised an appraisal system for our employees and we consider the appraisal result in conducting our salary reviews and making promotion decisions. All our staff members undergo a performance appraisal not less than once a year. The appraisal provides us with an opportunity to assess each individual staff's strengths and areas for improvement, thereby enabling us to effectively train and develop each individual staff.

B. SOCIAL ASPECTS (CONTINUED)

ASPECT B1: EMPLOYMENT (CONTINUED)

We recruit new employees based on specific job requirements, our resources and needs from time to time. We believe our success depends heavily upon our employees' provision of consistent, quality and reliable services. In order to attract, retain and develop the knowledge, skills and quality of our employees, we place strong emphasis on the development and training of our employees. Induction courses, training programs and safety courses are conducted regularly. Apart from the above, we also incentivise our employees to gain knowledge in the relevant field of studies. We believe this will also increase the overall competitiveness of our workforce and can maintain good relationship with our employee as we believe that our employees are valuable assets to our Group.

During the Reporting Period, there were no material non-compliance regarding employment brought against the Group or its employees.

Below is a detailed breakdown of our employees by gender, age group and employment category as at 31 December 2019:

	2019	
	Number of staff	% of total
By gender		
Male	538	61
Female	343	39
Total	881	100
By age group		
30 or below	292	33
31-40	292	33
41-50	231	26
51 or above	66	8
Total	881	100
By employment category		
Normal	782	89
Middle	75	8
Senior	24	3
Total	881	100

Below is a detailed breakdown of our employee turnover rate by gender and age group during the Reporting Period:

	2019
Turnover rate by gender	
Male	48%
Female	47%
Turnover rate by age group	
30 or below	70%
31-40	47%
41-50	26%
51 or above	23%

ASPECT B2: HEALTH AND SAFETY

The Group places emphasis on occupational health and work safety in our production plants. We are subject to PRC labour, safety and work-related laws and regulations including the Law on Production Safety of the PRC*（中華人民共和國安全生產法）. Thus, we have implemented various health and safety measures, such as:

(i) compiling health and safety management manuals;

(ii) establishing standard procedures and guidelines for the operation of machineries;

(iii) establishing contingency plans and measures in case of emergency and work accidents; and

(iv) providing other information, instructions, training and supervision as necessary.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

B. SOCIAL ASPECTS (CONTINUED)

ASPECT B2: HEALTH AND SAFETY (CONTINUED)

Our business involves the handling, storage and use of flammable and explosive materials. Improper handling of these materials may result in serious health effects or personal injury. Thus, we have designated warehouses in place for the storage of raw materials or goods that are classified as hazardous substances. These warehouses are equipped with safety and fire control systems and equipment in accordance with relevant PRC laws and regulations. We endeavor to keep the storage levels of our inventory, including hazardous substances, remained satisfactory and were within our storage capacity.

Besides, we have established a production safety committee for each of our current production sites to oversee the implementation of the safety measures at our current production sites. We have also prepared a number of production safety manuals for different production processes, which are designed to standardise the operating procedures in respect of work safety.

We maintain different types of insurance policies for all of our properties, manufacturing facilities, plant and machinery, equipment and inventories against damage caused by accidents. To minimise our product liability risk, we maintain product liability insurance and have stringent quality control measures in place in order to avoid or reduce the incidence of product defects. We are also required under relevant PRC laws and regulations to pay social insurance and housing provident fund for our employees. We provide group life, employer liability, work safety and mandatory social insurances for our employees in the PRC.

We maintain an internal record of our work injuries. During the Reporting Period, there were no material non-compliance cases noted in relation to health and safety laws and regulations.

ASPECT B3: DEVELOPMENT AND TRAINING

The Group recognizes the importance of providing training for the development of our employees. To ensure the performance quality of our employees and their health and safety at workplace and to familiarise our employees with our quality control systems, we provide on-the-job training to our employees on work safety. We arrange for our employees to undertake an annual occupational health examination. If there is any employee having occupational diseases, we will report to relevant authorities in the PRC and file work injury insurance claim for employee concerned. We also encourage our employees in attending external industry-related trainings established in our employment handbook.

ASPECT B4: LABOUR STANDARDS

The Group strictly complies with relevant labour laws and regulations in the PRC. The Group prohibits the use of child labour and forced labour that violate fundamental human rights and also poses threat to sustainable social and economic development. Employment contracts and other records, documenting all relevant details of the employees (including age) are properly maintained for verification by relevant statutory body upon request.

During the Reporting Period, we did not identify any issue related to child labour or forced labour within the Group.

ASPECT B5: SUPPLY CHAIN MANAGEMENT

The Group works closely with its suppliers who are committed to high quality, environmental, health and safety standards. The major types of materials used by us include packaging materials, additives, pigments, fillers, color powder, metallic powder, resin, rubber and solvents that were sourced from suppliers based in the PRC. To ensure consistency in quality, purchase orders are normally placed with suppliers which are on our internal list of approved suppliers. We have multiple sources for most of our raw materials to reduce possible interruptions to our business operations and over-reliance on any individual supplier. This helps us to maintain stability of components and raw materials procurement. We usually do not enter into any long-term agreements with our suppliers. We have an extensive network of suppliers on our internal list of approved suppliers which have a track record of delivering the materials and components on schedule. In selecting a supplier, we take into account a number of criteria, including: (i) its track record and reputation, (ii) quality of materials or components/parts (as applicable), and (iii) their qualifications (such as the obtainment of an Operating License for Dangerous Chemicals). In order to ensure our suppliers supply components and/or raw materials to our Group at competitive prices, we have internal control measures in place, including separate teams that handle the (i) procurement of suppliers, and (ii) obtainment of quotations from suppliers, respectively. Our suppliers provide their quotations to us by email or facsimile. In addition, we strive to source our raw materials only from suppliers which we believe are reputable as to ensure quality standards and maintain our competitive edge. We also request that our suppliers enter into quality assurance agreements with us.

B. SOCIAL ASPECTS (CONTINUED)

ASPECT B5: SUPPLY CHAIN MANAGEMENT (CONTINUED)

We usually enter into supply agreements with our suppliers on an annual basis, which typically do not have an automatic renewal clause. Our supply agreements typically provide for the type of raw materials, equipment and/or components supplied, quantity, price, method of order and delivery, payment and credit terms, quality assurance, penalty for delays and defects of raw materials, and termination and renewal of the agreements. In general, our purchases from raw material suppliers are made on the basis of individual orders specifying the quantity of raw materials. In some cases, we will pay a certain percentage of the purchase price to our suppliers prior to the delivery of raw materials. Payment terms granted by our suppliers vary depending on a number of factors including our relationship with the supplier and the size of an order. Our major suppliers generally extend us a credit period ranging between 30 to 90 days from delivery.

Regarding subcontracting, we have subcontracted the manufacture of amongst others, nail-less glue, special effects paint and antifreeze to a total of three to four manufacturers based in Guangdong Province, the PRC in past years in order to maintain flexibility in our resources and production and to better serve or suit our customers' needs. We did not carry out any subcontracting arrangements in recent years.

We generally placed orders based on our production schedules and we did not enter into long-term contracts with any of our subcontractors. We selected manufacturers to whom we subcontract by considering a number of factors, including their qualifications, experience, technical processes, production capacity, services quality, machinery and equipment, proximity to our production sites, terms offered by them and their ability to assure timely delivery, in order to ensure they have the operating capabilities and resources to meet our internal standards and technical specifications.

While we did not enter into long-term subcontracting agreements, to ensure consistency of our products we had entered into annual agreements with our subcontractors pursuant to which we may place individual orders.

Thus, we believe there are no significant environmental and social risks for our management decision on supply chain management during the Reporting Period.

ASPECT B6: PRODUCT RESPONSIBILITY

Quality Control

We strive to provide high quality products to our customers and place great emphasis on quality control, which is equally important during our procurement and manufacture processes. Accordingly, we have adopted a quality control system and we believe that as a result of our stringent in-house quality control procedures, (i) we did not receive any material complaints or claims in relation to our products that would materially and adversely affect our financial position in recent years, and (ii) the total value of products returned by our customers due to product defects were immaterial of our total revenue.

In recognition of our quality management system, we are certified as being in compliance with the requirements of ISO 9001:2015. Our quality control system is divided into the following main stages:

<u>Raw materials procurement</u>: All raw materials used in our production processes are subject to inspection upon receipt at our current production sites, before being warehoused. We conduct sample inspections and tests on each batch of our raw materials when they are delivered to our manufacturing facilities, to ensure that they are in accordance with our standards. We document all quality control checks on all raw materials and conduct regular reviews on our suppliers to assess their own quality controls. We also request that our suppliers enter into quality assurance agreements with us and raw materials that fail to meet our standards are returned to our suppliers for corrective measures or for replacement at the supplier's own cost.

<u>Production process monitoring</u>: Our quality control personnel monitor our production processes to ensure consistency in the quality of our products. Work-in-progress products are checked by the designated quality control personnel before being passed on to the next stages of production. The quality control personnel at the next stage of production re-examines the work in-progress products received, to ensure there are no defects before the products are further processed.

<u>Finished products quality control</u>: At the end of the production process, we inspect our products on a sampling basis to verify that they meet our quality standards and specifications before delivery to our customers. In addition, we ensure that our finished products are properly stored in our warehouses prior to deliver to our customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

B. SOCIAL ASPECTS (CONTINUED)

ASPECT B6: PRODUCT RESPONSIBILITY

Quality Control (Continued)

Customer and distributor feedback: We have adopted a policy for handling product complaints received from our customers and/or distributors. If our customers have feedback or complaints regarding the quality of our products or services, they may contact our customer service personnel on our hotline, who will record details of such feedback or complaints, and the relevant departments, such as production, quality control, operations and procurement, will be notified of such complaints and relevant corrective or remedial measures will be implemented when necessary. To verify the veracity of any complaints over the quality of our products, we will assess a sample of the product taken prior to the delivery against the product specifications to evaluate the product's quality. If it is determined that the complaint is due to manufacturing fault, defective products are generally returned to us or replaced by non-defective products at our own costs to our customers and/or distributors. In the event that the product quality problem is due to defective materials, we will request that the relevant supplier(s) bear(s) the costs of replacement and/or rectification.

Ongoing quality improvement: Depending on the extent of any products quality issues which we may detect, we may engage independent third party experts to perform product quality inspections. We also expose our products to various environment conditions to ensure that each type of product maintains an optimum level of quality for the duration of its expected useful life.

During the Reporting Period, there are no disputes between our Group and our customers in respect of the quality of products produced by us and there were no cases of non-compliance against laws and regulations related to products responsibilities.

ASPECT B7: ANTI-CORRUPTION

To ensure the workplace operates in a fair and transparent manner, the Group has formulated whistleblowing policy in employment handbook to avoid suspected corruption. If there is any suspected case related to corruption, employees are encouraged to report it to human resources department. All these practical actions enhance the sense of belonging and fair play among our various stakeholders.

The Group has been in strict compliance with law and regulation related to anti-corruption. During the Reporting Period, there was no legal case regarding corrupt practices brought against the Group or its employees.

ASPECT B8: COMMUNITY INVESTMENT

As a socially responsible company, the Group is committed to understanding the needs of the communities in which we operate. The Group strives to develop long-term relationship with our stakeholders and seek to make contributions to programmes that have a positive impact on community development.

REFERENCES TO THE ESG REPORTING GUIDE

Subject areas, aspects, general disclosures and KPIs		Chapter/ Disclosure	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions	31-32
KPI A1.1	The types of emissions and respective emissions data.	Emissions	33
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	Emissions	33
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	Emissions	33
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Emissions	33
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emissions	31-32
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions	32
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	Use of Resources	33-34
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources	34
KPI A2.2	Water consumption in total and intensity.	Use of Resources	34
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Use of Resources	33-34
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources	33
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Use of Resources	34
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Emissions and Use of Resources	31-34
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Emissions, Use of Resources and The Environment and Natural Resources	31-34

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

REFERENCES TO THE ESG REPORTING GUIDE (CONTINUED)

Subject areas, aspects, general disclosures and KPIs		Chapter/ Disclosure	Page
B. Social (Note)			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.	Employment	34-35
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety	35-36
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training	36
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards	36

REFERENCES TO THE ESG REPORTING GUIDE (CONTINUED)

Subject areas, aspects, general disclosures and KPIs		Chapter/ Disclosure	Page
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	Supply Chain Management	36-37
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility	37-38
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to bribery, extortion, fraud and money laundering.	Anti-Corruption	38
Community			
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment	38

Note:

Pursuant to Appendix 27 of the Listing Rules, KPIs in this section are recommended disclosures only.

INDEPENDENT AUDITOR'S REPORT

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大華馬施雲
會計師事務所有限公司

Independent Auditor's Report to the Shareholders of
SANVO Fine Chemicals Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of SANVO Fine Chemicals Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 46 to 90, which comprise the consolidated statement of financial position of the Group as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REVENUE RECOGNITION

Refer to notes 6 and 7 to the consolidated financial statements and the accounting policy note 4.9.

The Key Audit Matter

Revenue of the Group mainly comprises sales of hardware and building materials and automotive maintenance industrial chemical products.

The Group enters into framework agreements with its distributors and customers every year. According to the terms of the framework agreements, revenue is recognised when the goods are delivered to the distributors and customers, which is the point when the control of the goods is considered to have transferred to its distributors and customers.

We have identified the recognition of revenue from sale of goods under the framework arrangements as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.

How the matter was addressed in our audit

Our audit procedures to address the recognition of revenue from framework arrangements included the following:

- inspecting framework agreements signed in the current year, on a sample basis, and considering whether the framework agreements contained terms allowing the distributors and customers to make any sales returns;

- for sales transactions during the reporting period, comparing, on a sample basis, details in the sales invoices to the relevant goods delivery notes, which were signed by the distributors and customers, to assess if the related revenue had been recognised in the appropriate financial period on the basis of the terms of sales as set out in the framework agreements;

- inspecting all significant sales returns, if any, during the reporting period and after the financial year end to assess whether sales returns had been accounted for in the appropriate financial period;

- obtaining external confirmations of the outstanding trade receivable balances as at that date directly from distributors and customers, on a sample basis. Where the distributors and customers did not return the requested confirmations, inspecting the sales invoices and related goods delivery notes signed by the distributors and customers indicating the distributors' and customers' acknowledgement of delivery of the goods sold for the year ended 31 December 2019; and

- inspecting significant manual adjustments, if any, to revenue during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments to relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

IMPAIRMENT ASSESSMENT OF TRADE RECEIVABLES

Refer to notes 18 and 32(b) to the consolidated financial statements and the accounting policy note 4.4(d).

The Key Audit Matter

As at 31 December 2019, the Group had trade receivables (net of expected credit loss) amounting to approximately RMB61,367,000. The Group had recognised an expected credit loss ("ECL") on trade receivables of approximately RMB642,000 during the year ended 31 December 2019.

The ECL assessment on trade receivables is considered to be a matter of most significance as it requires the application of significant judgement and use of subjective assumptions by management. The management of the Company believed that the methodologies and inputs used in estimating ECL are appropriate and best reflects the Group's exposure to credit risk. These models and assumptions relate to the future macroeconomic conditions and debtors' creditworthiness. The ECL assessment requires significant management's judgements. Accordingly, we have identified management's ECL assessment as a key audit matter.

How the matter was addressed in our audit

Our key procedures to address the impairment assessment of trade receivables included the following:

- discussed with the management of the Company the reasonableness and relevance of the methodologies, inputs and assumptions adopted in performing the ECL assessment;
- obtained an ageing analysis of the trade receivables from the management of the Group and tested the accuracy of ageing of trade receivables at year end to the underlying invoices on a sample basis;
- challenged the management's assessment of the recoverability of long outstanding and overdue trade receivables, if any;
- checked, on a sample basis, inputs used by the management in the ECL assessment against the source data (e.g. observable external data); and
- assessed the adequacy of the ECL recorded by reviewing subsequent settlements after the year end and related correspondence, if any, with customers about expected settlement dates.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee assists the directors of the Company in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' of the Company use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Moore Stephens CPA Limited
Certified Public Accountants

Li Wing Yin
Practising Certificate Number: P05035

Hong Kong, 24 April 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	7	**814,016**	769,171
Cost of sales		**(589,484)**	(583,359)
Gross profit		**224,532**	185,812
Other income and gains	7	**2,944**	2,878
Gain from a bargain purchase	35	**—**	4,847
Selling and distribution expenses		**(102,135)**	(90,238)
Administrative expenses		**(80,843)**	(62,163)
Impairment losses on financial assets	32(b)	**(642)**	—
Listing expenses		**(12,753)**	(8,549)
Finance costs	8	**(4,379)**	(5,061)
Profit before income tax	9	**26,724**	27,526
Income tax expense	11	**(2,789)**	(4,792)
Profit for the year		**23,935**	22,734
Other comprehensive (loss)/income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**(316)**	188
Total comprehensive income for the year		**23,619**	22,922
Profit/(loss) for the year attributable to:			
Owners of the Company		**23,935**	24,333
Non-controlling interests		**—**	(1,599)
		23,935	22,734
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**23,619**	24,521
Non-controlling interests		**—**	(1,599)
		23,619	22,922
Earnings per share attributable to the owners of the Company			
Basic and diluted (RMB cents)	13	**7.1**	7.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**117,145**	96,289
Prepaid lease payments	15	**—**	88,925
Right-of-use assets	16	**94,278**	—
Prepayments for acquisition of property, plant and equipment	18	**10,695**	3,636
Deferred tax assets	26	**96**	473
		222,214	189,323
Current assets			
Inventories	19	**57,007**	70,414
Trade and bills receivables, other receivables and prepayments	18	**91,364**	55,264
Pledged bank deposits	21	**23,000**	11,290
Cash and cash equivalents	21	**16,468**	18,818
		187,839	155,786
Current liabilities			
Trade and bills payables, accruals, contract liabilities and other payables	22	**186,822**	150,917
Lease liabilities	23	**1,635**	—
Interest-bearing bank borrowings	24	**71,047**	51,302
Amount due to a director	20	**—**	58,930
Tax payables		**2,604**	6,433
		262,108	267,582
Net current liabilities		**(74,269)**	(111,796)
Total assets less current liabilities		**147,945**	77,527
Non-current liabilities			
Lease liabilities	23	**3,938**	—
Interest-bearing bank borrowings	24	**53,763**	43,616
Deferred income	25	**1,723**	1,762
Deferred tax liabilities	26	**3,945**	4,376
		63,369	49,754
Net assets		**84,576**	27,773
CAPITAL AND RESERVES			
Share capital	27	**—** *	— *
Reserves	28	**84,576**	27,773
Total equity		**84,576**	27,773

* Less than RMB1,000

The consolidated financial statements of the Group were approved and authorised for issue by the Board of Directors of the Company on 24 April 2020 and are signed on its behalf by:

Mr. Chen Bingqiang
Director

Mr. Ng Cheuk Lun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Equity attributable to owners of the Company								
	Share capital RMB'000 (Note 27)	Share premium RMB'000 (Note 28)	Capital reserve RMB'000 (Note 28)	Translation reserve RMB'000 (Note 28)	Other reserves RMB'000 (Note 28)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	—	—	5,074	—	5,008	66,670	76,752	4,204	80,956
Profit/(loss) for the year	—	—	—	—	—	24,333	24,333	(1,599)	22,734
Other comprehensive income:									
Exchange differences arising on translation	—	—	—	188	—	—	188	—	188
Total comprehensive income/(loss) for the year	—	—	—	188	—	24,333	24,521	(1,599)	22,922
Acquisition of interests in subsidiaries from non-controlling interests arising from the reorganisation	—	—	346	—	—	(2,573)	(2,227)	1,241	(986)
Consideration received from a shareholder for acquisition of subsidiaries arising from the reorganisation	—	—	—	—	—	667	667	—	667
Consideration paid to the controlling shareholder for acquisition of subsidiaries arising from the reorganisation	—	—	(5,420)	—	—	(16,616)	(22,036)	—	(22,036)
Issuance of share upon incorporation of the Company (Note 27(c))	—*	—	—	—	—	—	—*	—	—*
Issuance of shares arising from the reorganisation (Note 27(d))	—*	12,560	—	—	—	—	12,560	—	12,560
Interim dividends (Note 12)	—	—	—	—	—	(62,464)	(62,464)	(3,846)	(66,310)
Appropriation to safety reserve (Note 28)	—	—	—	—	6,162	(6,162)	—	—	—
Utilisation of safety reserve (Note 28)	—	—	—	—	(847)	847	—	—	—
Appropriation to statutory surplus reserve (Note 28)	—	—	—	—	643	(643)	—	—	—
Balance at 31 December 2018 and 1 January 2019	—*	12,560	—	188	10,966	4,059	27,773	—	27,773
Profit for the year	**—**	**—**	**—**	**—**	**—**	**23,935**	**23,935**	**—**	**23,935**
Other comprehensive loss:									
Exchange differences arising on translation	**—**	**—**	**—**	**(316)**	**—**	**—**	**(316)**	**—**	**(316)**
Total comprehensive (loss)/income for the year	**—**	**—**	**—**	**(316)**	**—**	**23,935**	**23,619**	**—**	**23,619**
Capital contribution from the ultimate controlling shareholder (Note 28)	**—**	**—**	**33,184**	**—**	**—**	**—**	**33,184**	**—**	**33,184**
Appropriation to safety reserve (Note 28)	**—**	**—**	**—**	**—**	**5,942**	**(5,942)**	**—**	**—**	**—**
Utilisation of safety reserve (Note 28)	**—**	**—**	**—**	**—**	**(2,300)**	**2,300**	**—**	**—**	**—**
Appropriation to statutory surplus reserve (Note 28)	**—**	**—**	**—**	**—**	**1,155**	**(1,155)**	**—**	**—**	**—**
Balance at 31 December 2019	**—***	**12,560**	**33,184**	**(128)**	**15,763**	**23,197**	**84,576**	**—**	**84,576**

* Less than RMB1,000

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Profit before income tax		**26,724**	27,526
Adjustments for:—			
Amortisation of prepaid lease payments	9	**—**	1,913
Amortisation of deferred income		**(39)**	(38)
Bank interest income	7	**(282)**	(260)
Depreciation of property, plant and equipment	9	**8,909**	6,152
Depreciation of right-of-use assets	9	**4,262**	—
Net (gain)/loss on disposal of property, plant and equipment	9	**(183)**	1
Impairment losses on financial assets	32(b)	**642**	—
Written off of property, plant and equipment	9	**—**	425
Interest expense	8	**4,379**	5,061
Gain from a bargain purchase	35	**—**	(4,847)
Operating profit before working capital changes		**44,412**	35,933
Decrease in inventories		**13,407**	28,933
(Increase)/decrease in trade and bills receivables, other receivables and prepayments		**(39,105)**	43,719
Increase/(decrease) in trade and bills payables, accruals, contract liabilities and other payables		**35,905**	(104,076)
Cash generated from operations		**54,619**	4,509
Income tax paid		**(6,672)**	(2,895)
Net cash generated from operating activities		**47,947**	1,614
Cash flows from investing activities			
Bank interest received		**282**	260
Proceeds from disposal of property, plant and equipment		**208**	2,259
Payments for acquisition of property, plant and equipment (Note (i))		**(24,254)**	(29,715)
Payments for acquisition of prepaid lease payments	15	**—**	(23,772)
Net cash outflow arising on acquisition of a subsidiary	35	**—**	(11,569)
Repayment from a director		**—**	87,500
(Decrease)/increase in pledged bank deposits		**(11,710)**	(939)
Prepayments for acquisition of property, plant and equipment		**(9,592)**	(971)
Net cash (used in)/generated from investing activities		**(45,066)**	23,053
Cash flows from financing activities			
Payments for acquisition of interests in subsidiaries from non-controlling interests arising from the reorganisation		**—**	(986)
Proceeds for acquisition of subsidiaries from a shareholder arising from the reorganisation		**—**	667
Payments for acquisition of subsidiaries from the ultimate controlling shareholder arising from the reorganisation		**—**	(22,036)
Proceed from issuance of share upon incorporation of the Company		**—**	—*
Proceeds from issuance of shares arising from the reorganisation		**—**	12,560
Proceeds from interest-bearing bank borrowings		**58,743**	88,315
Repayment of interest-bearing bank borrowings		**(28,851)**	(107,832)
(Repayment to)/advances from a director		**(25,746)**	55,555
Capital element of lease rentals paid		**(1,679)**	—
Interest element of lease rentals paid		**(394)**	—
Interest paid	8	**(6,988)**	(6,375)
Dividends paid		**—**	(66,310)
Net cash used in financing activities		**(4,915)**	(46,442)
Net decrease in cash and cash equivalents		**(2,034)**	(21,775)
Cash and cash equivalents at beginning of the year		**18,818**	40,405
Effect of foreign exchange rate changes		**(316)**	188
Cash and cash equivalents at end of the year		**16,468**	18,818

* Less than RMB1,000

Non-cash transaction:

During the year, additions of property, plant and equipment of approximately RMB2,533,000 (2018: RMB5,829,000) were prepaid in prior years and the amounts were transferred from prepayments for acquisition of property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

SANVO Fine Chemicals Group Limited (the "Company", together with its subsidiaries, the "Group") was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 12 April 2018. The registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company's headquarters and principal place of business in the People's Republic of China (the "PRC") is located at Dacen Industrial Park, Huangpu District, Zhongshan City, Guangdong, the PRC and the Company's principal place of business in Hong Kong is located at 5/F., 349 Hennessy Road, Wanchai, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 January 2020 (the "Listing Date") (the "Listing").

The Company is an investment holding company. The principal activities of the Group are researching, developing, manufacturing and sales of hardware and building materials and automotive maintenance industrial chemical products in the PRC.

Immediately after the reorganisation (the "Reorganisation") described in Note 2.1, in the opinion of the directors of the Company, the ultimate holding company is changed to Sanvo Fine Chemicals Limited ("Sanvo Fine Chemicals"), a company incorporated in the British Virgin Islands (the "BVI").

Mr. Chen Bingqiang ("Mr. Ernest Chen") is (a) the controlling shareholder of all the subsidiaries before the Reorganisation (other than Guangdong Sanvo Holdings Co., Limited*（廣東三和控股有限公司）("Sanvo Holdings") which was acquired by the Group on 27 April 2018 (the "Acquisition")); and (b) the sole shareholder of Sanvo Fine Chemicals, therefore he is the ultimate controlling shareholder of the Company during the years ended 31 December 2018 and 2019 before and after the Reorganisation.

* The English name of the company established in the PRC represent management's best effort at translating the Chinese name of such company as no English name have been registered.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION

2.1 Group reorganisation

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing. Immediately prior to the Reorganisation and during the year, the business of the Group was operated by Guangdong Sanvo Chemical Industry Technology Limited*（廣東三和化工科技有限公司）("Guangdong Sanvo"), Guangdong Fuvo Industrial Co., Limited*（廣東阜和實業有限公司）("Guangdong Fuvo"), Guangdong Shunde Sanvo Chemical Industry Technology Limited*（廣東順德三和化工有限公司）("Shunde Sanvo") and Zhongshan Minhe Chemical Industry Technology Limited*（中山市珉和化工科技有限公司）("Zhongshan Minhe") (collectively, the "Existing Operating Subsidiaries"). On 27 April 2018, the Group further expanded its business by acquisition of entire equity interest in Sanvo Holdings. The Reorganisation involved the followings:

Acquisition of Guangdong Fullteam Chemicals Limtied*（廣東芙田化學有限公司）("Guangdong Fullteam") by Guangdong Fuvo

On 2 February 2018, Mr. Ernest Chen and Mr. Chen Bingyao ("Mr. Leo Chen") transferred their interests of 89% and 10% respectively in Guangdong Fullteam to Guangdong Fuvo, at a consideration of Renminbi ("RMB") 1,006,000 and RMB113,000 respectively, which was determined based on the then unaudited net asset value of Guangdong Fullteam as at 31 December 2017. Subsequent to such transfer, Guangdong Fullteam was owned as to 99% by Guangdong Fuvo and 1% by Mr. Ernest Chen.

Acquisition of Shunde Sanvo by Guangdong Sanvo

On 2 February 2018, Mr. Ernest Chen and Mr. Leo Chen transferred their interests of 90% and 10% respectively in Shunde Sanvo to Guangdong Sanvo, at a consideration of RMB745,000 and RMB83,000 respectively, which was determined based on the then unaudited net asset value of Shunde Sanvo as at 31 December 2017. Subsequent to such transfer, Shunde Sanvo was wholly owned by Guangdong Sanvo.

Acquisition of Zhongshan Fullteam Chemicals Limited*（中山芙田化學有限公司）("Zhongshan Fullteam") by Guangdong Fullteam

On 3 May 2018, Mr. Ernest Chen and Mr. Leo Chen transferred their interests of 90% and 10% respectively, in Zhongshan Fullteam to Guangdong Fullteam, at a consideration of RMB1 and RMB1 respectively. Subsequent to such transfer, Zhongshan Fullteam was wholly owned by Guangdong Fullteam.

Acquisition of Guangdong Sanvo by Guangdong Fuvo

On 15 May 2018, Mr. Ernest Chen and Ms. Liang Yinqi ("Ms. Liang") transferred their interests of 93.2% and 5.8% respectively in Guangdong Sanvo to Guangdong Fuvo, at a consideration of approximately RMB6,416,000 and RMB399,000 respectively, which was determined based on the then unaudited net asset value of Guangdong Sanvo as at 31 December 2017. Subsequent to such transfer, Guangdong Sanvo was owned as to 99% by Guangdong Fuvo and 1% by Mr. Ernest Chen.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION (CONTINUED)

2.1 Group reorganisation (Continued)

Acquisition of Guangdong Fuvo and Zhongshan Minhe by OWHK Limited ("OWHK")

On 26 June 2018, Mr. Ernest Chen transferred his 10% interest in Guangdong Fuvo to OWHK, an investment holding company wholly owned by Mr. Heng Victor Ja Wei ("Mr. Victor Heng"), a pre-IPO investor, through Olive Woods Investments Limited ("Olive Woods"), at a consideration of RMB277,000, which was determined based on the valuation report of Guangdong Fuvo as at 30 April 2018. Subsequent to such transfer, Guangdong Fuvo was owned as to 90% by Mr. Ernest Chen and 10% by OWHK and Guangdong Fuvo became a sino-foreign joint venture enterprise.

On 5 July 2018, Mr. Leo Chen transferred his 10% interest in Zhongshan Minhe to OWHK at a consideration of RMB390,000, which was determined based on the valuation report of Zhongshan Minhe as at 30 April 2018. Subsequent to such transfer, Zhongshan Minhe was owned as to 90% by Mr. Ernest Chen and 10% by OWHK and Zhongshan Minhe became a sino-foreign joint venture enterprise.

Incorporation of the Company as a listing vehicle

On 12 April 2018, the Company was incorporated in the Cayman Islands with an authorised share capital of Hong Kong dollars ("HK$") 390,000 divided into 39,000,000 shares of par value of HK$0.01 each. At the time of the incorporation, Reid Services Limited subscribed for one share in the capital of the Company. On the same date, the said issued one share in the capital of the Company was transferred to Sanvo Fine Chemicals at par value. Further, on the same date, 95 shares and 4 shares in the capital of the Company were subscribed for and allotted to Sanvo Fine Chemicals and Mr. Victor Heng at par value, respectively. Upon such transfer and allotment, the Company was owned as to 96% and 4% respectively by Sanvo Fine Chemicals and Mr. Victor Heng.

Incorporation of Integrity Knights Group Limited ("Integrity Knights"), American Sanvo Chemical Technology Holdings Limited (American Sanvo") and French Fullteam Chemicals Group Limited ("French Fullteam")

On 25 April 2018, Integrity Knights was incorporated as a company with limited liability under the laws of BVI and is authorised to issue a maximum of 50,000 shares of United States dollar ("US$") 1.00 each of a single class. The business of Integrity Knights is investment holding. On 25 April 2018, 100 share in Integrity Knights was allotted and issued to the Company at par value. After such allotment, Integrity Knights was wholly owned by the Company.

On 25 May 2018, American Sanvo was incorporated as a limited liability company under the laws of Hong Kong. The business of American Sanvo covers the trading business regarding the sale of fine industrial chemical products on an OEM basis. On the same day, one share in American Sanvo was allotted and issued to Integrity Knights. After such allotment, American Sanvo was wholly owned by Integrity Knights.

On 25 May 2018, French Fullteam was incorporated as a limited liability company under the laws of Hong Kong. The business of French Fullteam is investment holding. On the same day, one share in French Fullteam was allotted and issued to Integrity Knights. After such allotment, French Fullteam was wholly owned by Integrity Knights.

Acquisition of Olive Woods by the Company

On 23 July 2018, Mr. Victor Heng transferred his entire interest in Olive Woods to the Company at a consideration of RMB1,277,000, which was determined after arm's length negotiation between the parties and as part of the arrangement under the investment by Mr. Victor Heng. Subsequent to such transfer, Olive Woods was wholly-owned by the Company.

Acquisition of Guangdong Fuvo and Zhongshan Minhe by American Sanvo

On 10 August 2018 and 7 August 2018 respectively, as part of the Reorganisation, Mr. Ernest Chen transferred his 90% interest in each of Guangdong Fuvo and Zhongshan Minhe to American Sanvo at an aggregate consideration of RMB11,300,000. Subsequent to such transfers, Guangdong Fuvo and Zhongshan Minhe were each owned as to 90% by American Sanvo.

* The English names of the companies established in the PRC represent management's best effort at translating the Chinese names of such companies as no English name have been registered.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION (CONTINUED)

2.2 Basis of preparation and presentation

The consolidated financial statements set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and related interpretations issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

The Group has net current liabilities of approximately RMB74,269,000 as at 31 December 2019. Management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. As at the date of issue of these consolidated financial statements, the Group had unutilised banking facilities of approximately RMB38,380,000. Also, on 16 January 2020, 90,000,000 ordinary shares of the Company were issued at a price of HK$1.30 per share by way of share offer and the Company obtained the relevant listing proceeds subsequent to the Listing Date.

Taking into account the unutilised facilities and the listing proceeds, and after assessing the Group's current and future cash flow positions, the directors of the Company are satisfied that the Group will be able to meet its financial obligations when they fall due. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the carrying amounts of assets to their estimated recoverable amounts, to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively, and to provide for any further liabilities which may arise. The effects of these adjustments have not been reflected in the consolidated financial statements.

Immediately prior to and after the Reorganisation, the business of the Group was conducted mainly through the Existing Operating Subsidiaries.

Pursuant to the Reorganisation, the Company has become the holding company of the companies now comprising the Group on 10 August 2018. The Reorganisation is merely a reorganisation of the business of the Group with no change in management and the ultimate owners of the business remain substantially the same. The Group is regarded as a continuing entity resulting from the Reorganisation since the insertion of the Company and immediate holding companies as the new holding companies at the top of the Existing Operating Subsidiaries has no commercial substance and does not form a business combination. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the current group structure had always been in existence except for the Acquisition.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2019 and 2018 include the results, changes in equity and cash flows of companies within the Group as if the current group structure had been in existence throughout the reporting periods, or since their date of establishment, incorporation or acquisition, where applicable. The consolidated statements of financial position of the Group as at 31 December 2019 and 2018 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates taking into account the respective date of establishment, incorporation or acquisition, where applicable.

Except for the Acquisition which is accounted for using the acquisition method of accounting which is described in Note 4.2, the assets and liabilities of the companies comprising the Group are consolidated using their existing book values. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the Reorganisation.

All significant intra-group transactions, balances and unrealised gains on transactions have been eliminated on consolidation. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION (CONTINUED)

2.2 Basis of preparation and presentation (Continued)

Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of comprehensive income between non-controlling interests and the owners of the Company.

It should be noted that accounting estimates and assumptions have been used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are set out in Note 5 "Significant accounting judgements and estimates".

3. ADOPTION OF NEW AND REVISED IFRSs

(a) Changes in accounting policy

The IASB has issued a new IFRS, IFRS 16 *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16 *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, and the related interpretations, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives*, and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged. IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be outside the scope of IFRS 16.

(ii) Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets.

At the date of initial application of IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the lease liability was 5.3% to 6.7%.

3. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(a) Changes in accounting policy (Continued)

IFRS 16 Leases (Continued)

(ii) Lessee accounting and transitional impact (Continued)

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(A) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(B) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment of whether leases are onerous by apply IAS 37 as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in Note 29(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	RMB'000
Operating lease commitments disclosed as at 31 December 2018 (Note 29(b))	15,645
Discounted using the lessees' incremental borrowing rates at the date of initial application	(8,368)
Less: short-term leases recognised on a straight-line basis as expense	(25)
Lease liability recognised as at 1 January 2019	7,252
Of which are:	
Current lease liabilities	1,679
Non-current lease liabilities	5,573
	7,252

The associated right-of-use assets for properties and land were measured at the amount equal to the lease liability, adjusted by the amounts of any prepaid lease payments relating to the land leases recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position. This includes the land use rights recognised previously under prepaid lease payments of approximately RMB91,288,000 as at 31 December 2018 that were reclassified to right-to-use assets upon the adoption of IFRS 16 for the presentation purpose.

As at 1 January 2019, the right-of-use assets were remeasured as follow:

	RMB'000
Lease liabilities at 1 January 2019	7,252
Prepaid lease payments as at 31 December 2018	91,288
Right-of-use assets at 1 January 2019	98,540

As at 1 January 2019, the recognised right-of-use assets relate to the following types of assets:

	RMB'000
Properties	4,157
Leasehold land in the PRC	94,383
	98,540

3. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(a) Changes in accounting policy (Continued)

IFRS 16 Leases (Continued)

(ii) Lessee accounting and transitional impact (Continued)

Under the transition methods chosen, the Group has recognised cumulative effect of the initial application of IFRS 16 as an adjustment to the opening balance at 1 January 2019. Comparative information is not restated. Line items that were not affected by the changes have not been included in the following table. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The change in accounting policy affected the following items in the consolidated statement of financial position as at 1 January 2019:

	At 31 December 2018 RMB'000	Impact of initial application of IFRS 16 RMB'000	At 1 January 2019 RMB'000
Prepaid lease payments	88,925	(88,925)	—
Right-of-use assets	—	98,540	98,540
Total non-current assets	**189,323**	**9,615**	**198,938**
Trade and bills receivables, other receivables and prepayments	55,264	(2,363)	52,901
Total current assets	**155,786**	**(2,363)**	**153,423**
Lease liabilities	—	(1,679)	(1,679)
Total current liabilities	**(267,582)**	**(1,679)**	**(269,261)**
Net current liabilities	**(111,796)**	**(4,042)**	**(115,838)**
Total assets less current liabilities	**77,527**	**5,573**	**83,100**
Lease liabilities	—	(5,573)	(5,573)
Total non-current liabilities	**(49,754)**	**(5,573)**	**(55,327)**

(iii) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit from operations in the Group's consolidated statement of comprehensive income, as compared to the results if IAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, rather than as investing and operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows (Note 34).

(b) New and revised IFRSs not yet adopted

At the date of issue of these consolidated financial statements, certain new and revised IFRSs have been issued by IASB but are not yet effective, and have not been applied early by the Group.

		Effective for annual reporting periods beginning on or after
IFRS 10 and IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined*
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IFRS 3 Amendments	Definition of a Business	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform	1 January 2020
Conceptual Framework Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

* On 17 December 2015, the IASB issued "Effective Date of Amendments to IFRS 10 and IAS 28". This update defers the effective date of the amendments in "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" that the IASB issued in September 2014. Early application of these amendments continues to be permitted.

The Group has already commenced an assessment of the related impact of adopting the above new and revised IFRSs. So far, the directors of the Company have concluded that the above new and revised IFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the consolidated financial statements of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all the years/periods presented unless otherwise stated.

4.1 Basis of consolidation and subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries comprising the Group for the year. As explained in Note 2.2 above, the Reorganisation is accounted for using merger basis of accounting.

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and each component of other comprehensive income are attributed to owners of the Company and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

4.2 Business combinations

Business combinations that are not the Reorganisation as explained in Note 2.1 are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Goodwill is initially measured at cost, being the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in the consolidated statements of comprehensive income as a bargain purchase gain.

After initial recognition, goodwill is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statements of financial position.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating units (group of cash-generating units) to which the goodwill relates. If the recoverable amount of the cash-generating units (group of cash-generating units) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of cash-generating units) and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use.

Depreciation is provided on the straight-line method, based on the estimated economic useful life of the individual asset, as follows:—

Buildings	2% to 5% per annum, or over the term of leases if shorter
Leasehold improvements	10% to 33% per annum, or over the term of the leases if shorter
Plant and machinery	9% to 25% per annum
Furniture, fixtures and office equipment	10% to 33% per annum
Motor vehicles	18% to 25% per annum

No depreciation is provided for construction in progress until such time as the relevant assets are completed and available for intended use. Construction in progress are transferred to the relevant categories of property, plant and equipment upon the completion of their respective construction.

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

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4.4 Financial instruments

Financial assets

(a) Classification

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

— The asset is held within a business model whose objective is to collect the contractual cash flows; and

— The contractual terms give rise to cash flows that are solely payments of principal and interest.

Management determines the classification of its financial assets at initial recognition. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held.

If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's financial assets comprise of trade and bills receivables, other receivables, pledged bank deposits and cash and cash equivalents. The Company's financial assets comprise of amounts due from subsidiaries and cash and cash equivalents.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Financial instruments (continued)

Financial assets (continued)

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classified its debt instruments at financial assets measured at amortised cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income and gains. Impairment losses are recognised directly in profit or loss and presented in administrative expenses.

(d) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade, bills and other receivables);

For trade and bills receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof for fixed-rate financial assets, trade and other receivables where the effect of discounting is material.

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

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For trade receivables, the Group has measured the loss allowance at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For bills and other receivables, cash and cash equivalents and pledged bank deposits, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial asset assessed at the end of reporting period with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Financial instruments (continued)

Financial assets (continued)

(d) Impairment of financial assets (continued)

Significant increases in credit risk (continued)

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

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Definition of default

The Group considers that default has occurred when the instrument is more than 90 days past due or the Group ceases business with those debtors unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Financial liabilities

The Group's financial liabilities include trade and bills payables, accruals and other payables, amount due to a director, lease liabilities and interest-bearing bank borrowings. The Company's financial liabilities include accruals and amounts due to a director and a subsidiary. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, net of transactions costs incurred and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expired.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Impairment of non-financial assets

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

An impairment loss is recognised in the consolidated statements of comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to the consolidated statements of comprehensive income in the year in which it arises.

4.6 Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the commencement date of a lease, the Group, as a lessee recognises a right-of-use asset and a lease liability, except for short-term leases and leases of low-value assets which are primarily laptops and office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term that are not paid at the commencement date of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

All the commencement date of a lease, the lease payments included in the measurement of the lease liability comprise the following payments during the lease term:

— fixed payments (including in-substance fixed payments), less any lease incentives receivable;

— variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

— amounts expected to be payable by the Group under residual value guarantees;

— the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

— payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (Note 4.5) and adjusted for any remeasurement of the lease liability.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Leased assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

(B) Policy applicable prior to 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group 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.

Operating lease charges

Where the Group has use of assets held under operating leases, payments made under the leases are charged to the profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated statements of comprehensive income as an integral part of the aggregate net lease payments made. Contingent rentals, if any, are charged to the profits or loss in the accounting period in which they are incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 4.9.

4.7 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

4.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Revenue recognition

Revenue from sales of hardware and building materials and automotive maintenance industrial chemical products

Timing of recognition: The Group manufactures and sells hardware and building materials and automotive maintenance industrial chemical products. Sales are recognised when control of the products has transferred to customers, being when the products are delivered to the customers, the customer has full discretion over channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been transported to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group offers the right to return defective products within one month. A contract liability is recorded as advances from customers for the cash received from the customers before the delivery of goods.

Sales discounts are offered to the customers when the customers meet the predetermined annual sales target. Accumulated experience is used to estimate and provide for the sales discounts, using the expected value method. The sales discounts are recognised and net off against the sales amount when sales are recognised. The customers can utilise these sales discounts by future purchases from the Group.

Measurement of revenue: Revenue from sales is based on the price specified in the sales contracts and is shown net of value-added tax, sales discounts, sales return and after eliminating sales within the Group. No element of financing is deemed present as the sales are made with a credit term up to 90 to 180 days. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Accumulated experience is used to estimate the likelihood and provide for sales discounts and sales return for the goods sold at the time of sale.

Rental income

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

4.10 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statements of comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statements of comprehensive income by way of a reduced depreciation charge.

4.11 Income taxes

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

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

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

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

— when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investment in a subsidiary, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Income taxes (continued)

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

— when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investment in a subsidiary, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4.12 Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The consolidated financial statements are presented in RMB (the “presentation currency”), while the functional currency of the Company is HK$. As the Group mainly operates in the PRC, RMB is used as the presentation currency of the consolidated financial statements.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statements of comprehensive income with the exception of monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item. The functional currencies of certain subsidiaries are currencies other than the presentation currency. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period, and their income and expense items are translated into the presentation currency at the weighted average exchange rates for the year.

The resulting exchange differences are recorded in other comprehensive income and the cumulative balance is included in translation reserve in the consolidated statements of changes in equity. On disposal of a foreign operation, the deferred cumulative amount recognised in translation reserve relating to that particular foreign operation is recognised in the consolidated statements of comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of the Company and certain subsidiaries are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and these subsidiaries which arise throughout the year are translated into the presentation currency at the weighted average exchange rates for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Defined contribution retirement plan obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statements of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The employees of the subsidiaries within the Group which operate in the PRC are required to participate in the central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme as specified by the local municipal government. The contributions are charged to the consolidated statements of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

There were no forfeited contributions utilised by the Group to reduce existing level of contributions for each of the years/periods.

4.14 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

When 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, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.15 Finance costs

Finance costs comprise borrowing costs, which are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of qualifying asset commences 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 in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Group's parent;

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities 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 Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group 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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4.17 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors of the Company for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the chief operating decision makers ("CODM") are determined following the Group's major operations.

The measurement policies the Group uses for reporting segment results under IFRS 8 *Operating Segments* are the same as those used in its financial statements prepared under IFRSs.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Estimated impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that non-financial assets with definite lives may be impaired. If any such indication exists, the Group estimates the recoverable amount of the assets in accordance with the accounting policy stated in Note 4.5. In assessing whether there is any indication that non-financial assets may be impaired, the Group considers indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions and economic environment. These assessments are subjective and require management's judgements and estimations.

Depreciation and amortisation

Property, plant and equipment, prepaid lease prepayments and right-of-use assets are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual values. The Group reviews the estimated useful lives of the assets regularly. The estimated useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

Provision for expected credit loss on financial assets

The Group determines the provision for expected credit loss on financial assets resulting from the inability of the customers/debtors to make the required payments. A considerable amount of estimate and judgement is required in assessing the ultimate realisation of these receivables which is based on the ageing of the receivable balance, customer/debtor credit-worthiness, and historical write-off experience. If the financial conditions of customers/debtors deteriorate, additional provision for expected credit loss may be required.

Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed.

Provision for income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. Significant judgement is required in determining the tax liabilities to be recognised. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. The Group believes that its provision for tax is adequate for the year based on its assessment of many factors including past experience and interpretations of tax law. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

6. SEGMENT INFORMATION

The Group has three reportable segments which are the Group's strategic business units, as follows:

Aerosols	— Sales of spray paints and automotive care products, including spray paint, carburetor cleaner, spray wax, anti-rust spray lubricant, polyurethane foam, cleaning spray and spray refrigerant for automobile air-conditioners
Organic silicone adhesives	— Sales of product series, which are all silicone-based adhesives
Synthetic adhesive	— Sales of several product series, which are all multi-purpose contact adhesives

Information about strategic business units of other operating segments that are not reportable in accordance with IFRS 8 *Operating Segments* are consolidated and disclosed in "All other segments".

These strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the executive directors of the Company, who are the CODM of the Group during the year, review internal management reports on a monthly basis. There was no aggregation of operating segments in arriving at the reportable segments of the Group.

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the CODM monitor the results attributable to each reportable segment on the following basis:

Segment profit represents the gross profit earned by each segment without allocation of central administration expenses (including emoluments of directors, listing expenses), selling and distribution expenses, other income and gains, gain from a bargain purchase, impairment losses on financial assets and finance costs. This is the measure reported to the Group's CODM for the purposes of resource allocation.

The CODM review the Group's assets and liabilities as a whole without allocation to each segment. In his opinion, all strategic business units consume similar materials and their products are produced by same machinery and equipment and then they are sold to same customers. As a result, it is not necessary to monitor the assets and liabilities under different segments. No segment information on assets and liabilities is presented accordingly.

During the years ended 31 December 2019 and 2018, the Group generated revenue primarily from the sale of three categories of products under these segments. The following table sets out the breakdown of the revenue and segment profit by reportable segment:

	Aerosols RMB'000	Organic silicone adhesives RMB'000	Synthetic adhesive RMB'000	Total RMB'000
For the year ended 31 December 2019				
Revenue from external customers and reportable segment revenue — Point in time	**483,653**	**141,805**	**74,047**	**699,505**
Reportable segment profit	**144,496**	**37,478**	**17,147**	**199,121**
For the year ended 31 December 2018				
Revenue from external customers and reportable segment revenue — Point in time	387,562	186,245	65,909	639,716
Reportable segment profit	121,009	15,233	18,722	154,964

(b) Reconciliations of reportable segment revenue and profit before income tax

A reconciliation of segment revenue to consolidated revenue is presented as follows:

	2019 RMB'000	2018 RMB'000
Total reportable segment revenue	**699,505**	639,716
All other segments revenue (Note)	**114,511**	129,455
Consolidated revenue	**814,016**	769,171

A reconciliation of segment result to consolidated profit before income tax is presented as follows:

	2019 RMB'000	2018 RMB'000
Total of reportable segment profit	**199,121**	154,964
All other segments profit (Note)	**25,411**	30,848
Other income and gains	**2,944**	2,878
Gain from a bargain purchase	**—**	4,847
Selling and distribution expenses	**(102,135)**	(90,238)
Administrative expenses	**(80,843)**	(62,163)
Impairment losses on financial assets	**(642)**	—
Listing expenses	**(12,753)**	(8,549)
Finance costs	**(4,379)**	(5,061)
Consolidated profit before income tax	**26,724**	27,526

Note: Segment revenue and segment profit from other segments represents the sales of architectural coatings, oil products, wood paints and others.

6. SEGMENT INFORMATION (CONTINUED)

(c) Geographical information

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. All the Group's non-current assets are located in the PRC as at 31 December 2019 and 2018. The following table provides an analysis of the Group's revenue generated from external customers by geographical market.

	2019 RMB'000	2018 RMB'000
The PRC	**788,926**	764,383
Australia	**23,862**	4,788
Others	**1,228**	—
	814,016	769,171

(d) Information about major customers

No revenue from a single external customer accounted for 10% or more of the Group's revenue for the years ended 31 December 2019 and 2018.

7. REVENUE AND OTHER INCOME AND GAINS

Revenue from the Group's principal activities, represents revenue derived from the sales of hardware and building materials and automotive maintenance industrial chemical products. Revenue and other income and gains recognised during the years ended 31 December 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000
Revenue (Note (i))	**814,016**	769,171
Other income and gains		
Bank interest income	**282**	260
Rental income	**564**	846
Government subsidies (Note (ii))	**1,836**	1,555
Gain on disposal of scraps and raw materials	**—**	47
Gain on disposal of property, plant and equipment	**183**	—
Sundry income	**79**	170
	2,944	2,878

Notes:

(i) Disaggregation of revenue from contracts with customers by major categories of products is disclosed in Note 6.

All sales contracts are for period of one year or less. The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts such that the information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of products that have an original expected duration of one year or less is not disclosed.

(ii) The Group received unconditional subsidies from local government during the years ended 31 December 2019 and 2018 as a recognition of the Group's contribution to the development of the local economy.

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on interest-bearing bank borrowings	**6,988**	6,375
Interest on lease liabilities	**394**	—
Less: interest capitalised into property, plant and equipment (Note)	**(3,003)**	(1,314)
	4,379	5,061

Note: During the year, the finance costs have been capitalised at an effective interest rate of 6.36% (2018: 5.35%) per annum.

9. PROFIT BEFORE INCOME TAX

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

	2019 RMB'000	2018 RMB'000
Amortisation of prepaid lease payments (Notes (i) and 15)	**—**	1,913
Auditor's remuneration	**882**	—
Cost of inventories recognised as expenses	**589,484**	583,359
Depreciation of property, plant and equipment (Note 14)	**8,909**	6,152
Depreciation of right-of-use assets (Note 16)	**4,262**	—
Net (gain)/loss on disposal of property, plant and equipment	**(183)**	1
Impairment losses on trade receivables (Note 32(b))	**642**	—
Written off of property, plant and equipment (Note 14)	**—**	425
Net exchange loss	**210**	13
Employee benefit expenses (including directors' remuneration (Note 10) and salaries in research and development expenses) (Note (ii))		
— Salaries, allowances and benefits in kind	**71,139**	57,055
— Discretionary bonus	**3,594**	3,146
— Retirement benefit scheme contributions	**4,025**	3,521
	78,758	63,722
Minimum lease payments under operating lease charges for properties and land (Note (iv))	**—**	2,441
Research and development expenses (Note (iii))		
— Material consumption	**19,359**	17,660
— Employee benefit expenses	**13,631**	8,247
— Others	**3,716**	1,945
	36,706	27,852

Notes:

(i) Amortisation of prepaid lease payments are included in cost of sales and administrative expenses.

(ii) Employee benefit expenses are included in cost of sales, selling and distribution expenses and administrative expenses.

(iii) Research and development expenses are included in administrative expenses.

(iv) Amount in 2018 represents the operating lease charges recognised over the lease terms for operating leases under IAS 17. Upon adoption of IFRS 16 as disclosed in Note 3(a), the minimum lease payments under operating lease charges (except for short-term leases) are no longer recognised under operating expenses.

10. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors and chief executive emoluments

Pursuant to the Listing Rules, Section 383(1)(a), (b), (c) and (f) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, details of emoluments paid by the companies comprising the Group to the directors of the Company are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2019				
Executive directors				
Mr. Ernest Chen (Notes (ii) and (iii))	**—**	**510**	**19**	**529**
Mr. Leo Chen (Notes (ii) and (iii))	**—**	**369**	**13**	**382**
Mr. Ng Cheuk Lun (Note (iv))	**—**	**—**	**—**	**—**
	—	**879**	**32**	**911**
Independent non-executive directors				
Ir. Daniel Lai (Note (v))	**—**	**—**	**—**	**—**
Mr. Yeung Chun Yue David (Note (v))	**—**	**—**	**—**	**—**
Mr. Xu Kai (Note (v))	**—**	**—**	**—**	**—**
	—	**—**	**—**	**—**
	—	**879**	**32**	**911**
Year ended 31 December 2018				
Executive directors				
Mr. Ernest Chen (Notes (ii) and (iii))	—	375	14	389
Mr. Leo Chen (Notes (ii) and (iii))	—	181	7	188
	—	556	21	577

Notes:

(i) Salaries, allowances and benefits in kind are generally emoluments paid in respect of the directors' other services in connection with the management of the affairs of the companies comprising the Group.

(ii) Mr. Ernest Chen is also the chief executive of the Company. During the years ended 31 December 2019 and 2018, Mr. Ernest Chen and Mr. Leo Chen received emoluments from companies comprising the Group for their appointment as directors of those companies.

(iii) Mr. Ernest Chen and Mr. Leo Chan were appointed as executive directors of the Company on 12 April 2018.

(iv) Mr. Ng Cheuk Lun was appointed as executive director of the Company on 15 April 2019.

(v) Ir. Daniel Lai, Mr. Yeung Chun Yue David and Mr. Xu Kai were appointed as independent non-executive directors of the Company on 13 December 2019.

The Company did not have any executive directors, non-executive directors and independent non-executive directors at any time before 12 April 2018 since the Company was only incorporated on 12 April 2018.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

During the year, no emoluments were paid by the Group to the directors as inducement to join or upon joining the Group, or as compensation for loss of office (2018: Nil).

10. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals emoluments

The emoluments of the five highest paid individuals for the years ended, include two (2018: two) directors of the Company, whose emoluments are reflected in the analysis presented above. Details of emoluments paid to the remaining three (2018: three) highest paid individuals of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**709**	425
Retirement benefit scheme	**25**	14
	734	439

The emoluments of the non-director highest paid individuals are within the following bands:

	2019	2018
Nil to HK$1,000,000	**3**	3

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2018: Nil).

11. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax expense		
— PRC Enterprise Income Tax ("EIT")	**4,867**	4,819
— Over-provision of income tax expense in the prior year	**(2,024)**	—
Deferred tax credit		
— the origination and reversal of temporary differences (Note 26)	**(54)**	(27)
Income tax expense	**2,789**	4,792

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax under these jurisdictions during the year (2018: Nil).

No provision for income tax has been made for the subsidiaries incorporated in Hong Kong as the subsidiaries did not have any estimated assessable profits subject to Hong Kong Profits Tax during the year (2018: Nil).

Under the Enterprise Income Tax Law of the PRC (the "EIT Law") and the Implementation Regulation of the EIT Law, the subsidiaries operating in the PRC are subject to the tax rate of 25% (2018: 25%) on the estimated assessable profits during the year except for four (2018: four) of the subsidiaries operating in the PRC which were approved to be high and new technology enterprises ("HNTE") during the year. Enterprise approved to be HNTE are entitled to enjoy a reduced enterprise income tax rate of 15% (2018: 15%) and additional 50% (2018: 50%) tax reduction based on the eligible research and development expenses with a validity period of three years. Guangdong Sanvo, Shunde Sanvo, Sanvo Holdings and Guangdong Fuvo were approved to be HNTE and enjoyed the preferential tax rate for HNTE for the years ended 31 December 2019 and 2018. The HNTE certificate needs to be renewed every three years so as to enable the respective subsidiaries to enjoy the reduced tax rate of 15%.

11. INCOME TAX EXPENSE (CONTINUED)

Income tax expense can be reconciled to the profit before income tax as follows:

	2019 RMB'000	2018 RMB'000
Profit before income tax	**26,724**	27,526
Tax calculated at the rates applicable to profit in the tax jurisdiction concerned	**6,945**	9,066
Tax effect of concessionary tax rate	**(4,158)**	(2,732)
Tax effect of non-taxable income	**—**	(1,212)
Tax effect of non-deductible expenses	**3,977**	1,305
Tax reduction for research and development expenses	**(1,951)**	(1,644)
Tax effect of over-provision in prior year	**(2,024)**	—
Tax effect of tax losses not recognised	**—**	9
Income tax expense	**2,789**	4,792

12. DIVIDENDS PAID

(a) Dividends paid to the then shareholders of a subsidiary of the Company prior to the Listing

	2019 RMB'000	2018 RMB'000
Interim dividend declared and paid to the then shareholders of a subsidiary of the Company prior to the Listing	**—**	66,310

During the year ended 31 December 2018, pursuant to the shareholders' meeting of Guangdong Sanvo on 27 February 2018, Guangdong Sanvo declared and paid interim dividend amounting to approximately RMB66,310,000 to its then shareholders, Mr. Ernest Chen and Ms. Liang.

The above interim dividend was declared and paid by the Company's subsidiary.

The rate of dividend and the number of shares ranking for the above dividend is not presented as such information is not meaningful having regard to the purpose of these consolidated financial statements.

(b) Dividends payable to the owners of the Company attributable to the year

After the end of the reporting period, the directors of the Company recommended the payment of a final dividend of HK$10,260,000 (2018: Nil) for the current year, representing HK2.4 cents (2018: Nil) per ordinary shares (after share offer). These final dividends have not been provided in the consolidated financial statements during the year.

13. EARNINGS PER SHARE

The calculations of basic earnings per share are based on the profit of approximately RMB23,935,000 (2018: RMB24,333,000) for the year attributable to the owners of the Company and the weighted average of 337,500,000 (2018: 337,500,000) shares in issue during the year.

The 337,500,000 shares used to calculate the basic earnings per share for the years ended 31 December 2019 and 2018 represents the number of shares of the Company immediately prior to the Listing as if the shares had been in issue throughout the years ended 31 December 2019 and 2018.

Diluted earnings per share were same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2019 and 2018.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2018	4,665	23,812	2,426	4,254	28	19,442	54,627
Additions	3,256	5,134	541	434	615	26,878	36,858
Acquisition of Sanvo Holdings (Note 35)	21,103	6,004	276	235	298	1,081	28,997
Transfer	4,525	927	303	102	—	(5,857)	—
Disposal	(239)	(2,569)	(2)	(284)	—	—	(3,094)
Written-off	—	(470)	—	—	—	—	(470)
At 31 December 2018 and 1 January 2019	33,310	32,838	3,544	4,741	941	41,544	116,918
Additions	1,862	3,516	820	372	26	23,194	29,790
Transfer	5,030	1,635	97	226	—	(6,988)	—
Disposal	—	(29)	—	(129)	—	—	(158)
At 31 December 2019	**40,202**	**37,960**	**4,461**	**5,210**	**967**	**57,750**	**146,550**
Accumulated depreciation							
At 1 January 2018	1,214	9,765	1,482	2,891	4	—	15,356
Charge for the year	2,955	2,355	393	390	59	—	6,152
Elimination on disposal	(88)	(477)	—	(269)	—	—	(834)
Elimination on written-off	—	(45)	—	—	—	—	(45)
At 31 December 2018 and 1 January 2019	4,081	11,598	1,875	3,012	63	—	20,629
Charge for the year	4,720	3,163	530	416	80	—	8,909
Elimination on disposal	—	(10)	—	(123)	—	—	(133)
At 31 December 2019	**8,801**	**14,751**	**2,405**	**3,305**	**143**	**—**	**29,405**
Net carrying amount							
At 31 December 2018	29,229	21,240	1,669	1,729	878	41,544	96,289
At 31 December 2019	**31,401**	**23,209**	**2,056**	**1,905**	**824**	**57,750**	**117,145**

During the year ended 31 December 2018, a fire incident in one of the subsidiaries of the Company damaged certain machinery with net carrying amount of approximately RMB425,000. Those machineries were fully written off and the loss was recognised as administrative expenses during the year ended 31 December 2018 (Note 9).

As at 31 December 2019, the Group's property, plant and equipment with net carrying amount of approximately RMB37,967,000 (2018: RMB30,691,000) were pledged for interest-bearing bank borrowings (Note 24).

The Group does not have the title certificates for certain items of buildings with an aggregate net carrying amount of approximately RMB10,336,000 (2018: RMB5,295,000) as at 31 December 2019. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above mentioned properties and therefore the aforesaid matter does not affect the ownership rights of the Group over these assets and hence did not have any significant impact on the Group's consolidated financial position as at 31 December 2019.

15. PREPAID LEASE PAYMENTS

The Group has prepaid operating lease for the land use rights in the PRC. Movements in the prepaid lease payments are analysed as follows:

	RMB'000
At 1 January 2018	46,517
Acquisition of Sanvo Holdings (Note 35)	22,912
Additions	23,772
Amortisation charge for the year	(1,913)
At 31 December 2018	91,288
Impact on initial application of IFRS 16	
— Reclassification to right-of-use assets (Note 3(a))	(91,288)
At 1 January 2019 and 31 December 2019	**—**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

15. PREPAID LEASE PAYMENTS (CONTINUED)

	2018 RMB'000
Net carrying amount represented by:	
Current portion (Note 18)	2,363
Non-current portion	88,925
	91,288

Upon the initial application of IFRS 16 as at 1 January 2019, an opening adjustment was made as at the date of initial application to reclassify prepaid lease payments to right-of-use assets (Note 3(a)).

As at 31 December 2019, the Group's prepaid lease payment representing the land use rights of the Group, with net carrying amount of approximately RMB Nil (2018: RMB43,193,000) was pledged for interest-bearing bank borrowings (Note 24).

The prepaid operating leases for the land use rights of the Group will be expired on 8 August 2044, 30 June 2052, 24 December 2064 and 7 June 2068 respectively.

16. RIGHT-OF-USE ASSETS

	RMB'000
Cost	
At 31 December 2018	—
Impact on initial application of IFRS 16 (Note 3(a))	98,540
At 1 January 2019 and 31 December 2019	**98,540**
Accumulated depreciation	
At 1 January 2019	—
Depreciation for the year	(4,262)
At 31 December 2019	**(4,262)**
Net carrying amount	
At 31 December 2018	—
At 31 December 2019	**94,278**

Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments related to properties and land were recognised as adjustments to right-of-use assets and prepaid land lease payments were reclassified as right-of-use assets as at the date of initial application (Note 3(a)).

As at 31 December 2019, the recognised right-of-use assets relate to the following types of assets:

	RMB'000
Properties	2,388
Leasehold land in the PRC	91,890
Net carrying amount	**94,278**

As at 31 December 2019, the Group's right-of-use assets with net carrying amount of approximately RMB89,093,000 were pledged for interest-bearing bank borrowings (Note 24).

The prepaid land use rights of the Group will be expired on 8 August 2044, 30 June 2052, 24 December 2064 and 7 June 2068 respectively.

17. INVESTMENT IN SUBSIDIARIES

As at 31 December 2019 and 2018, the Company has direct and indirect interests in the following subsidiaries, all of which are companies with limited liability. The particulars of which are set out as follows:

Name of subsidiaries	Place and date of incorporation/establishment	Particulars of issued and fully paid-up share capital/registered capital	Attributable equity interest of the Group 2019	2018	Principal activities and place of operation
Directly held:					
Olive Woods	The BVI 12 December 2017	US$1	**100%**	100%	Investment holding
Integrity Knights	The BVI 25 April 2018	US$100	**100%**	100%	Investment holding
Indirectly held:					
Guangdong Sanvo (Note (a))	The PRC 9 April 2002	RMB1,380,000	**100%**	100%	Researching, developing, manufacturing and sales of chemical products in the PRC
Guangdong Fuvo (Note (a))	The PRC 28 October 2001	RMB1,380,000	**100%**	100%	Researching, developing, manufacturing and sales of chemical products in the PRC
Shunde Sanvo (Note (b))	The PRC 20 March 2003	RMB500,000	**100%**	100%	Researching, developing, manufacturing and sales of chemical products in the PRC
Zhongshan Minhe (Note (a))	The PRC 24 January 2013	RMB1,030,000	**100%**	100%	Manufacturing and sales of chemical products in the PRC
Guangdong Fullteam (Note (a))	The PRC 8 December 2014	RMB1,130,000	**100%**	100%	Investment holding
Zhongshan Fullteam (Notes (b) and (c))	The PRC 6 February 2018	RMB5,040,000	**100%**	100%	Dormant
Sanvo Holdings (Note (b))	The PRC 2 June 2000	RMB22,864,000	**100%**	100%	Researching, developing, manufacturing and sales of chemical products in the PRC
OWHK	Hong Kong 29 December 2017	HK$1	**100%**	100%	Investment holding
American Sanvo	Hong Kong 25 May 2018	HK$10,000	**100%**	100%	Investment holding
French Fullteam	Hong Kong 25 May 2018	HK$10,000	**100%**	100%	Dormant

Notes:

(a) These entities are wholly foreign owned enterprises established in the PRC.

(b) These entities are limited liability companies established in the PRC.

(c) Zhongshan Fullteam was deregistered on 26 March 2019 and its impact to the consolidated financial statements is insignificant.

18. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2019 RMB'000	2018 RMB'000
Non-current portion		
Prepayments for acquisition of property, plant and equipment (Note (i))	**10,695**	3,636
Current portion		
Trade receivables	**62,009**	33,567
Less: Allowance for doubtful debts	**(642)**	—
	61,367	33,567
Bills receivables	**1,823**	304
Trade and bills receivables, net	**63,190**	33,871
Other receivables (Note (ii))	**4,285**	2,626
Prepaid lease payments — current portion (Note 15)	**—**	2,363
Prepaid listing expenses	**4,805**	2,171
Prepayments	**19,084**	14,233
	91,364	55,264

Notes:

(i) It represents the amount prepaid to vendors for acquisition of property, plant and equipment which was not yet delivered as at the end of each reporting date.

(ii) As at 31 December 2019, balance of RMB525,000 (2018: Nil) included in other receivables represents the amount due from a related company which one of the executive directors of the Company is the controlling shareholder and beneficial owner of this related company and another executive director of the Company is also the beneficial owner of this related company. The maximum amount due from this related company during the year amounted to RMB525,000 (2018: Nil). The amount was unsecured, interest-free and repayable on demand.

All of the trade and bills receivables and current portion of prepayments and other receivables are expected to be recovered or recognised as expenses within one year.

The credit period for trade receivables is normally 180 days (2018: 90 days) from the date of billing for the year. The ageing analysis of trade and bills receivables based on due date and net of allowance for doubtful debts, is as follows:

	2019 RMB'000	2018 RMB'000
Current	**55,734**	26,982
Less than 1 month	**7,456**	6,889
	63,190	33,871

Details of impairment assessment of trade receivables for the year are set out in Note 32(b).

19. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**27,164**	29,241
Work in progress	**4,133**	4,156
Finished goods	**25,710**	37,017
	57,007	70,414

As at 31 December 2019, the Group's inventories with carrying amount of approximately RMB16,406,000 (2018: RMB2,558,000) were pledged for interest-bearing bank borrowings (Note 24).

20. AMOUNT DUE TO A DIRECTOR

The amount due to a director was non-trade in nature. The amount was unsecured, interest-free and repayable on demand. The amount due to Mr. Ernest Chen of RMB33,184,000 was capitalised as a contribution by Mr. Ernest Chen in equity of the Group on 31 October 2019. The remaining portion of RMB25,746,000 was fully settled during the year.

21. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

Cash and cash equivalents represents cash at banks and cash on hand.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2019, the Group's cash and cash equivalents were denominated in RMB amounted to approximately RMB14,754,000 (2018: RMB18,195,000) and were kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

21. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (CONTINUED)

As at 31 December 2019, the Group's bank deposits of approximately RMB20,700,000 (2018: RMB8,990,000) were pledged for the issues of bills payables for the Group's purchases of raw materials (Note 22).

As at 31 December 2019, the Group's bank deposit of RMB2,300,000 (2018: RMB2,300,000) was also pledged for guarantee to complete the construction work within a scheduled time table for the leasehold land acquired during the year ended 31 December 2018. The Group would be subject to penalty if the Group was failed to fulfill the scheduled deadline. In the opinion of the directors of the Company, as at the date of issue of these consolidated financial statements, there is no delay on the construction work and no provision for penalty was required to be made in the consolidated financial statements.

The pledged bank deposits and bank balances carry interests at market rate ranging as follows per annum:

	2019 RMB'000	2018 RMB'000
Pledged bank deposits	**1.35%**	1.35%
Bank balances	**0.00% to 0.30%**	0.00% to 0.30%

22. TRADE AND BILLS PAYABLES, ACCRUALS, CONTRACT LIABILITIES AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables (Note (i))	**106,089**	88,732
Bills payables (Note (ii))	**21,945**	8,990
Accrued expenses	**3,791**	792
Accrued employee benefit expenses	**14,851**	10,199
Accrued listing expenses	**10,698**	589
Deferred income — current portion (Note 25)	**38**	38
Provision for a litigation claim (Note 36)	**—**	587
Contract liabilities (Note (iii))	**12,020**	22,362
Utilities and rental deposits received	**—**	157
Other payables	**17,390**	18,471
	186,822	150,917

Notes:

(i) The credit period received from suppliers of the Group is ranging from 30 to 90 days for the year. The ageing analysis of trade payables based on invoice date is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 month	**73,054**	72,204
Over 1 month but less than 3 months	**30,106**	13,912
Over 3 months but less than 1 year	**2,256**	1,343
Over 1 year	**673**	1,273
	106,089	88,732

(ii) At 31 December 2019, bills payables of approximately RMB21,945,000 (2018: RMB8,990,000) were secured by pledged bank deposits (Note 21).

(iii) Contract liabilities represent billings in advance of performance in regarding the sales of hardware and building materials and automotive maintenance industrial chemical products.

When the Group receives a deposit before the products are delivered to the customers, this will give rise to contract liabilities at the start of a contract, until revenue recognised exceeds the amount of the deposit. The Group typically receives full deposit on acceptance of orders for all customers, except for the major customer. In previous years, the amount of the deposit, if any, was negotiated on a case by case basis with customers.

Contract liabilities also include the provision of sales discounts of approximately RMB5,635,000 (2018: RMB7,166,000) as at 31 December 2019. Sales discounts are offered to the customers when the customers meet the predetermined annual sales target. The customers can utilise these sales discounts from future purchases from the Group.

The following table shows the opening and closing balances of contract liabilities for each reporting period and how much of the revenue recognised during each reporting period relates to carried-forward contract liabilities:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**22,362**	43,331
At the end of the year	**12,020**	22,362
Revenue recognised that was included in the contract liability balance at the beginning of the year	**(22,362)**	(43,331)

Contract liabilities in 2019 have decreased by approximately RMB10,342,000 (2018: RMB20,969,000) which was due to the Group fasten the delivery process close to the reporting date.

23. LEASE LIABILITIES

	2019 RMB'000	2018 RMB'000
Current		
Lease liabilities	**1,635**	—
Non-current		
Lease liabilities	**3,938**	—
	5,573	—

Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments were remeasured and recognised as adjustments to the lease liabilities immediately as at the date of initial application (Note 3(a)).

The following amounts relating to leases were recognised to the consolidated statement of comprehensive income during the year ended 31 December 2019:

	RMB'000
Depreciation charge of right-of-use assets — properties	**1,857**
Depreciation charge of right-of-use assets — leasehold land in the PRC	**2,405**
Total depreciation charge of right-of-use assets (Note 16)	**4,262**
Interest expenses included in finance costs (Note 8)	**394**
Expense relating to short-term leases (included in administrative expenses)	**18**
	4,674

The total financing cash outflow for leases during the year ended 31 December 2019 was approximately RMB2,073,000 (2018: Nil).

24. INTEREST-BEARING BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Current		
Interest-bearing bank borrowings — secured (Note)	**71,047**	51,302
Non-current		
Interest-bearing bank borrowings — secured (Note)	**53,763**	43,616
	124,810	94,918

Note: Interest is charged in the range of 5.56% to 6.47% (2018: 5.88% to 6.75%) per annum for the year.

At 31 December 2019 and 2018, total current and non-current interest-bearing bank borrowings were scheduled to be repaid as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**71,047**	51,302
Over one year, but within two years	**8,147**	5,123
Over two years, but within five years	**21,457**	21,003
Over five years	**24,159**	17,490
	124,810	94,918

24. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

At the end of each reporting period, the Group's interest-bearing bank borrowings were secured by the following assets:

	2019 RMB'000	2018 RMB'000
Property, plant and equipment (Note 14)	**37,967**	30,691
Prepaid lease payments (Note 15)	**—**	43,193
Right-of-use assets (Note 16)	**89,093**	—
Inventories (Note 19)	**16,406**	2,558

At the end of each reporting period, the Group's interest-bearing bank borrowings were also secured by properties of Mr. Ernest Chen and Mr. Leo Chen. As at 31 December 2019, the Group's interest-bearing bank borrowings of approximately RMB124,810,000 (2018: RMB94,918,000) were also guaranteed by certain subsidiaries, the ultimate controlling shareholder and an executive director of the Company (2018: certain subsidiaries, the ultimate controlling shareholder, an executive director of the Company and their relatives).

At the end of March 2020, the interest-bearing bank borrowings which secured by properties of Mr. Ernest Chen and Mr. Leo Chen and guaranteed by them, were fully settled. The respective guarantees and pledged assets provided by Mr. Ernest Chen and Mr. Leo Chen were released accordingly.

25. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government subsidy arising from the acquisition of leasehold land in the PRC	**1,761**	1,800
Represented by:		
Current portion (Note 22)	**38**	38
Non-current portion	**1,723**	1,762
	1,761	1,800

The Group has land use right in respect of a piece of leasehold land in the PRC, included in right-of-use assets (2018: prepaid lease payments), for building a new factory in Zhongshan City. Zhongshan City government provided subsidy as a reward when Zhongshan Minhe completed the filling work on the land within 12 months after the commencement date of the lease. The filling work was completed as scheduled and the Group received the subsidy of approximately RMB1,914,000 in prior year.

Deferred income is amortised over the lease term of the above leasehold land and recognised in the consolidated statement of comprehensive income during the year.

26. DEFERRED TAX ASSETS/(LIABILITIES)

Details of the deferred tax assets/(liabilities) recognised and movements during the year are as follows:

Deferred tax assets

	Credit loss allowance RMB'000	Tax loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2018	—	—	—
Acquisition of Sanvo Holdings (Note 35)	—	788	788
Charged to profit or loss for the year (Note 11)	—	(315)	(315)
At 31 December 2018 and 1 January 2019	—	473	473
Charged to profit or loss for the year (Note 11)	96	(473)	(377)
At 31 December 2019	**96**	**—**	**96**

26. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Deferred tax liabilities

	Revaluation surplus arising from business combinations RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1 January 2018	—	(348)	(348)
Acquisition of Sanvo Holdings (Note 35)	(4,370)	—	(4,370)
Credited to profit or loss for the year (Note 11)	332	10	342
At 31 December 2018 and 1 January 2019	(4,038)	(338)	(4,376)
Credited to profit or loss for the year (Note 11)	421	10	431
At 31 December 2019	**(3,617)**	**(328)**	**(3,945)**

Pursuant to the EIT Law, 10% withholding tax is imposed on dividends declared in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident investors for the companies established in the PRC. For qualified investors incorporated in Hong Kong, a treaty rate of 5% will be applicable. Before the Reorganisation, all the PRC subsidiaries were held by PRC tax residents. Pursuant to the Reorganisation, as at 31 December 2018 and 2019, all the PRC subsidiaries are directly or indirectly held by non-PRC tax resident investors. As such, temporary withholding tax differences relating to the undistributed profits of the PRC subsidiaries amounted to approximately RMB77,586,000 (2018: RMB40,993,000) as at 31 December 2019. As at 31 December 2019, deferred tax liabilities of approximately RMB7,759,000 (2018: RMB4,099,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings, as the Company is in a position to control the dividend policy of the PRC subsidiaries and it has been determined that it is probable that undistributed profits of the PRC subsidiaries will not be distributed in the foreseeable future.

27. SHARE CAPITAL

	Number of shares	Share capital RMB'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 12 April 2018 (date of incorporation of the Company), 31 December 2018 and 1 January 2019 (Note (a))	39,000,000	313
Increase in authorised share capital on 13 December 2019 (Note (b))	1,461,000,000	13,074
At 31 December 2019	**1,500,000,000**	**13,387**
Issued and fully paid:		
At 12 April 2018 (date of incorporation of the Company)	—	—
Issue of share upon incorporation (Note (c))	1	—*
Issue of shares arising from the Reorganisation (Note (d))	99	—*
At 31 December 2018, 1 January 2019 and 31 December 2019	**100**	**—***

* Less than RMB1,000

Notes:

(a) On 12 April 2018, the Company was incorporated in the Cayman Islands with authorised share capital of HK$390,000 (equivalent to approximately RMB313,000) divided into 39,000,000 shares of par value of HK$0.01 each.

(b) On 13 December 2019, the authorised share capital of the Company was increased from HK$390,000 divided into 39,000,000 shares of par value of HK$0.01 each to HK$15,000,000 divided into 1,500,000,000 shares of par value of HK$0.01 each by the creation of an additional 1,461,000,000 shares of per value of HK$0.01 each pursuant to the written resolutions passed by the shareholders of the Company.

(c) On the date of incorporation of the Company, 1 share of the Company was allotted and issued at HK$0.01 to the initial subscriber, who then immediately transferred such share to Sanvo Fine Chemicals, the ultimate holding company of the Company.

(d) On the date of incorporation of the Company, 95 shares and 4 shares of the Company were also allotted and issued at HK$0.95 and RMB12,560,000 to Sanvo Fine Chemicals and Mr. Victor Heng, respectively. Accordingly, the Company's share capital was increased by HK$1 and the remaining balance of the proceeds was credited to the share premium account.

(e) Pursuant to the written resolutions passed by the directors of the Company on 13 January 2020, 323,999,904 ordinary shares and 13,499,996 ordinary shares were allotted on 15 January 2020, and issued at par value of HK$0.01 each to Mr. Ernest Chen and Mr. Victor Heng, respectively as fully paid at par, by way of capitalisation of the sum of HK$3,375,000 debited to the share premium account.

(f) On 16 January 2020, 90,000,000 ordinary shares with a par value of HK$0.01 each of the Company were issued at a price of HK$1.30 per share by way of share offer. On the same date, the shares of the Company were listed on the Main Board of the Stock Exchange.

28. RESERVES

Details of the movements on the Group's reserves are as set out in the consolidated statements of changes in equity. Details of the movements on the Company's reserves are set out as below:

	Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 12 April 2018 (date of incorporation of the Company)	—	—	—	—	—
Loss for the period	—	—	—	(5,531)	(5,531)
Other comprehensive income:					
Exchange differences arising on translation	—	—	216	—	216
Total comprehensive income/(loss) for the period	—	—	216	(5,531)	(5,315)
Issuance of shares arising from the Reorganisation (Note 27(d))	12,560	—	—	—	12,560
Balance at 31 December 2018 and 1 January 2019	12,560	—	216	(5,531)	7,245
Loss for the year	—	—	—	(13,741)	(13,741)
Other comprehensive loss:					
Exchange differences arising on translation	—	—	(99)	—	(99)
Total comprehensive loss for the year	—	—	(99)	(13,741)	(13,840)
Capital contribution from the ultimate controlling shareholder	—	33,184	—	—	33,184
Balance at 31 December 2019	**12,560**	**33,184**	**117**	**(19,272)**	**26,589**

Share premium

The share premium account of the Group and the Company includes the premium arising from the issue of new shares pursuant to the Reorganisation.

Capital reserve

The capital reserve as at 1 January 2018 comprises share capital of Olive Woods and paid-up capital of Guangdong Sanvo, Guangdong Fuvo, Shunde Sanvo, Zhongshan Minhe and Guangdong Fullteam. These paid-up capital and share capital was eliminated when the Company became the holding company of these subsidiaries upon completion of the Reorganisation during the year ended 31 December 2018.

The capital reserve as at 31 December 2019 represents contribution by Mr. Ernest Chen by capitalised his amount due from the Group on 31 October 2019.

Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Company and certain subsidiaries whose functional currencies are different from that of the presentation currency.

Other reserves

	Statutory surplus reserve RMB'000	Safety reserve RMB'000	Total RMB'000
Balance at 1 January 2018	1,630	3,378	5,008
Appropriation to safety reserve	—	6,162	6,162
Utilisation of safety reserve	—	(847)	(847)
Appropriation to statutory surplus reserve	643	—	643
Balance at 31 December 2018 and 1 January 2019	2,273	8,693	10,966
Appropriation to safety reserve	—	5,942	5,942
Utilisation of safety reserve	—	(2,300)	(2,300)
Appropriation to statutory surplus reserve	1,155	—	1,155
Balance at 31 December 2019	3,428	12,335	15,763

28. RESERVES (CONTINUED)

Statutory surplus reserve

In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC to the statutory surplus reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory surplus reserve can be utilised to offset prior years' losses and may be capitalised as registered capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, certain subsidiaries are required to set aside an amount to a safety reserve at different rates ranging from 2% to 4% per annum of the total revenue recognised during the year. The reserve can be utilised for improvements of safety on production.

29. COMMITMENTS

(a) Capital Commitments

Capital expenditures contracted for but not yet incurred at the end of each reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Property, plant and equipment	**26,936**	27,991

(b) Operating lease commitments

The Group as the lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**9**	2,098
Over 1 year but less than 5 years	**—**	3,284
Over 5 years	**—**	10,263
	9	15,645

The Group rents a number of properties and land under operating leases. The agreements run for an initial period of 1 to 49 years and do not include any an extension or termination option.

Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments were remeasured and recognised as adjustments to the lease liabilities as at the date of initial application (Note 3(a)). Operating lease commitments as at 31 December 2019 shown above only represent lease commitments of the Group for short-term leases.

The Group as the lessor

Sanvo Holdings has certain operating lease arrangements in relation to part of its factories, which were acquired by the Group during the Acquisition and were classified as property, plant and equipment as at the date of the Acquisition. Those operating lease arrangements run for an initial period from one to three years. At 31 December 2019 and 2018, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants which fall due as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**—**	256

30. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the consolidated financial statements, the Group has the following transactions with its related parties in the normal course of its business and mutually agreed between both parties:

(a) Recurring transactions

	2019 RMB'000	2018 RMB'000
Rent paid to Mr. Ernest Chen (Note (i))	**1,680**	1,680
Purchase of red wine from a related company (Note (ii))	**1,321**	—

Notes:

(i) The Group rents two properties from Mr. Ernest Chen with a lease term of 2.4 to 3 years with annual rent payment of RMB1,680,000 (2018: RMB1,680,000). These leased properties are recognised as right-of-use assets with net carrying amount of RMB2,291,000 (2018: Nil), with respective lease liabilities of RMB2,359,000 (2018: Nil) as at 31 December 2019.

(ii) One of the executive directors of the Company is the controlling shareholder and beneficial owner of this related company and another executive director of the Company is also the beneficial owner of this related company. The red wine was consumed for business functions of the Group.

(b) Guarantees provided by related parties

	2019 RMB'000	2018 RMB'000
Guarantees of interest-bearing bank borrowings provided by Mr. Ernest Chen	**25,000**	25,000
Guarantees of interest-bearing bank borrowings provided by Mr. Leo Chen	**25,000**	25,000

At the end of March 2020, the guarantees of interest-bearing bank borrowings provided by Mr. Ernest Chen and Mr. Leo Chen were released.

(c) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the directors of the Company. Key management personnel remuneration is as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**1,559**	941
Retirement benefit scheme contributions	**47**	35
	1,606	976

31. FINANCIAL INSTRUMENTS BY CATEGORY

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost		
— Trade and bills receivables and other receivables	**67,475**	36,497
— Pledged bank deposits	**23,000**	11,290
— Cash and cash equivalents	**16,468**	18,818
	106,943	66,605
Financial liabilities		
Financial liabilities at amortised cost		
— Trade and bills payables, accruals and other payables	**174,764**	127,930
— Lease liabilities	**5,573**	—
— Amount due to a director	**—**	58,930
— Interest-bearing bank borrowings	**124,810**	94,918
	305,147	281,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group is exposed to a variety of risks including interest rate risk, credit risk and liquidity risk through its use of financial instruments in its ordinary course of operations.

The Group does not have any written risk management policies and guidelines. The directors of the Company monitor the financial risk management and take such measures as considered necessary from time to time to minimise such financial risks.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk primarily arises from interest-bearing bank borrowings.

Interest-bearing bank borrowings obtained at variable rates expose the Group to the cash flow interest rate risk. Interest-bearing bank borrowings obtained at fixed rates expose the Group to fair value interest rate risk. In general, the Group raises long-term borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2019 and 2018, the Group's fixed rates borrowings and floating rates net borrowings are as follows:

	2019 RMB'000	2018 RMB'000
Fixed rate borrowings:		
Interest-bearing bank borrowings	**24,900**	52,200
Floating rate borrowings:		
Interest-bearing bank borrowings	**99,910**	42,718
Less: pledged bank deposits	**(23,000)**	(11,290)
Less: bank balances	**(16,112)**	(18,087)
	60,798	13,341
	85,698	65,541

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after income tax and retained earnings to a possible change in interest rates of +/- 1%, with effect from the beginning of each reporting period. The calculations are based on the Group's pledged bank deposits, bank balances and interest-bearing bank borrowings at floating rate held at the reporting date. All other variables are held constant. A positive/(negative) number below indicates an increase in profit after income tax and retained earnings where interest rates increased by 1%.

	2019 RMB'000	2018 RMB'000
Impact arising from pledged bank deposits and bank balances	**335**	235
Impact arising from interest-bearing bank borrowings	**(790)**	(320)

For a decrease in interest rate by 1%, there would be an equal but opposite impact on the profit after income tax and retained earnings.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date.

The sensitivity analysis included in the consolidated financial statements for the year ended 31 December 2018 has been prepared on the same basis.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits and bills receivable is limited because the counterparties are banks, for which the Group considers to have low credit risk. Other receivables are due to various group of debtors and the directors of the Company consider the credit risk of these parties is low.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2019, the Group has a certain concentration of credit risk as 30% (2018: 67%) of trade receivables was due from the Group's largest debtor. This debtor is an international trading company with good past credit repayment history and records with the Group.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 180 days (2018: 90 days) from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As part of the Group's credit risk management, the Group use debtors' ageing to assess impairment for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms. The estimated ECL loss rates are estimated based on the Group's estimates of the market borrowing rates for each of the groupings, less risk-free rate, which reflect the credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

Ageing based on the invoice date	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
At 31 December 2019				
Within 1 month	**0.2**	**27,281**	**(48)**	**27,233**
Over 1 month but less than 3 months	**0.8**	**19,175**	**(159)**	**19,016**
Over 3 months but less than 1 year	**2.8**	**15,553**	**(435)**	**15,118**
		62,009	**(642)**	**61,367**
At 31 December 2018				
Within 1 month	N/A	21,895	—	21,895
Over 1 month but less than 3 months	N/A	11,274	—	11,274
Over 3 months but less than 1 year	N/A	398	—	398
		33,567	—	33,567

As at 31 December 2018, weighted average expected loss rate of trade receivables is assessed to be 0.36%. Based on evaluation on ECL loss rates and gross carrying amount of trade receivables, the directors of the Company determined that there are no material expected loss and therefore there has not been a loss allowance provision as at 31 December 2018.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	—	—
Impairment losses recognised during the year (Note 9)	**642**	—
Balance at 31 December	**642**	—

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade and bills payables, accruals and other payables, amount due to a director, lease liabilities, interest-bearing bank borrowings and also in respect of its cash flow management. The Group'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 maturity profile of the Group's non-derivative financial liabilities at each reporting period, based on the contracted undiscounted payments, is as follows:

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	Over 1 year but less than 2 years RMB'000	Over 2 years but less than 5 years RMB'000	Over 5 years RMB'000
As at 31 December 2019						
Trade and bills payables, accruals and other payables	**174,764**	**174,764**	**174,764**	**—**	**—**	**—**
Lease liabilities	**5,573**	**13,547**	**1,937**	**971**	**567**	**10,072**
Interest-bearing bank borrowings	**124,810**	**142,573**	**76,302**	**11,276**	**27,816**	**27,179**
	305,147	**330,884**	**253,003**	**12,247**	**28,383**	**37,251**
As at 31 December 2018						
Trade and bills payables, accruals and other payables	127,930	127,930	127,930	—	—	—
Amount due to a director	58,930	58,930	58,930	—	—	—
Interest-bearing bank borrowings	94,918	108,998	54,930	7,713	26,209	20,146
	281,778	295,858	241,790	7,713	26,209	20,146

As at 31 December 2019, the Group had net current liabilities of approximately RMB74,269,000. The liquidity of the Group is primarily dependent on the unutilised facilities and the listing proceeds as detailed in Note 2.2 to meet its debt obligations.

(d) Fair values of financial instruments

Financial instruments are not measured at fair value and measured at amortised cost. The carrying amounts of these financial instruments are not materially different from their fair values as at 31 December 2019 and 2018.

33. CAPITAL RISK MANAGEMENT

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debts. No changes in the objectives, policies or processes for managing capital were made during the year.

The capital structure of the Group consists of net debt, which included interest-bearing bank borrowings, net of cash and cash equivalents, as disclosed in Notes 21 and 24 respectively, and equity attributable to owners of the Company, comprising share capital and reserves disclosed in the consolidated statements of financial position.

34. CASH FLOW INFORMATION

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities:

	Lease liabilities RMB'000 (Note 23)	Amount due to a director RMB'000 (Note 20)	Interest-bearing bank borrowings RMB'000 (Note 24)
Balance at a 1 January 2018	—	—	114,435
Changes from financing cash flows:			
Proceeds from interest-bearing bank borrowings	—	—	88,315
Repayment of interest-bearing bank borrowings	—	—	(107,832)
Interest paid	—	—	(6,375)
Advances from a director	—	55,555	—
Net changes from financing cash flows	—	55,555	(25,892)
Other Changes:			
Interest on interest-bearing bank borrowings (Note 8)	—	—	6,375
Cash consideration paid by Mr. Ernest Chen on behalf of the Group for the acquisition of Sanvo Holdings (Note 35)	—	3,375	—
Total other changes	—	3,375	6,375
Balance at 31 December 2018	—	58,930	94,918
Impact on initial application of IFRS 16 (Note 3(a))	7,252	—	—
Balance at 1 January 2019	7,252	58,930	94,918
Changes from financing cash flows:			
Proceeds from interest-bearing bank borrowings	—	—	58,743
Repayment of interest-bearing bank borrowings	—	—	(28,851)
Interest paid	—	—	(6,988)
Repayment to a director	—	(25,746)	—
Capital element of lease rentals paid	(1,679)	—	—
Interest element of lease rentals paid	(394)	—	—
Net changes from financing cash flows	(2,073)	(25,746)	22,904
Other Changes:			
Interest on interest-bearing bank borrowings (Note 8)	—	—	6,988
Capital contribution from ultimate controlling shareholder	—	(33,184)	—
Interest on lease liabilities (Note 8)	394	—	—
Total other changes	394	(33,184)	6,988
Balance at 31 December 2019	**5,573**	**—**	**124,810**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

35. ACQUISITION OF SANVO HOLDINGS

On 19 April 2018 and 27 April 2018, Guangdong Sanvo, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement and a supplemental agreement with Lacosta Development Limited ("LKD HK") to acquire its 100% equity interest of Sanvo Holdings with a cash consideration of approximately RMB13,237,000, capital gain tax of RMB3,375,000 charged to LKD HK which is borne by the Group and waiver of advances of approximately RMB34,646,000 provided by Sanvo Holdings to Mr. Li Tao, an independent third party and the then ultimate controlling shareholder of Sanvo Holdings.

The Acquisition was completed on 27 April 2018 and Sanvo Holdings became an indirectly wholly owned subsidiary of the Company. The cash consideration of approximately RMB13,237,000 was fully settled during the year ended 31 December 2018.

The table below summarises the consideration paid for the acquisition of Sanvo Holdings, and the fair values of assets acquired and liabilities assumed at the acquisition date:

	Notes	As at acquisition date RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment	14	28,997
Prepaid lease payments	15	22,912
Prepayments for acquisition of property, plant and equipment		2,293
Deferred tax assets	26	788
Inventories		25,462
Bills and other receivables and prepayments (Note (a))		40,548
Cash and cash equivalents		1,668
Trade and other payables and accruals (Note (f))		(62,193)
Deferred tax liabilities	26	(4,370)
Total identifiable net assets		56,105
Gain from a bargain purchase (Note (b))		(4,847)
Total consideration		51,258
Consideration:		
Cash consideration		13,237
Capital gain tax charged to LKD HK which is borne by the Group	34	3,375
Waiver of advances to the then ultimate controlling shareholder of Sanvo Holdings (Note (c))		34,646
Total consideration		51,258
Net cash flow arising on acquisition:		
Cash consideration paid		13,237
Less: Cash and cash equivalents acquired		(1,668)
Net cash outflow on acquisition		11,569

35. ACQUISITION OF SANVO HOLDINGS (CONTINUED)

Notes:

(a) The gross contractual undiscounted balances of bills and other receivables amounted to approximately RMB38,502,000. The fair values of these bills and other receivables at the acquisition date were estimated to be approximately RMB38,502,000, based on an assessment of the expected credit risks of the balances, which is estimated based on the estimated credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort.

(b) Gain from bargain purchase was arising from the change of net asset value of Sanvo Holdings between the date of determining the consideration and the acquisition date.

(c) Other than cash consideration of approximately RMB13,237,000 and the capital gain tax charged to LKD HK of RMB3,375,000 which is borne by the Group, the Group also waived the advances previously provided by Sanvo Holdings to Mr. Li Tao at approximately RMB34,646,000.

(d) The fair values of assets acquired and liabilities assumed at the acquisition date have been arrived at based on a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, an independent valuer not connected with the Group and Sanvo Holdings and a member of Hong Kong Institute of Surveyors.

(e) On 1 January 2018, Mr. Leo Chen was appointed as a director of LKD HK, who is for handling the administrative processing in relation to the acquisition of Sanvo Holdings. Thus, LKD HK is not considered as related party.

(f) Including in the balance, there were trade payables of approximately RMB46,659,000 that were due to the Group.

The acquired business contributed revenue of approximately RMB155,392,000 and net profit after tax of approximately RMB4,697,000 for the period from 27 April 2018 to 31 December 2018. If the acquisition had occurred on 1 January 2018, pro forma consolidated revenue and profit for the year ended 31 December 2018 would have been approximately RMB822,300,000 and RMB25,811,000 respectively.

36. CONTINGENT LIABILITIES

Litigation claim relating to injuries of a construction worker

On 2 July 2016, a construction worker (the "Plaintiff") who was employed by the Group's constructor suffered injuries whilst performing upgrade construction in the factory building of Guangdong Fuvo. After diagnosis, the Plaintiff was proven to be permanently disabled. On 24 August 2017, a personal injury claim was initiated by the Plaintiff against the Group relating to compensation for his medical expenses and psychological distress. On 17 August 2018, Zhongshan City Second Court concluded that the Group had to make compensation for the Plaintiff's medical expenses and psychological distress amounting of approximately RMB587,000.

As a result of the foregoing, the Group recognised the provision for litigation of approximately RMB587,000 in prior year and such provision is included in trade and bills payables, accruals, contract liabilities and other payables in the consolidated statement of financial position as at 31 December 2018.

On 8 October 2018, the Plaintiff and the Group submitted the appeal application to the Zhongshan City Intermediate People's Court. Pursuant to the judgement dated 27 May 2019, Zhongshan City Intermediate People's Court concluded that the Group had to make compensation for the Plaintiff's medical expenses and psychological distress amounting of approximately RMB1,382,000. As a result of the foregoing, the Group recognised additional compensation expense to the Plaintiff of approximately RMB795,000 under administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2019. Such compensation was fully paid to the Plaintiff during the year ended 31 December 2019.

Other than the disclosure of above, as at 31 December 2019 and 2018, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group.

37. EVENTS AFTER THE REPORTING PERIOD

(i) Capitalisation issue of share capital of the Company

On 15 January 2020, 323,999,904 ordinary shares and 13,499,996 ordinary shares were allotted and issued at par value of HK$0.01 each to Mr. Ernest Chen and Mr. Victor Heng, respectively as fully paid at par, by way of capitalisation of the sum of HK$3,375,000 debited to the share premium account.

(ii) Increase in issued share capital of the Company

On 16 January 2020, 90,000,000 ordinary shares with a par value of HK$0.01 each of the Company were issued at a price of HK$1.30 per share by way of share offer. On the same date, the shares of the Company were listed on the Main Board of the Stock Exchange.

(iii) The assessment of the impact of the Novel Coronavirus ("COVID-19")

Since January 2020, the outbreak of COVID-19 in the PRC and the subsequent quarantine measures imposed by the Central People's Government have had a negative impact on the operations of the Group, as most of the Group's operations and customers of the Group are situated in the PRC. The Group has delayed its manufacturing activities due to the mandatory quarantine measures imposed by the Central People's Government in an effort to contain the spread of the epidemic. Up to the date of issue of these consolidated financial statements, the assessment of the impact on the Group's operations and consolidated financial statements is still in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current asset			
Investment in subsidiaries		**1,228**	1,228
Current assets			
Prepayments		**4,805**	241
Amounts due from subsidiaries		**32,018**	9,241
Cash and cash equivalents		**203**	5
		37,026	9,487
Current liabilities			
Accruals		**11,664**	589
Amount due to a director		**—**	2,880
Amount due to a subsidiary		**1**	1
		11,665	3,470
Net current assets		**25,361**	6,017
Net assets		**26,589**	7,245
CAPITAL AND RESERVES			
Share capital		**—***	—*
Reserves	28	**26,589**	7,245
Total equity		**26,589**	7,245

* Less than RMB1,000

The financial statements of the Company were approved and authorised for issue by the Board of Directors of the Company on 24 April 2020 and are signed on its behalf by:

Mr. Chen Bingqiang
Director

Mr. Ng Cheuk Lun
Director

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