SANVO Fine Chemicals Group Limited
三 和 精 化 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 301)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Subject to the audited annual results of the Group for FY2019 and the shareholders' approval at the forthcoming annual general meeting, a final dividend of HK2.4 cents per ordinary share of the Company was proposed for the year ended 31 December 2019 (please refer to note 9(b) to the unaudited consolidated financial statements herein for details).

- Revenue for FY2019 was approximately RMB814.0 million, increased by approximately 5.8% as compared to approximately RMB769.2 million for FY2018.

- Gross profit for FY2019 was approximately RMB224.5 million, increased by approximately 20.8% as compared to approximately RMB185.8 million for FY2018.

- Gross profit margin increased to approximately 27.6% for FY2019 as compared to approximately 24.2% for FY2018.

- Profit for FY2019 increased by approximately 5.3% to approximately RMB23.9 million from approximately RMB22.7 million for FY2018.

The board (the "**Board**") of directors (the "**Directors**") of SANVO Fine Chemicals Group Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 ("**FY2019**"), together with the comparative figures for the year ended 31 December 2018 ("**FY2018**"). For the reasons explained in the paragraph headed "Review of Unaudited Annual Results" in this announcement, the auditing process for the annual results of the Group for FY2019 has not been completed.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
Revenue	*5*	**814,016**	769,171
Cost of sales		**(589,484)**	(583,359)
Gross profit		**224,532**	185,812
Other income and gains	*5*	**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	*6(a)*	**(4,379)**	(5,061)
Profit before income tax	*6*	**26,724**	27,526
Income tax expense	*7*	**(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)	*8*	**7.1**	7.2

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**117,145**	96,289
Prepaid lease payments		**—**	88,925
Right-of-use assets		**94,278**	—
Prepayments for acquisition of property, plant and equipment	*10*	**10,695**	3,636
Deferred tax assets		**96**	473
		222,214	189,323
Current assets			
Inventories		**57,007**	70,414
Trade and bills receivables, other receivables and prepayments	*10*	**91,364**	55,264
Pledged bank deposits		**23,000**	11,290
Cash and cash equivalents		**16,468**	18,818
		187,839	155,786
Current liabilities			
Trade and bills payables, accruals, contract liabilities and other payables	*11*	**186,822**	150,917
Lease liabilities		**1,635**	—
Interest-bearing bank borrowings	*12*	**71,047**	51,302
Amount due to a director		**—**	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

	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Non-current liabilities			
Lease liabilities		**3,938**	—
Interest-bearing bank borrowings	*12*	**53,763**	43,616
Deferred income		**1,723**	1,762
Deferred tax liabilities		**3,945**	4,376
		63,369	49,754
Net assets		**84,576**	27,773
CAPITAL AND RESERVES			
Share capital	*13*	**— ***	— *
Reserves		**84,576**	27,773
Total equity		**84,576**	27,773

* *Less than RMB1,000*

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company 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 (the "**Shares**") 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 as detailed in the Company's prospectus dated 27 December 2019 (the "**Reorganisation**"), in the opinion of the Directors, 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 and before and after the Reorganisation.

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

2. BASIS OF PREPARATION

The consolidated financial statements set out in this announcement 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 31 December 2019, the Group had unutilised banking facilities of approximately RMB10,189,000. Also, on 16 January 2020, 90,000,000 ordinary Shares were issued at a price of HK1.30 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 are satisfied that the Group will be able to meet its financial obligations when they fall due. Accordingly, the Directors 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 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**”).

Pursuant to the Reorganisation, the Company became 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 for the years ended 31 December 2019 and 2018 include the results 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 using the acquisition method of accounting, 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.

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.

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%.

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;

(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 at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	RMB'000 (Unaudited)
Operating lease commitments disclosed as at 31 December 2018 *(Note 15(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. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position. 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 (Unaudited)
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 (Unaudited)
Properties	4,157
Land	94,383
	98,540

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 of equity 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* (Audited)	**Impact of initial application of IFRS 16** *RMB'000*	**At 1 January 2019** *RMB'000* (Unaudited)
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 profit or loss, 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.

(b) New and revised IFRS not yet adopted

At the date of this announcement, 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 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. SEGMENT REPORTING

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 chairman of the Company, who is the chief operating decision makers ("**CODM**") of the Group during the year, reviews internal management reports on a monthly basis. There was no aggregation of operating segments in arriving at the reportable segments of the Group.

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the CODM monitors 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 and finance costs. This is the measure reported to the Group's CODM for the purposes of resource allocation.

The CODM reviews 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:

	Year ended 31 December 2019 (Unaudited)			
	Aerosols	**Organic silicone adhesives**	**Synthetic adhesive**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
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**

	Year ended 31 December 2018 (Audited)			
	Aerosols	Organic silicone adhesives	Synthetic adhesive	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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 results to consolidated profit before income tax is presented as follows:—

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total of reportable segments 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 represent the sales of architectural coatings, oil products, wood paints and others.

(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	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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.

5. 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 FY2019 and FY2018 are as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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 4 to this unaudited consolidated financial statements.

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 FY2019 and FY2018 as a recognition of the Group's contribution to the development of the local economy.

6. PROFIT BEFORE INCOME TAX

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

(a) Finance costs

	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
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 FY2019, the finance costs have been capitalised at an effective interest rate of 6.36% (2018: 5.35%) per annum.

(b) Other items

	2019 *RMB'000* (Unaudited)	2018 RMB'000 (Audited)
Amortisation of prepaid lease payments *(Note (i))*	**—**	1,913
Auditor's remuneration	**882**	—
Cost of inventories recognised as expenses	**589,484**	583,359
Depreciation of property, plant and equipment	**8,909**	6,152
Depreciation of right-of-use assets	**4,262**	—
Net (gain)/loss on disposal of property, plant and equipment	**(183)**	1
Impairment losses on trade receivables	**642**	—
Written off of property, plant and equipment	**—**	425
Net exchange loss	**210**	13
Employee benefit expenses (including directors' remuneration 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 lease rentals 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.

7. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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	**(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 FY2019 (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 FY2019 (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 FY2019 except for four (2018: four) of the subsidiaries operating in the PRC which were approved to be high and new technology enterprises ("**HNTE**") during FY2019. 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 FY2019 and FY2018. 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%.

8. 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 FY2019.

The 337,500,000 Shares used to calculate the basic earnings per share for FY2019 and FY2018 represents the number of Shares immediately prior to the Listing as if the Shares had been in issue throughout FY2019 and FY2018.

Diluted earnings per share were same as the basic earnings per share as there were no dilutive potential ordinary Shares in existence during FY2019 and FY2018.

9. DIVIDENDS

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

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

During FY2018, 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 Yinqi.

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) Proposed final dividend for FY2019

Subject to the shareholders' approval at the forthcoming annual general meeting of the Company, a final dividend of HK$10,260,000 (2018: Nil), representing HK2.4 cents per ordinary share, was proposed by the Board for FY2019 (the "**Proposed Dividend**"). The Proposed Dividend is also subject to the condition that the audited annual results of the Group for FY2019 upon completion of the auditing process will be consistent in all material respects with the unaudited annual results set out herein.

The Proposed Dividend has not been provided in the consolidated financial statements during FY2019.

10. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As 31 December 2019 *RMB'000* (Unaudited)	As 31 December 2018 *RMB'000* (Audited)
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	**4,285**	2,626
Prepaid lease payments — current portion	—	2,363
Prepaid listing expenses	**4,805**	2,171
Prepayments	**19,084**	14,233
	91,364	55,264

Note:

(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.

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

The credit period for trade receivables is normally 90 days from the date of billing.

The following table provides information about the Group's exposure to credit risk and expected credit losses ("**ECLs**") for trade receivables:

Ageing based on the invoice date	**Weighted average expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
	%	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019 (Unaudited)				
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 (Audited)				
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 was assessed to be 0.36%. Based on evaluation on ECL loss rates and gross carrying amount of trade receivables, the Directors determined that there was no material expected loss and therefore there had not been a loss allowance provision as at 31 December 2018.

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

	As at 31 December 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
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	**38**	38
Provision for a litigation claim *(Note 16)*	**—**	587
Contract liabilities	**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:

	As at 31 December 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
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.

12. INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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 was charged in the range of 5.56% to 6.47% (2018: 5.88% to 6.75%) per annum for FY2019.

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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	**19,583**	21,003
Over five years	**26,033**	17,490
	124,810	94,918

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**37,967**	30,691
Prepaid lease payments	**—**	43,193
Right-of-use assets	**89,093**	—
Inventories	**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. Chen Bingyao ("**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 (2018: certain subsidiaries, the ultimate controlling shareholder, an executive director 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.

13. 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) (Audited), 31 December 2018 (Audited) and 1 January 2019 (Unaudited) *(Note (a))*	39,000,000	313
Increase in authorised share capital on 13 December 2019 *(Note (b))* (Unaudited)	1,461,000,000	13,074
At 31 December 2019 (Unaudited)	1,500,000,000	13,387
Issued and fully paid:		
At 12 April 2018 (date of incorporation of the Company) (Audited)	—	—
Issue of Share upon incorporation *(Note (c))* (Audited)	1	—*
Issue of Shares arising from the Reorganisation *(Note (d))* (Audited)	99	—*
At 31 December 2018 (Audited), 1 January 2019 (Unaudited) and 31 December 2019 (Unaudited)	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 par value of HK$0.01 each pursuant to the written resolutions passed by the shareholders of the Company.

(c) On the date of incorporation, 1 Share 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 were also allotted and issued at HK$0.95 and RMB12,560,000 to Sanvo Fine Chemicals and Mr. Heng Victor Ja Wei ("**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 on 13 January 2020, 323,999,904 Shares and 13,499,996 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 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 were listed on the Main Board of the Stock Exchange.

14. 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	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Rent paid to Mr. Ernest Chen	**1,680**	1,680

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). Upon the initial application of IFRS 16 as at 1 January 2019, 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.

(b) Guarantees provided by related parties

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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. Key management personnel remuneration is as follows:

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

15. COMMITMENTS

(a) Capital Commitments

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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 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 immediately after 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	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	—	256

16. 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 the 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 FY2019.

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.

17. EVENTS AFTER THE REPORTING PERIOD

(i) Capitalisation issue of share capital of the Company

On 15 January 2020, 323,999,904 Shares and 13,499,996 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 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 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 this announcement, the assessment of the impact on the Group's operations and consolidated financial statements is still in progress.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an established fine industrial chemical products manufacturer based in 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 FY2019, the Group maintained a similar net earning level compared to FY2018. The Group's total output for FY2019 was approximately 53,800 tonnes as compared to FY2018 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 FY2019.

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 FY2019, representing an increase of approximately 5.8% from RMB769,171,000 for FY2018. 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 FY2019, representing an increase of approximately 20.8% from RMB185,812,000 for FY2018. Gross profit margin increased from approximately 24.2% for FY2018 to approximately 27.6% for FY2019. The above increase was mainly due to the combined effect of increase in average selling price and decrease in 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 FY2018 to RMB2,944,000 for FY2019. 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 FY2018 to RMB102,135,000 for FY2019. 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 FY2018 to RMB80,843,000 for FY2019. The increase was mainly due to the increase (i) in 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 FY2019 as compared to RMB8,549,000 for FY2018. These listing expenses were recognised according to the stage of the professional parties completed during the years.

Finance costs

Finance costs of the Group decreased from RMB5,061,000 for FY2018 to RMB4,379,000 for FY2019. The decrease was mainly due to increase in interest capitalised into property, plant and equipment in FY2019.

Profit before income tax

As a result of the foregoing, the Group's profit before income tax decreased from RMB27,526,000 for FY2018 to RMB26,724,000 for FY2019.

Income tax expense

Income tax expense of the Group decreased from RMB4,792,000 for FY2018 to RMB2,789,000 for FY2019. The decrease was mainly due to over-provision of income tax expense in prior year of approximately RMB2,024,000.

Profit for the year

The Group's profit for FY2019 was RMB23,935,000, representing an increase of approximately 5.3% as compared to the profit for FY2018 of RMB22,734,000.

Liquidity and financial resources

For FY2019, 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.

Cash and bank deposits

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).

Interest-bearing bank borrowings

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 FY2019 (FY2018: 5.88% to 6.75%).

Net current liabilities

The Group recorded net current liabilities of RMB74,269,000 as of 31 December 2019 (31 December 2018: RMB111,796,000). 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 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.

Material acquisitions and disposals

For FY2019, the Group did not have any material acquisitions and disposals of its subsidiaries, associated companies and joint ventures.

Pledged assets

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 prepaid lease payments acquired in FY2018.

As at end of the reporting dates, the Group's interest-bearing bank borrowings were secured by the following assets:

	As at 31 December 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Property, plant and equipment	**37,967**	30,691
Prepaid lease payments	—	43,193
Right-of-use assets	**89,093**	—
Inventories	**16,406**	2,558

Gearing ratio

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 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 FY2019.

Capital structure

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. There has been no change in the capital structure of the Company since the Listing Date and up to the date of this announcement. The capital structure of the Group consists of net debt, which included interest-bearing bank borrowings, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising share capital and reserves.

Capital commitments

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, which amounted to RMB26,936,000 as at 31 December 2019 (31 December 2018: RMB27,991,000).

Operating lease commitments

Operating lease commitments comprised (i) the future minimum lease payments, and (ii) the future minimum lease receivables under non-cancellable operating lease with the Group's tenants which fall due. As at 31 December 2019, operating lease commitments amounted to RMB9,000 (31 December 2018: RMB15,645,000). The decrease was mainly due to the application of IFRS 16. Please refer to notes 3(a) and 15 to the unaudited consolidated financial statements herein for details.

Contingent liabilities

Save as disclosed in note 16 to the unaudited consolidated financial statements herein, the Group did not have any material contingent liabilities as at 31 December 2019 and 2018.

Information on employees

As at 31 December 2019, the Group had 881 employees (31 December 2018: 880), including the executive Directors. The Group's total employee benefit expenses (including Directors' remuneration and salaries in research and development expenses) were RMB78,758,000 for FY2019 (FY2018: RMB63,722,000). Employee benefit expenses comprised of (i) salaries, allowances and benefits in kind, (ii) discretionary bonus, and (iii) retirement benefit scheme contributions.

Significant investments held

As at 31 December 2019, the Group did not hold any significant investments (31 December 2018: Nil).

USE OF NET PROCEEDS FROM LISTING

The Shares were listed on the Stock Exchange on the Listing Date at the offer price of HK$1.3 per Share and the net proceeds raised from this initial public offering, after deducting the related underwriting commissions and other estimated listing expenses payable by the Company, amounted to 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 of the Company dated 27 December 2019 (the "**Prospectus**").

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

	Allocation as disclosed in the Prospectus *HK$'000*	Amount utilised as at the date of this announcement *HK$'000*	Remaining balance as at the date of this announcement *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**

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Save as disclosed in note 17 to the unaudited consolidated financial statements herein, there were no significant events after the reporting period up to the date of this announcement.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.4 cents per Share for FY2019 to shareholders whose names appear on the register of members of the Company as at the close of business on Tuesday, 30 June 2020. Subject to the audited annual results of the Group for FY2019 and the shareholders' approval at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about Friday, 10 July 2020. Please refer to note 9(b) to the unaudited consolidated financial statements herein for details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the period from the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company confirms that, other than the deviation from code provision A.2.1, the Company had complied with all the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the period from the Listing Date to the date of this announcement.

Provision A.2.1 of the Corporate Governance 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 Corporate Governance 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 Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Company and its shareholders as a whole. 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.

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 the required standards for securities transactions by the Directors. Specific enquiries have been made to all the Directors and all the Directors have confirmed that they had complied with the required standards, where applicable, set out in the Model Code during the period from the Listing Date to the date of this announcement.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") on 13 December 2019 in compliance with the requirements under the Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

As at the date of this announcement, the Audit Committee consisted of three members, namely Mr. Yeung Chun Yue David, Ir. Daniel Lai and Mr. Xu Kai. Mr. Yeung Chun Yue David currently serves as the chairman of the Audit Committee.

ANNUAL GENERAL MEETING

The Company will hold its annual general meeting on Thursday, 18 June 2020 (the "**2020 AGM**"), the notice of which will be published and despatched to our shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

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 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.

PUBLICATION OF UNAUDITED ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.sanvo.com, respectively. The annual report of the Company for FY2019 will be despatched to our shareholders and published on the aforesaid websites in due course.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results of the Group for FY2019 has been disrupted and has not been completed due to travel restrictions and border control measures in force in parts of China to combat the outbreak of COVID-19. As a result, the unaudited annual results contained herein have not been agreed with the Company's auditors as required under Rule 13.49(2) of the Listing Rules. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by and agreed with the Audit Committee.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for FY2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein as soon as practicable. In addition, the Company will issue further announcement(s) as and when appropriate if there are other material developments in the completion of the auditing process. The Company expects that the auditing process will be completed on or before 24 April 2020.

The financial information contained herein in respect of the annual results of the Group for FY2019 have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
SANVO Fine Chemicals Group Limited
Chen Bingqiang
Chairman

Hong Kong, 31 March 2020

As at the date of this announcement, the Board comprises Mr. Chen Bingqiang, Mr. Chen Bingyao and Mr. Ng Cheuk Lun as executive Directors, and Ir. Daniel Lai, Mr. Xu Kai and Mr. Yeung Chun Yue David as independent non-executive Directors.