SUNLIGHT TECHNOLOGY HOLDINGS LIMITED
深藍科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1950)

2019
ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Liu Jing
Mr. Chen Hua
Ms. Zhu Jianqin
Mr. Li Xiangyu

Independent non-executive Directors

Mr. Tian Jingyan
Mr. Ho Ho Tung Armen
Ms. Yu Zhen

AUDIT COMMITTEE

Mr. Ho Ho Tung Armen *(Chairman)*
Mr. Tian Jingyan
Ms. Yu Zhen

NOMINATION COMMITTEE

Ms. Liu Jing *(Chairman)*
Mr. Ho Ho Tung Armen
Mr. Tian Jingyan

REMUNERATION COMMITTEE

Mr. Tian Jingyan *(Chairman)*
Mr. Chen Hua
Ms. Yu Zhen

JOINT COMPANY SECRETARIES

Mr. Chen Weibo
Mr. Lui Chi Ho

AUTHORISED REPRESENTATIVES

Mr. Chen Hua
Mr. Lui Chi Ho

LEGAL ADVISER

Ince & Co
4404-10, 44/F
One Island East
18 Westlands Road, Taikoo Place
Hong Kong

INDEPENDENT AUDITOR

HLB Hodgson Impey Cheng Limited
31/F, Gloucester Tower
The Landmark
11 Pedder Street, Central, Hong Kong

COMPLIANCE ADVISER

Giraffe Capital Limited
3/F, 8 Wyndham Street
Central, Hong Kong

PRINCIPAL BANK

Bank of Communications Co., Ltd.

COMPANY'S WEBSITE

www.slkj.cn

STOCK CODE

1950

REGISTERED OFFICE

Ogier Global (Cayman) Limited
89 Nexus Way, Camana Bay
Grand Cayman KY1-9009
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No.2, Jiangshan Road
Meicheng Town
Jiande County
Hangzhou City
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

4404-10, 44/F
One Island East
18 Westlands Road, Taikoo Place
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ogier Global (Cayman) Limited
89 Nexus Way, Camana Bay
Grand Cayman, KY1-9009
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Financial Highlights

For the year ended 31 December 2019, revenue was approximately RMB182,681,000 (2018: approximately RMB167,307,000), representing a year-on-year increase of 9.2%.

For the year ended 31 December 2019, gross profit was approximately RMB61,995,000 (2018: approximately RMB50,688,000), representing a year-on-year increase of 22.3%.

For the year ended 31 December 2019, profit attributable to owners of the Company was approximately RMB24,124,000 (2018: approximately RMB30,790,000), representing a year-on-year decrease of 21.6%, mainly due to the incurrence of listing expenses, which are non-recurring in nature. The adjusted net profit[Note] was approximately RMB35,761,000 for the year ended 31 December 2019.

For the year ended 31 December 2019, basic earnings per share of the Company were RMB3.22 cents (2018: RMB4.11 cents).

The Board has resolved not to declare any final dividend for the year ended 31 December 2019.

Note: The adjusted net profit represents the Group's profit excluding the effect of listing expenses.

To all shareholders,

On behalf of the board of directors of Sunlight Technology Holdings Limited, I am pleased to present the first annual report of the Company and its subsidiaries for the year ended 31 December 2019. The Company has been listed on the Main Board of the Hong Kong Stock Exchange since 12 March 2020.

BUSINESS REVIEW

The year 2019 was a year full of opportunities and challenges, and the global economy experienced great risks and fluctuation due to the uncertainties arising from the trade frictions between China and the United States. In China, the Chinese government continued to push forward various policies and its national economy generally remained stable. The supply side reform continued to advance, and the policies for environmental protection became increasingly strict. Industry consolidation and elimination were accelerated, and the faux leather chemicals industry generally picked up from the bottom level. Under such background, the Group actively carried out the research and development of a number of new products with high added-values through enhanced cooperation with strong enterprises in the PRC faux leather industry. We strengthened raw material cost management to reduce cost of sales, and strived to increase our production volume and production equipment utilisation rate, in order to maintain the rapid growth of performance of the Company.

MAIN COMPETITIVE STRENGTHS

We believe that our success can be attributed to the following competitive strengths: (a) We are an established and active market player in the faux leather chemicals manufacturing industry in the PRC; (b) We possess strong research and development capabilities which allow us to offer a wide spectrum of portfolio of products; (c) We have established long-term business relationship with our major customers and suppliers; and (d) We have an experienced management team with prominent industry expertise.

FUTURE PROSPECTS

During the Reporting Period, the Group continued to steadily develop its various businesses. The Group aims to maintain the sustainable growth of our business and strengthen our market position in the faux leather chemicals manufacturing industry. To this end, the Group intends to adopt the following strategies: (1) further expanding the production capacity for colourant products; (2) continuing to strengthen our research and development capabilities and further expanding our product portfolio and geographical coverage; and (3) enhancing automation of our existing production facility and information management system.

The epidemic caused by the novel coronavirus (COVID-19) has been spreading worldwide since January 2020. The Group has resumed its production and sales activities since February 2020. Depending on the future development and spread of COVID-19 subsequent to the date of these financial results, further changes in the financial position of the Group may arise, which may have an impact on the financial results of the Group, The Group will continue to monitor the development of COVID-19, and will actively assess its impacts on the financial position and operating results of the Group from time to time while striving to minimize its impacts.

DIVIDENDS

The Board has resolved not to declare the final dividend for the year ended 31 December 2019.

APPRECIATION

Finally, I would like to express my gratitude to all employees, shareholders and business partners of the Group. The Group will seize the opportunities to venture into the future and continue to create long-term value for shareholders and society.

LIU Jing
Chairman
Hangzhou, PRC, 31 March 2020

DEVELOPMENT STRATEGIES AND PROSPECTS

OVERVIEW

We are an established faux leather chemicals manufacturer in the PRC principally engaged in the research and development, manufacturing and sale of coating agents and synthetic resins under our own brand. According to the CIC Report, we ranked the fourth in the faux leather coating agents market in the PRC in terms of revenue in 2018.

In 2019, the global economy experienced great risks and challenges due to the uncertainties arising from the trade frictions between China and the United States. In the PRC, the supply side reform continued to advance, and the policies for environmental protection became increasingly strict. Industry consolidation and elimination were accelerated. According to the relevant industry reports, small-sized faux leather manufacturers are expected to be gradually eliminated and the demand for downstream application will increase. In addition, with the increasing substitution of genuine leather by faux leather and favourable government policy support, the faux leather chemicals industry will generally pick up from the bottom level.

Under such background, we actively carried out the research and development of a number of new products with high added-values through enhanced cooperation with strong enterprises in the PRC faux leather industry. We strengthened raw material cost management to reduce cost of sales, and strived to increase our production volume and production equipment utilisation rate, in order to maintain the rapid growth of performance of the Company.

Development Strategies

The Company was listed on the Main Board of The Stock Exchange in March 2020. The successful listing not only strengthened the Group's shareholder base, but also further enhanced its financing capability, brand awareness and reputation. During the Reporting Period, the Group continued to steadily develop its various businesses. The Group aims to maintain the sustainable growth of our business and strengthen our market position in the faux leather chemicals manufacturing industry. To this end, the Group intends to adopt the following strategies:

(1) Further expand our production capacity for our colourant products:

We seek to strengthen our market position in the faux leather chemicals manufacturing industry in the PRC by capturing the future growth of the market demand for quality faux leather chemical products from the downstream faux leather manufacturing industry by expanding our production capacity for existing products, in particular, colour paste, and by continuing to develop new products to cater for the increasingly diversified and customised specifications in the functionalities and features of downstream faux leather products. We will also strive to continuously assess and respond to the changes in market conditions in terms of product pricing and customers' demand, in particular, the demand from our faux leather manufacturer customers, by optimising our product mix.

(2) Continue to strengthen our research and development capabilities and further expand our product portfolio and geographical coverage:

We plan to continue to strengthen our research and development capabilities in developing differentiated and more profitable faux leather chemical products. In addition to continuing to improve and modify our existing products, we aim to focus our research and development activities on the following areas:

Water-based faux leather chemical products. We plan to further expand into the market of water-based faux leather chemical products, in particular, water-based faux leather coating agents. According to the CIC Report, as the PRC environmental regulations are becoming more stringent, it is expected that water-based faux leather chemicals will see wider applications in the future. We believe our leading position in the faux leather coating agents market provides us with competitive advantage to promote our water-based faux leather chemical products.

Continue to develop colour chip products. We plan to develop and produce colour chip products with more different colours. We believe our expansion into more diversified product range of colour chips will enable us to leverage on our existing customer base to cross-sell our colour chip products, as colour chips do not contain liquid organic solvents that tend to be hazardous and inflammable and colour chips are also commonly consumed by downstream faux leather manufacturers. We believe that our plan to gradually increase the production capacity for colour chips can support us in developing and capturing market demand and strengthening market acceptance for our colour chips products.

Colour paste products for the production of microfibre leather. We plan to produce more colour paste products applicable in the production of microfibre leather, which will enable us to capture more business opportunities resulting from growing demand for microfibre leather. We aim at further upgrading the production process and expanding the product portfolio with our planned establishment of a new production plant.

We intend to further invest in our research and development capabilities by (i) relocating our existing research institute to our existing Jiande Production Plant to enhance efficiency of our product development; (ii) hiring more experienced experts and engineers; and (iii) acquiring more advanced research and development equipment and testing equipment. In addition to our domestic market, we will further explore and develop the international market. We plan to expand our overseas sales network, particularly, to the Southeast Asian market. We intend to attend more exhibitions and trade fairs which provide good venues for us to showcase our technologies and products to potential customers.

(3) Enhance automation of our existing production facility and information management system:

We intend to enhance automation of our existing production facility by upgrading our existing machinery and equipment, so as to improve our production efficiency and product quality, generate higher energy saving and lower our production costs. We plan to purchase automation equipment such as robotic arms to replace manpower, which will minimise unnecessary disruption of our production process and thus ensure consistency of product quality. We also intend to enhance our information management system by installation of specific software systems. Through these software systems, it is expected that we may conduct remote monitoring and operation of production machinery and equipment. In addition, we intend to build a video monitoring network within the Jiande Production Plant for on-site inspection in order to enhance operational efficiency. We plan to install real-time detectors of waste gas, flammable gas, temperature, relative humidity, hazardous substance and noise. Fire alarm systems will also be installed in the existing two workstations and warehouse. These new machinery and equipment allow us to better monitor and control the environmental and safety risks associated with our production activities.

The epidemic caused by the novel coronavirus (COVID-19) has been spreading worldwide since January 2020. The Group has resumed its production and sales activities since February 2020. Depending on the future development and spread of COVID-19 subsequent to the date of these financial results, further changes in the financial position of the Group may arise, which may have an impact on the financial results of the Group, the extent of which could not be fully assessed as at the date of these financial results. The Group will continue to monitor the development of COVID-19 and actively assess its impact on the financial position and operating results of the Group from time to time.

BUSINESS REVIEW AND PROSPECTS

Business Review of the Group

We offer a wide range of faux leather chemical products, including colourants, namely, colour paste and colour chips, finishes, additives (collectively referred to as coating agents) and synthetic resins, for the manufacturing of PU leather and PVC leather. Colourants – these include colourants in paste and chip forms, which are generally used as pigments to give colour to different layers of the faux leather. Finishes – these are chemical substances which are generally used to change the physical and chemical characteristics of the surface of faux leather to achieve desired effects such as hand feeling and brightening effect. Additives – these are chemical substances which are generally used to accelerate and facilitate chemical reactions in the production of faux leather and to enhance functionalities of faux leather such as hydrolysis resistance and abrasion resistance. Synthetic resins – these are polymers composing the major components of the dry layer of faux leather which we produced for the use in our production of finishes and for sale to customers.

The Group's revenue increased by approximately RMB15,374,000 or 9.2% to approximately RMB182,681,000 for the year ended 31 December 2019 from approximately RMB167,307,000 for the year ended 31 December 2018.

The Group's gross profit increased by RMB11,307,000 or 22.3% to approximately RMB61,995,000 for the year ended 31 December 2019 from approximately RMB50,688,000 for the year ended 31 December 2018.

Business Development and Performance of the Group

The following table sets out major financial ratios of the Group, which reflect its profitability, operational capability and solvency, for the purpose of analyzing the growth and development potential of the Group:

	For the year ended 31 December	
	2019	2018
Gross profit margin	**33.9%**	30.3%
Net profit margin	**13.2%**	18.4%
Return on equity (Note 1)	**16.7%**	24.2%
Return on total assets (Note 2)	**11.7%**	17.5%
Current ratio (Note 3)	**2.1**	2.0
Quick ratio (Note 4)	**1.8**	1.7
Net debt to equity ratio (Note 5)	**6.2%**	Net cash position

Notes:

1. Calculated based on profit attributable to owners for the year divided by equity attributable to owners as at the end of the year.

2. Calculated based on profit attributable to owners for the year divided by total assets as at the end of the year.

3. Calculated based on total current assets divided by total current liabilities as at the end of the year.

4. Calculated based on total current assets less inventories divided by total current liabilities as at the end of the year.

5. Calculated based on net debt (ie. total debt net of cash and cash equivalents) by total equity as at the end of the year.

FINANCIAL REVIEW

Overall Operating Results

The Group's revenue increased by approximately RMB15,374,000 or 9.2% to approximately RMB182,681,000 for the year ended 31 December 2019 from approximately RMB167,307,000 for the year ended 31 December 2018. The Group's gross profit increased by approximately RMB11,307,000 or 22.3% to approximately RMB61,995,000 for the year ended 31 December 2019 from approximately RMB50,688,000 for the year ended 31 December 2018.

The following table sets out the Group's total revenue and gross profit by product type:

	For the year ended 31 December 2019			For the year ended 31 December 2018		
			Gross profit			Gross profit
Name	**Revenue**	**Gross profit**	**margin**	Revenue	Gross profit	margin
	RMB'000	***RMB'000***	*(%)*	*RMB'000*	*RMB'000*	*(%)*
Colour paste	**81,644**	**28,257**	**34.6%**	82,553	24,868	30.1%
Colour chips	**16,608**	**2,865**	**17.2%**	3,459	545	15.8%
Finishes	**57,636**	**22,954**	**39.8%**	55,906	19,022	34.0%
Additives	**2,984**	**1,012**	**33.9%**	2,908	1,112	38.2%
Synthetic resins	**23,809**	**6,907**	**29.0%**	22,481	5,141	22.9%
Total	**182,681**	**61,995**	**33.9%**	167,307	50,688	30.3%

Revenue

Revenue increased by approximately RMB15,374,000 or 9.2% to approximately RMB182,681,000 for the year ended 31 December 2019 from approximately RMB167,307,000 for the year ended 31 December 2018, mainly due to the increase in the revenue from colour chip products.

In 2018 and 2019, revenue from colour paste accounted for approximately 49.3% and approximately 44.7%, respectively, of total revenue; revenue from colour chips accounted for approximately 2.1% and approximately 9.1%, respectively, of total revenue; revenue from finishes accounted for approximately 33.4% and approximately 31.6%, respectively, of total revenue; revenue from additives accounted for approximately 1.7% and approximately 1.6%, respectively, of total revenue; and revenue from synthetic resins of the Group accounted for approximately 13.4% and approximately 13.0%, respectively, of total revenue.

The Group mainly sells its products to customers in the PRC. Most of revenue of the Group was derived from sales in the PRC, which accounted for approximately 97.8% and 98.0%, respectively, of its total revenue for the years ended 31 December 2018 and 2019.

Cost of sales

Cost of sales increased by approximately RMB4,067,000 or 3.5% to approximately RMB120,686,000 for the year ended 31 December 2019 from approximately RMB116,619,000 for the year ended 31 December 2018, mainly due to the increase in the sales volume of colour chips, partially offset by the decrease in the average purchase prices of certain raw materials such as polymers and solvents.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 22.3% to approximately RMB61,995,000 for the year ended 31 December 2019 from approximately RMB50,688,000 for the year ended 31 December 2018. Gross profit margin increased to 33.9% for the year ended 31 December 2019 from 30.3% for the year ended 31 December 2018. The increase in gross profit margin was mainly due to: (i) the increase in our overall revenue; (ii) the increase in the average selling prices of our faux leather chemicals products; and (iii) the decrease in the average purchase prices of raw materials, primarily resulting from the decrease in average purchase prices of polymers and solvents for the year.

Other revenue

Other revenue mainly represented government grants and bank interest income. The Group's other revenue for the year ended 31 December 2019 was approximately RMB2,833,000, while other revenue for the year ended 31 December 2018 was approximately RMB4,936,000. The change was mainly due to the decrease in government grant for the year ended 31 December 2019 to approximately RMB2,017,000 from approximately RMB4,117,000 for the same period of 2018.

Other gains

Other gains decreased by approximately RMB1,601,000 or 90.8% from approximately RMB1,764,000 for the year ended 31 December 2018 to approximately RMB163,000 for the year ended 31 December 2019, mainly due to the gain on disposal of property, plant and equipment of approximately RMB1,891,000 in 2019.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2019 was approximately RMB7,498,000, representing an increase of approximately RMB493,000 or 7.0% from approximately RMB7,005,000 for 2018. The increase in selling and distribution expenses was mainly due to the increase in staff costs resulting from the increase in sales and marketing activities.

Selling and distribution expenses for the year ended 31 December 2019 accounted for 4.1% (2018: approximately 4.2%) of revenue of the Group.

Administrative and general expenses

Administrative and general expenses for the year ended 31 December 2019 were approximately RMB16,208,000, representing an increase of approximately RMB1,662,000 or 11.4% from approximately RMB14,546,000 for the year ended 31 December 2018. The increase in administrative and general expenses was mainly due to the increase in research and development expenses and professional service fee.

Administrative and general expenses for the year ended 31 December 2019 accounted for 8.9% (2018: approximately 8.7%) of revenue of the Group.

Finance costs

Finance costs for the year ended 31 December 2019 were approximately RMB672,000, representing an increase of approximately RMB142,000 or 26.8% from approximately RMB530,000 for the year ended 31 December 2018, mainly due to the increase in the interest expenses of the Group during the year.

Income tax expenses

Zhejiang Sunlight, a subsidiary of the Company in Mainland China, is recognised as a High and New Technology Enterprise and entitled to a preferential tax rate of 15% for the PRC Enterprise Income tax. Income tax expenses for the year ended 31 December 2019 were approximately RMB4,852,000, representing an increase of approximately RMB335,000 or 7.4% from approximately RMB4,517,000 for the year ended 31 December 2018, during which the Group recorded the listing expenses which was one-off in nature and was excluded.

Profit for the year

For the year ended 31 December 2019, the Group recorded net profit of approximately RMB24,124,000, representing a decrease of approximately RMB6,666,000 or 21.6%, from approximately RMB30,790,000 for the year ended 31 December 2018. The decrease in net profit was mainly due to the listing expenses in 2019. The adjusted net profit was approximately RMB35,761,000 for the year ended 31 December 2019.

Treasury Policy

The Group adopts a prudent financial management approach towards its treasury policy and thus maintained a healthy liquidity position throughout the reporting period. The management of the Group regularly reviews the recoverable amount of trade receivables by performing ongoing credit assessments and monitoring prompt recovery and if necessary to make adequate impairment losses for irrecoverable amounts.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash was mainly used for operating cost in the PRC, capital expenses and repayment of debts. To date the Group has mainly funded its investment and operation with cash from operations and debt financing from banks and other financial institutions. Taking into account the internal resources and bank facilities currently available to the Group, cash from operations and the estimated net proceeds from the global offering, the Group has sufficient working capital to meet its liquidity needs. Any significant decrease in the demand for or the price of its products and services or any significant decrease in bank loans available may have an adverse effect on its liquidity. As at 31 December 2019, the cash and cash equivalents held by the Group represented mainly cash at bank and on hand denominated in Renminbi and deposits denominated in Renminbi that are readily converted into cash.

The following table sets out the cash flows for the periods indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash generated from operating activities	**7,185**	24,893
Net cash used in investing activities	**(6,051)**	(1,213)
Net cash generated from/(used in) financing activities	**3,181**	(19,733)
Net increase in cash and cash equivalents	**4,315**	3,947
Cash and cash equivalents at the end of the year	**14,226**	10,162

(a) Net cash generated from operating activities

For the year ended 31 December 2019, net cash generated from operating activities was approximately RMB7,185,000, lower than net cash generated from operating activities for the year ended 31 December 2018 of approximately RMB24,893,000, mainly due to the significant increase in the change of working capital such as trade receivables in the nature of trade and bills receivable for 2019 from the previous period, which offset the increase in profit.

(b) Net cash used in investing activities

Net cash used in investing activities was approximately RMB1,213,000 for the year ended 31 December 2018 and increased to approximately RMB6,051,000 for the year ended 31 December 2019, mainly due to the payment for in the purchase of property, plant and equipment of approximately RMB5,146,000 and the increase in restricted bank deposits of RMB984,000.

(c) Net cash generated from/(used in) financing activities

Net cash used in financing activities was approximately RMB19,733,000 for the year ended 31 December 2018 and increased to net cash generated from financing activities of approximately RMB3,181,000 for the year ended 31 December 2019, mainly due to the increase in the amounts due to shareholders.

Gearing ratio

The gearing ratio is the ratio of net debt divided by total equity as at 31 December 2019. Total debt includes all interest-bearing bank loans and other borrowings. The gearing ratio was approximately 4.39% as at 31 December 2019 (2018: net cash position).

The gearing ratio at the end of the Reporting Period was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Amounts due to shareholders	**1,378**	–
Bank and other borrowings	**21,727**	10,000
	23,105	10,000
Less: Bank balance and cash	**(14,226)**	(10,162)
Pledged bank deposits	**(2,544)**	(1,560)
Net debt	**6,335**	(1,722)
Total equity	**144,306**	127,168
Gearing ratio*	**4.39%**	N/A

The banking facilities were denominated in Renminbi.

* Calculated as net debt (ie. total debt net of cash and cash equivalents) divided by total equity and multipled by 100%.

Capital expenses

The Group incurred capital expenses in relation to the purchase of property, plant and equipment, expansion of production facilities and prepaid land lease payments. The capital expenses for the two years ended 31 December 2018 and 2019 mainly related to the purchase of property, plant and equipment.

The table below sets out the capital expenses of the Group:

	2019	2018
	RMB'000	*RMB'000*
Purchase of property, plant and equipment	**5,146**	2,638

Current assets and current liabilities

As at 31 December 2019, the Group's current assets amounted to RMB126,372,000, mainly comprising cash and bank balance (including restricted bank deposits), inventories, trade and bills receivables and other receivables of RMB16,770,000, RMB17,651,000 and RMB91,951,000, respectively.

The Group's current liabilities amounted to RMB60,543,000, including bank and other loans of RMB21,727,000, trade and bills payables and other payables of RMB34,856,000, tax payable and deferred income of RMB2,582,000, and amounts due to shareholders of RMB1,378,000.

As at 31 December 2019, the Group's current ratio (the ratio of current assets to current liabilities) was 2.1, remaining stable compared to 2.0 as at 31 December 2018.

As at 31 December 2019 or the date of this annual report, the Group had no other debt financing commitments, nor was it in breach of any financing covenant.

Debts

Borrowings

As at 31 December 2019, the Group's borrowings amounted to approximately RMB21,727,000 (2018: approximately RMB10,000,000).

The table below sets out the information on the loans of the Group:

	2019	2018
	RMB'000	*RMB'000*
Bank borrowings – secured	**11,000**	10,000
Other borrowing – unsecured	**10,727**	–
Total bank and other borrowings	**21,727**	10,000

Borrowings in the amount of approximately RMB21,727,000 are repayable within one year.

The table below sets out the annual interest rates of the borrowings of the Group:

The ranges of effective interest rates (which equal to contracted interest rates) on the Group's borrowings are as follows:

	2019	2018
Fixed rate borrowings	**2.00%-4.79%**	5.13%

PLEDGE OF ASSETS

As at 31 December 2019, the Group's assets with a carrying amount of approximately RMB53,184,000 (2018: RMB54,413,000) were pledged for the bills payable issued by the Group and its bank borrowings. The pledged assets and their carrying amount are as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Property, plant and equipment	**35,832**	37,707
Prepaid lease payments	**14,808**	15,146
Restricted bank deposit	**2,544**	1,560

CAPITAL COMMITMENTS

Capital commitments of the Group as at 31 December 2019 and 2018 not provided for in the consolidated financial statements were as follows:

	2019	2018
	RMB'000	*RMB'000*
Contracted but not provided for		
– Purchase of property, plant and equipment	**–**	100

Employees and Emolument Policies

The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration policy and structure for Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy and to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration. In determining the remuneration of Directors and senior management, the Board will consider the remuneration level of comparable companies, the time commitment and responsibilities and employment conditions elsewhere in the Group, individual performance of respective Directors and the Company's performance. No Director shall be involved in deciding his/her own remuneration. Details of the emoluments of the Directors, and the five highest paid individuals during the Reporting Period are set out in note 14 and note 15 to the consolidated financial statements.

Emolument Policies for Directors and Senior Management

The emolument policy of the employees of the Group is determined on the basis of their merits, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics information. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, subject to the approval by the Remuneration Committee.

The Company has adopted the Share Option Scheme on 10 February 2020, which became effective on the Listing Date and no option had been granted by the Company up to the date of this report. The purpose of the Share Option Scheme is to give the Eligible Persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going cooperation and relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Pursuant to B.1.5 of the Code, the remuneration paid by the Group to members of senior management by bands for the year ended 31 December 2019 is set out below:

Remuneration band	Number of individuals
HK$0–1,000,000	7

INITIAL PUBLIC OFFERING AND USES OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 March 2020. Net proceeds from the Global Offering is approximately RMB72.4 million (equivalent to approximately HK$84.7 million). As the Company was listed on the Main Board of the Stock Exchange on 12 March 2020, there was no proceeds, from the Listing as at 31 December 2019. Our Directors presently intend to apply such net proceeds as follows:

– approximately RMB43.4 million (equivalent to approximately HK$50.8 million), representing approximately 60.0% of the net proceeds from the Global Offering, will be used for the construction of our New Production Plant near our existing Jiande Production Plant and purchase of new machinery and equipment;

- approximately RMB11.9 million (equivalent to approximately HK$13.9 million), representing approximately 16.4% of the net proceeds from the Global Offering, will be used for strengthening the automation system including but not limited to (a) the installation of fully automated production lines in two workstations, which includes the installation of intelligence robotic arms, product-lifting device, and other machinery; (b) setting up of a central operation control room to facilitate collection of production data and monitoring of the product manufacturing process; and (c) setting up of a system for improvement of product manufacturing data analysis and tracking of the whole product manufacturing process;

- approximately RMB15.8 million (equivalent to approximately HK$18.5 million), representing approximately 21.8% of the net proceeds from the Global Offering, will be used for strengthening our research and development capabilities by (a) relocating our existing research institute to our existing Jiande Production Plant to enhance efficiency of our product development; (b) hiring more experienced experts and engineers; and (c) acquiring more advanced research and development equipment and testing equipment; and

- approximately RMB1.3 million (equivalent to approximately HK$1.5 million), representing approximately 1.8% of the net proceeds from the Global Offering, will be used for our general working capital.

FOREIGN CURRENCY RISK AND MANAGEMENT

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to the foreign currency risk arising from financial instruments which are primarily denominated in United Stated Dollars ("USD") from its ordinary operating activities, which is not the functional currency of the group entities to which these transactions relate.

As at each reporting date, foreign currency denominated financial assets, translated into RMB closing rates, are as follows:

	2019	2018
	RMB'000	RMB'000
Trade receivables:		
–USD	**1,085**	1,503

The following table demonstrates the sensitivity as at the end of each of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets) and the Group's entities.

	Increase/ (decrease) in rate of foreign currency	Increase/ (decrease) in profit before tax
	%	RMB'000
As at 31 December 2019		
If RMB weakens against USD	**5**	**(54)**
If RMB strengthens against USD	**(5)**	**54**
As at 31 December 2018		
If RMB weakens against USD	**5**	(75)
If RMB strengthens against USD	**(5)**	75

CONTINGENT LIABILITIES

As at 31 December 2019, we did not record any material hire purchase commitments, contingent liabilities, guarantees or litigations against us.

EXECUTIVE DIRECTORS

Ms. Liu Jing （劉靜女士）, aged 48, is the chairman of our Board and an executive Director. She is also one of our Controlling Shareholders. She joined Zhejiang Sunlight in March 2010 as a director. She is responsible for formulating the corporate and business strategies of our Group and overseeing overall business administration. Ms. Liu is the spouse of Mr. Chen Hua, an executive Director and one of our Controlling Shareholders.

Ms. Liu obtained a diploma in law from Zhejiang University （浙江大學） of the PRC in December 2004 in a self-study higher education programme and a master degree in business administration from Edinburgh Napier University of the United Kingdom in November 2007. Ms. Liu was conferred the qualification of Registered Real Estate Appraiser* （註冊房地產估價師） by the Ministry of Housing and Urban-Rural Development of the PRC* （中華人民共和國住房和城鄉建設部） since November 1997.

From May 1998 to March 2002, Ms. Liu worked at Zhejiang Expressway Co., Ltd.* （浙江滬杭甬高速公路股份有限公司）, which was principally engaged in investing in, developing and operating expressways in the PRC, participating in administrative function. From March 2002 to December 2009, Ms. Liu worked at Zhejiang Hengxin Real Estate And Land Valuation Company Limited* （浙江恆信房地產土地評估有限公司）, a company providing valuation services for land and buildings in the PRC, as an administrative vice-manager responsible for human resources matters and administrative functions. Since November 2009, Ms. Liu has been a supervisor of Zhejiang Hengxin Real Estate And Land Valuation Company Limited* （浙江恆信房地產土地評估有限公司）. Since May 2016, Ms. Liu has been an executive director, general manager and legal representative of Huzhou Milan.

Mr. Chen Hua （陳華先生）, aged 46, is an executive Director, executive director and general manager of Zhejiang Sunlight, and a director of Darkblue Technology and HongKong Gorgeous. He is also one of our Controlling Shareholders. Mr. Chen is responsible for overseeing our day-to-day management and business operation, formulating business strategies and making major operational decisions of our Group. Mr. Chen is the spouse of Ms. Liu Jing, the chairman of our Board, an executive Director and one of our Controlling Shareholders.

Mr. Chen was awarded a bachelor degree in mechanical engineering from Zhejiang University （浙江大學） of the PRC in June 1995. He was awarded the qualification of senior economist* （高級經濟師） by the Zhejiang Province Economic Series Advanced Professional Technical Positions Employment Qualification Review Committee* （浙江省經濟系列高級專業技術職務任職資格評審委員會） in December 2018. Mr. Chen has been engaged in the chemical engineering industry for more than 19 years. From January 2000 to May 2006, Mr. Chen was employed by Hangzhou Rainbow Colour Paste Co., Ltd.* （杭州彩虹色漿有限公司）, a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, as a general manager. Mr. Chen joined Zhejiang Sunlight in July 2006 and took up positions as a director and the general manager. Mr. Chen was also the general manager of Huzhou Milan, a then manufacturer of chemical products, from January 2005 to July 2006, responsible for its overall management and formulation of business strategies, and was its supervisor from November 2007 to July 2010, respectively.

* *For identification purpose only*

Ms. Zhu Jianqin （朱建琴女士）, aged 51, is an executive Director. She is also a chief engineer of Zhejiang Sunlight responsible for overseeing and monitoring our research and development functions, technical know-how management and technology innovation. She is also one of our Controlling Shareholders. Ms. Zhu obtained a bachelor degree in chemical engineering from Zhejiang Institute of Technology* （浙江工學院） (now known as Zhejiang University of Technology* （浙江工業大學）) of the PRC in July 1991. She obtained a qualification for professorate senior engineer* （教授級高級工程師） from the Department of Human Resources and Social Security of Zhejiang Province* （浙江省人力資源和社會保障廳） of the PRC in December 2017. She was awarded as one of Deqing County Top Ten Technology Innovation Leaders for 2010* ("2010年度德清縣十佳技術創新帶頭人") from the Deqing County General Union* （德清縣總工會）.

Ms. Zhu joined our Group in January 2006 and is currently one of our chief engineers. Ms. Zhu has over 18 years of experience in the chemical engineering and colourants business. Prior to joining our Group, Ms. Zhu worked for Hangzhou Rainbow Colour Paste Co., Ltd.* （杭州彩虹色漿有限公司）, a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, from March 2000 to October 2004. Ms. Zhu was an engineer of Huzhou Milan, a then manufacturer of chemical products, responsible for product development from November 2004 to December 2005, and has been its supervisor since September 2016.

Mr. Li Xiangyu （酈向宇先生）, aged 54, is an executive Director, and a chief engineer and supervisor of Zhejiang Sunlight responsible for overseeing and monitoring our research and development functions, technical know-how management and technology innovation. He is also one of our Controlling Shareholders. Mr. Li graduated from East China Institute of Chemical Technology* （華東化工學院） (currently known as East China University of Science and Technology* （華東理工大學）) of the PRC with a bachelor degree in fine chemicals, specialising in intermediates and dyes, in July 1987. He obtained a qualification of senior engineer* （高級工程師） from the Department of Human Resources and Social Security of Zhejiang Province* （浙江省人力資源和社會保障廳） of the PRC in November 2011. Mr. Li has over 27 years of experience of chemical engineering and overseeing the synthetic leather products business. Mr. Li joined our Group in January 2006 and is currently one of our chief engineers. Prior to joining our Group, he worked in Zhejiang Hangyi Synthetic Leather Company Limited* （浙江杭意合成革有限公司）, a manufacturer of synthetic leather, from April 1992 to July 2001. Subsequently, he worked for Hangzhou Rainbow Colour Paste Co., Ltd.* （杭州彩虹色漿有限公司）, a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, from August 2001 to August 2004, with his duties of work also including research and development. Mr. Li was an engineer of Huzhou Milan, a then manufacturer of chemical products, responsible for product development, between November 2004 and December 2005, and was its executive director, manager and legal representative from July 2010 to April 2016.

* *For identification purpose only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tian Jingyan （田景岩先生）, aged 59, was appointed as an independent non-executive Director in February 2020. He had been an independent director of Zhejiang Sunlight from August 2016 to December 2018. Mr. Tian has been a Deputy Secretary-General of Artificial Leather and Synthetic Leather Professional Committee of China Plastic Processing Industry Association* （中國塑料加工工業協會人造革合成革專業委員會） since May 2018. He has been the Secretary-General of the Artificial Leather and Synthetic Leather Standardisation Working Group of National Technical Committee on Plastic Products of Standardisation Administration of China* （全國塑料製品標準化技術委員會人造革合成革標準化工作組） since February 2018. Mr. Tian obtained a certificate of completion of training for senior management of listed companies* （上市公司高級管理人員培訓結業證） from Shenzhen Stock Exchange （深圳證券交易所） in the PRC in October 2011. He has completed training as a checker of the standardised work process for China national light industry* （中國輕工業標準化工作覆核員） of China National Light Industry Council* （中國輕工業聯合會） in December 2016. Mr. Tian was also a visiting professor of the Resources and Environment Institute* （資源與環境學院） of Shaanxi University of Science and Technology* （陝西科技大學） of the PRC from April 2013 to April 2016.

Mr. Tian had been an independent director of Huafon Microfibre (Shanghai) Co., Ltd.* （上海華峰超纖材料股份有限公司） (a company listed on the Shenzhen Stock Exchange (stock code: 300180)) from January 2010 to June 2015. Mr. Tian has served as an independent director of Shandong Tongda Island New Materials Co., Ltd.* （山東同大海島新材料股份有限公司） (a company listed on the Shenzhen Stock Exchange (stock code: 300321)) since June 2014, an independent director of Kunshan Xiefu Artificial Leather Co., Ltd.* （昆山協孚新材料股份有限公司） since May 2015, and an independent director of Guangzhou Pochely New Materials Technology Co., Ltd.* （廣州聚合新材料科技股份有限公司） (a company listed on the National Equities Exchange and Quotations System (stock code: 834684)) from June 2017 to September 2018.

Mr. Ho Ho Tung Armen（何浩東先生）, aged 43, was appointed as our independent non-executive Director in February 2020. Mr. Ho received a MBA degree from the University of Chicago Booth School of Business, a Master of Science degree in financial economics from University of London and a Bachelor of Arts (Honours) degree in accountancy from City University of Hong Kong. He is currently a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ho has been an independent non-executive director of Stream Ideas Group Limited (stock code: 8401) since the company's listing in March 2018. Mr. Ho is the chief financial officer and company secretary of Tianyun International Holdings Limited (stock code: 6836), since February 2015. Prior to that, Mr. Ho was the chief financial officer of Tuenbo Group Limited and held various senior positions in Wisdom Asset Management Limited, Hermes Capital Limited and Evolution Group Limited (now known as Investec Group) specialized in asset management, private equity, and corporate finance. Mr. Ho also worked for PricewaterhouseCoopers Hong Kong, KPMG UK and Grant Thornton Corporate Finance UK from 1998 to 2006 specialising in audit, advisory and corporate finance.

* *For identification purpose only*

Ms. Yu Zhen （喻貞女士）, aged 32, was appointed as an independent non-executive Director in February 2020. Ms. Yu was awarded a doctorate degree in labour economics from Zhongnan University of Economics and Law* （中南財經政法大學） of the PRC in December 2016. She has extensive knowledge in labours and economics, such as the correlation between labours and productivity and human resources management. She has been a lecturer in Zhejiang University of Finance and Economics* （浙江財經大學） since May 2017.

SENIOR MANAGEMENT

Mr. He Zhangcai （何掌財先生）, aged 46, is the chief financial officer of our Group. He is primarily responsible for overseeing the financial operations of our Group. He is also one of our Controlling Shareholders. Mr. He was awarded a bachelor degree in economic and business administration from Chongqing University （重慶大學） of the PRC in January 2009 through participation in its partial online course. He was conferred the qualification of accountant* （會計師） by the MOF in May 1998. Mr. He has over 17 years of experience in the chemical engineering industry. He joined Zhejiang Sunlight in December 2005, with his current position being a finance manager. Since June 2000 and prior to joining Zhejiang Sunlight, Mr. He worked in various manufacturers of colourants, resins, finishes and additives for synthetic leather and textiles and chemical products, taking up financial responsibilities, including Huzhou Milan where he also served as its executive director, manager and legal representative from November 2007 to July 2010.

Mr. Cai Jianming （蔡建明先生）, aged 53, is a deputy general manager of Zhejiang Sunlight responsible for overseeing the production management of our Group. He is also one of our Controlling Shareholders. Mr. Cai obtained an advanced level certificate in the advanced level study of business administration for growing small to medium size business enterprises* （成長型中小企業高級工商管理研修班高級研修班證書） awarded by Zhejiang University （浙江大學） of the PRC in May 2014. He was awarded Deqing County Excellent Employee at Hard Times* （德清縣勇克時艱優秀職工） by the Deqing County General Trade Union* （德清縣總工會） in April 2010 and The Most Beautiful Meicheng Citizen* （梅城鎮最美梅城人） by Meicheng Town People's Government* in November 2017（梅城鎮人民政府）. Mr. Cai joined our Group in January 2006 and was appointed to be a manufacturing manager of Zhejiang Sunlight in January 2007. Prior to joining our Group, Mr. Cai was employed by Hangzhou Rainbow Colour Paste Co., Ltd.* （杭州彩虹色漿有限公司）, a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, from August 2001 to October 2004. He was a manager of Huzhou Milan, a then manufacturer of chemical products, between November 2004 and December 2005 overseeing the production department.

Mr. Zhao Xuesheng （趙學盛先生）, aged 48, is a deputy general manager of Zhejiang Sunlight responsible for overseeing the sales and marketing functions of our Group. He is also one of our Controlling Shareholders. Mr. Zhao joined our Group in January 2006 taking up sales and marketing responsibilities and was promoted to the position of deputy general manager in August 2016. Mr. Zhao obtained a diploma in applied chemistry from Zhejiang University （浙江大學） of the PRC in June 1994. He was qualified as junior assistant economist* （初級助理經濟師） by the Hangzhou Personnel Bureau* （杭州人事局） in July 1997. Prior to joining our Group, he was employed by Zhejiang Weier Da Chemical Co., Ltd.* （浙江威爾達化工有限公司）, a manufacturer of pesticides, insecticides, acaricides, fungicides and herbicides, from January 1999 to June 2002, with his last position being a district sales manager. Afterwards, he was employed by Hangzhou Rainbow Colour Paste Co., Ltd.* （杭州彩虹色漿有限公司） a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, from April 2002 to November 2003, with his last position being a district sales manager. From October 2004 to January 2008, Mr. Zhao worked for Huzhou Milan, a then manufacturer of chemical products, taking up sales and marketing responsibilities.

* *For identification purpose only*

Mr. Chen Weibo （陳衛波先生）, aged 46, is one of the joint company secretaries of our Group. He joined our Group as a board secretary of Zhejiang Sunlight in July 2016 and was appointed as a joint company secretary of our Company in April 2019. Mr. Chen obtained his bachelor degree in accounting from Zhejiang Institute of Finance and Economics* （浙江財經學院） (now known as Zhejiang University of Finance and Economics* （浙江財經大學）) of the PRC in July 1995. Mr. Chen was conferred the qualification of senior accountant by the Zhejiang Province Human Resources and Social Security Department* （浙江省人力資源和社會保障廳） in April 2009. Mr. Chen became a non-practising member of the Zhejiang Institute of Certified Public Accountants* （浙江省註冊會計師協會） in December 2009. Mr. Chen was awarded the ACCA Advanced Diploma in Accounting and Business by the Association of Chartered Certified Accountants in June 2017. Mr. Chen has over 20 years of experience in accounting and financial management. He worked at the overseas division of Zhejiang Construction Investment Group Company Limited* （浙江省建設投資集團有限公司） from September 1995 to June 2006, with his last position being an accountant. He was employed by Zhejiang Zhongda Sanchuan Hydropower Development Co., Ltd.* （浙江中大三川水電發展有限公司） from July 2006 to August 2009, with his last position being chief financial officer. He re-joined the overseas division of Zhejiang Construction Investment Group Company Limited* （浙江省建設投資集團有限公司） in September 2013 and was employed as the deputy manager of its finance department in October 2013 and remained at office until June 2016.

JOINT COMPANY SECRETARIES OF THE COMPANY

Mr. Chen Weibo （陳衛波先生）, aged 46, was appointed as one of the joint company secretaries of our Company in April 2019. Please refer to the paragraph headed "Senior management" above for details of Mr. Chen's qualifications and experience.

Mr. Lui Chi Ho （呂志豪先生）, aged 47, was appointed as one of the joint company secretaries of our Company in April 2019. Mr. Lui is a partner of INCE & CO, a law firm in Hong Kong. Mr. Lui has been admitted as a solicitor to the High Court of Hong Kong since 1999. He was also admitted as a solicitor to the Supreme Court of England and Wales in 2004. Mr. Lui is a member of The Chartered Institute of Arbitrators and is an accredited mediator of Hong Kong International Arbitration Centre. Mr. Lui is also a China Appointed Attesting Officer, a member of the Solicitors Disciplinary Tribunal Panel and the chairman of the Appeal Tribunal Panel (Buildings).

* *For identification purpose only*

Directors' Report

The board of Directors (the "Board") of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "Reporting Period"). Certain information set out in this annual report are disclosed up to the date of this annual report.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other details of the subsidiaries of the Company are set out in note 37 to the consolidated financial statements.

Pursuant to the requirements of Schedule 5 of the Companies Ordnance, further discussion and analysis of the principal activities of the Group (including the business review of the Group and the description of the potential business development of the Group) are set out in the management discussion and analysis of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Business Risks and Uncertainties

The Group's principal business activity is the manufacturing and sales of faux leather chemicals, whose principal risks include the quality of the products and the security during production. The Group has taken comprehensive measures to ensure that both quality and security will meet the industry standards. The fluctuation of the development of the industry has resulted in a significant impact on the Group's business in the Year under Review. Please refer to the Chairman's Statement for further discussion on the business risks we face and how we manage such risks.

Financial Risks

The Group's main risks arising from its financial instruments are interest rate and exchange rate risks, credit risk and liquidity risk. Details of the financial risk management objectives and policies are set out in note 6 to the consolidated financial statements.

Tax relief and exemption

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the securities of the Company.

Environmental policies and performance

The Group is committed to contributing to the sustainability of the environment and the development of the society.

Details of the Group's development, performance and operation in the environmental aspect are set out in the Environmental, Social and Governance Report.

Compliance with laws and regulations

The Group has adopted internal control and risk management policies to monitor the on-going compliance with the relevant laws and regulations. As far as the Board is concerned, the Group had complied in all material aspects with the applicable laws and regulations in the PRC, and did not have any incidents of material non-compliance, and the Group had obtained all relevant permits, approval documents, qualifications, authorizations and approvals material to our business operations.

Overall compliance

As at the date of this annual report, save as disclosed above, there are no material pending or threatened litigation matters or other proceedings involving the Group, and the Group is not involved in any litigation or other proceedings that we believe would materially and adversely affect our business, financial condition or results of operation.

Significant subsequent events

Save as disclosed in the report, subsequent to 31 December 2019, the following events took place:

(a) On 10 February 2020, written resolutions of the shareholders of the Company were passed to approve the followings:

  (i) all the issued and unissued shares of the Company with par value of US$0.001 each was subdivided into two shares of US$0.0005 each. Accordingly, following the completion of the subdivision, the authorised share capital became US$1,000,000 divided into 2,000,000,000 Shares of par value of US$0.0005 each, each ranking pari passu with one another in all respects.

  (ii) conditional upon the share premium account of the Company being credited as a result of the initial listing of shares of the Company on the Main Board of the Stock Exchange, the directors of the Company were authorised to capitalise an amount of US$550,000 standing to the credit of the share premium account of the Company and applied in paying up in full at par a total of 550,000,000 shares for allotment and issue to the shareholders of the Company.

  (iii) the share option scheme of the Company was conditionally adopted on 10 February 2020.

(b) The Company was successfully listed on the Stock Exchange on 12 March 2020 by way of share offer of 25,000,000 public offer share and 225,000,000 placing shares respectively at the offer price of HK$0.52 per share, the net proceeds were approximately RMB72,388,000 (equivalent to HK$84,693,000). The proceeds were proposed to be used to finance the implementation plan as set forth in the section headed "Future Plans and use of Proceeds" of the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 38.0% (2018: approximately 40.8%) of the total sales and the top five suppliers accounted for approximately 24.6% (2018: approximately 27.0%) of its total purchases for the year. In addition, the Group's largest customer accounted for approximately 13.7% (2018: approximately 16.0%) of the total sales and the Group's largest supplier accounted for approximately 6.6% (2018: approximately 6.9%) of the total purchases for the year.

To the best knowledge of the Directors, at no time during the Year under Review, have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the share capital of the Company) had any interest in these major customers and suppliers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is in good relationship with its employees and also has policies in place to ensure competitive remuneration, well-developed welfare package and continuous professional training for its employees.

The Group also maintains a good relationship with its customers and suppliers, without whom its production and operation may be impaired.

SHARE CAPITAL

As at 31 December 2019, the Company had an authorised share capital of 1,000,000,000 shares with par value of US$0.001 each. For details, please refer to note 30 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The shares of the Company became listed on the Main Board of the Hong Kong Stock Exchange on 12 March 2020 by way of the Global Offering.

Since the Listing Date, none of the Company and its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

Pre-emptive right

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

DIVIDENDS AND DIVIDEND POLICY

The Board has resolved not to declare the final dividend for the year ended 31 December 2019.

Policy on payment of dividend of the Company is in place setting out the factors in determination of dividend payment of the Company, including the Group's actual and expected financial performance, shareholders' interests, retained earnings and distributable reserves of the Company and each of the other members of the Group, the level of the Group's debts to equity ratio, return on equity and financial covenants to which the Group is subject, possible effects on the Group's creditworthiness, any restrictions on payment of dividends that may be imposed by the Group's lenders, the Group expected working capital requirements and future expansion plans, liquidity position and future commitments at the time of declaration of dividend, taxation considerations, statutory and regulatory restrictions, general business conditions and strategies, general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and other factors that the Board deems appropriate. The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

Directors' service contracts

Each of our executive Directors has entered into a service contract with our Company for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of our Directors as set out in the Articles of Association.

Remuneration of Directors and senior management

Each of our executive Directors is entitled to a director's fee. Each of our executive Directors shall be paid a remuneration on the basis of twelve months in a year. In addition, each of our executive Directors is also entitled to bonus as determined by the Board based on the recommendations made by our remuneration committee. The current annual director's fees and remuneration of our executive Directors are as follows:

Name of Director	Remuneration RMB
Ms. Liu Jing	120,000
Mr. Chen Hua	120,000
Ms. Zhu Jianqin	120,000
Mr. Li Xiangyu	120,000

Each of our independent non-executive Directors has entered into an appointment letter with our Company for an initial term of three years commencing from the Listing Date and is entitled to a director's fee of HK$120,000 per annum.

INTERESTS OF DIRECTORS (AND THEIR CONNECTED ENTITIES) IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Year under Review and up to the date of this annual report, none of the Directors and controlling shareholders of the Company has any interest in any business which competes, either directly or indirectly, with the business of the Group under the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As the Company was not listed on the Hong Kong Stock Exchange as at 31 December 2019, during the year ended 31 December 2019, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") and Section 352 of the SFO were not applicable to the Directors or chief executive of the Company.

As at the date of this annual report, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, are set out as follows:

Name	Capacity/Nature of interest	Number of shares	Long/short position	Approximate percentage of shareholding in the Company
Mr. Chen Hua	Interest in controlled corporation and interest of spouse (Notes 1-2)	727,500,000	Long position	72.75%
Ms. Liu Jing	Interest in controlled corporation and interest of spouse (Notes 1-2)	727,500,000	Long position	72.75%
Ms. Zhu Jianqin	Interest in controlled corporation (Note 1)	727,500,000	Long position	72.75%
Mr. Li Xiangyu	Interest in controlled corporation (Note 1)	727,500,000	Long position	72.75%
Mr. He Zhangcai	Interest in controlled corporation (Note 1)	727,500,000	Long position	72.75%
Mr. Zhao Xuesheng	Interest in controlled corporation (Note 1)	727,500,000	Long position	72.75%
Mr. Cai Jianming	Interest in controlled corporation (Note 1)	727,500,000	Long position	72.75%

Notes:

(1) As at the date of this annual report, Sunlight Global Investment Limited ("Sunlight Global") and Lilian Global Investment Limited ("Lilian Global") held 52.635% and 20.115%, respectively, of the total issued share capital of the Company. Sunlight Global is owned as to 61.20% by Mr. Chen Hua, 13.24% by Ms. Zhu Jianqin, 13.24% by Mr. Li Xiangyu, 9.24% by Mr. He Zhangcai, 2.14% by Mr. Chen Yong, 0.54% by Mr. Cai Jianming and 0.40% by Mr. Zhao Xuesheng. Lilian Global is wholly-owned by Ms. Liu Jing. Ms. Liu is therefore deemed to be interested in the Shares in which Lilian Global is interested under the SFO. Mr. Chen Hua, Ms. Liu Jing, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming and Mr. Chen Yong are entitled to exercise or control the exercise of 72.75% of the voting power at general meetings of our Company through exercising or controlling the exercise of the entire voting power at general meetings of Sunlight Global and Lilian Global, and are therefore deemed to be interested in the Shares in which Sunlight Global and Lilian Global are interested under the SFO.

(2) Mr. Chen Hua and Ms. Liu Jing are spouses to each other. Therefore, each of them is deemed to be interested in the Shares in which he or she is interested under the SFO.

Save as disclosed above, as at the Listing Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at any time during the Reporting Period was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate, or had exercised any such right.

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

As the Company was not listed on the Hong Kong Stock Exchange as at 31 December 2019, before the Listing Date, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO were not applicable to the Company.

To the knowledge of the Directors of the Company, as at the date of this annual report, the following persons (other than the Directors and chief executive of the Company) have the following interests and short positions in the shares and underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required pursuant to section 336 of the SFO to be entered in the register referred to therein.

Name	Capacity/Nature of interest	Number of Shares	Long/short position	Approximate percentage of shareholding in the Company
Sunlight Global	Beneficial owner (Notes 1, 3)	727,500,000	Long position	72.75%
Lilian Global	Beneficial owner (Notes 2, 3)	727,500,000	Long position	72.75%
Mr. Chen Hua	Interest in controlled corporation (Notes 1, 3)	727,500,000	Long position	72.75%
	Interest of spouse (Note 4)	727,500,000	Long position	72.75%
Ms. Liu Jing	Interest in controlled corporation (Notes 2, 3)	727,500,000	Long position	72.75%
	Interest of spouse (Note 4)		Long position	72.75%
Ms. Zhu Jianqin	Interest in controlled corporation (Notes 1, 3)	727,500,000	Long position	72.75%
Mr. Li Xiangyu	Interest in controlled corporation (Notes 1, 3)	727,500,000	Long position	72.75%
Mr. He Zhangcai	Interest in controlled corporation (Notes 1, 3)	727,500,000	Long position	72.75%
Mr. Zhao Xuesheng	Interest in controlled corporation (Notes 1, 3)	727,500,000	Long position	72.75%
Mr. Cai Jianming	Interest in controlled corporation (Notes 1, 3)	727,500,000	Long position	72.75%
Mr. Chen Yong	Interest in controlled corporation (Notes 1, 3)	727,500,000	Long position	72.75%

Notes:

1. Sunlight Global is owned as to 61.20% by Mr. Chen Hua, 13.24% by Ms. Zhu Jianqin, 13.24% by Mr. Li Xiangyu, 9.24% by Mr. He Zhangcai, 2.14% by Mr. Chen Yong, 0.54% by Mr. Cai Jianming and 0.40% by Mr. Zhao Xuesheng.

2. Lilian Global is wholly-owned by Ms. Liu Jing. Ms. Liu is therefore deemed to be interested in the Shares in which Lilian Global is interested under the SFO.

3. Mr. Chen Hua, Ms. Liu Jing, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming and Mr. Chen Yong are entitled to exercise or control the exercise of 72.75% of the voting power at general meetings of our Company through exercising or controlling the exercise of the entire voting power at general meetings of Sunlight Global and Lilian Global, and are therefore deemed to be interested in the Shares in which Sunlight Global and Lilian Global are interested under the SFO.

4. Mr. Chen Hua and Ms. Liu Jing are spouses to each other. Therefore, each of them is deemed to be interested in the Shares in which he or she is interested under the SFO.

Save as disclosed above, as at the date of this annual report, to the knowledge of the Directors, none of any other person (other than the Directors and chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register referred to in section 336 of the SFO.

SHARE OPTION SCHEME

Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives: (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long term growth of our Group; and (iii) for such purposes as our Board may approve from time to time.

Who may join

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

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

(ii) any directors (including executive, non-executive and independent non-executive directors) of our Company or any of its subsidiaries; and

(iii) any advisers, consultants, suppliers, customers, agents and related entities to our Company or any of its subsidiaries.

Maximum number of shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering, being 100,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, our Board may:

(i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by our Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to Eligible Participants specifically identified by our Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, 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 our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

Maximum number of options for each 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 our Company (including both exercised 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 of the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.03(4) and 17.06 of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time; and

(ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (as defined in the Listing Rules) (or his associates (as defined in the Listing Rules) if the Eligible Participant is a Connected Person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of our Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine.

Grant of options to connected persons

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If our Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue;

(ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which the grantee, his/her associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

(i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

(ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;

(iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and

(iv) the information required under Rule 2.17 of the Listing Rules.

Performance targets and vesting conditions

A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

Subscription price

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

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets 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 of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

Term of the share option scheme

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

Upon acceptance of the option, the grantee shall pay HK$1.00 to our Company by way of consideration for the grant. Any offer to grant 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 of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

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 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the Listing Date. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDER

The Company was listed on the Stock Exchange on 12 March 2020 and the deed of non-competition undertakings in respect of the controlling shareholders was entered into on 10 February 2020 (the "Deed of Non-Competition"). The controlling shareholder has confirmed to the Company of his/her/its compliance with the Deed of Non-Competition provided to the Company during the year. The independent non-executive Directors had reviewed the status of compliance and also the confirmations by the controlling shareholder and, on the basis of such confirmations, are of the view that the controlling shareholder has complied with the Deed of Non-Competition which has been enforced by the Company in accordance with its terms.

CONNECTED TRANSACTIONS

Certain related party transactions disclosed in note 33 to consolidated the financial statements constitute connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has confirmed that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules for these transactions.

Transaction with connected persons

Hangzhou Qiyue is owned as to 71.08% by Huzhou Milan, 23.50% by Mr. Chen Hua and 5.42% by Mr. He Zhangcai. Huzhou Milan is owned as to 42.68% by Ms. Liu Jing, 24.19% by Mr. Chen Hua, 14.78% by Ms. Zhu Jianqin, 14.78% by Mr. Li Xiangyu, 2.39% by Mr. Chen Yong, 0.60% by Mr. Cai Jianming, 0.45% by Mr. Zhao Xuesheng and 0.13% by Mr. He Zhangcai, who are regarded as a group of Controlling Shareholders. Ms. Liu Jing, Mr. Chen Hua, Ms. Zhu Jianqin and Mr. Li Xiangyu are also our executive Directors. Therefore, Hangzhou Qiyue is an associate of Ms. Liu Jing, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. Chen Yong, Mr. Cai Jianming, Mr. Zhao Xuesheng and Mr. He Zhangcai and will become a connected person of our Company upon Listing under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTION

From 1 April 2018 to 31 May 2019, Hangzhou Qiyue leased to Zhejiang Sunlight a portion of 16/F, Block E1, Zijin Zhongchuang Small Town, No. 3, Xiyuan 8th Road, Sandun, Xihu District, Hangzhou City, Zhejiang Province, the PRC* （中國浙江杭州市西湖區三墩西園八路3號紫金眾創小鎮 E1-16層） with a lettable area of approximately 500 sq. m. (the "Leased Premises") for office and research and development use without charge.

On 29 May 2019, Zhejiang Sunlight as lessee entered into a lease agreement, as supplemented by a supplemental lease agreement entered into on 28 November 2019, with Hangzhou Qiyue as lessor for the lease of the Leased Premises for office and research and development use (collectively, the "Lease Agreement"). Pursuant to the Lease Agreement, the lease shall be for a term commencing on 1 June 2019 and ending on 30 June 2020 at a monthly rent of RMB27,500 (excluding utilities and management fees) and renewable with one-month prior written notice. The rent payable by Zhejiang Sunlight under the Lease Agreement was determined with reference to the prevailing market rent for similar properties at the same development and in neighbouring areas at which the Leased Premises are located. Our property valuer, AVISTA Valuation Advisory Limited, has reviewed the Lease Agreement and confirmed that the rent payable by Zhejiang Sunlight under the Lease Agreement is fair and reasonable and consistent with the market rent for similar premises in similar locations.

Confirmation from independent non-executive Directors and the auditor of the Company

Confirmation from Directors

The Directors (including the independent non-executive Directors) have reviewed and confirmed that for the year ended 31 December 2019 the above continuing connected transaction has been and will be entered into in the ordinary and usual course of our Group's business and are based on normal commercial terms or better that are fair and reasonable and in the interests of the Company and the Shareholders as a whole

Confirmation from auditor of the Company

Based on work performed, our independent auditor, has confirmed in a letter to the Board to the effect that: (a) nothing has come to its attention that causes it to believe that the above transaction have not been approved by the Company's board of directors; (b) for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes it to believe that the transaction was not in all material respects, in accordance with the pricing policies of the Group; (c) nothing has come to its attention that causes it to believe that the transaction was not entered into, in all material respects, in accordance with the relevant agreements governing the transaction; and (d) with respect to the amounts of the transaction, nothing has come to its attention that causes it to believe that the transaction has exceeded the annual caps as set by the Company.. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Annual contributions to retirement benefit schemes operated by the government in the PRC are recognised in the profit or loss as and when incurred.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high level of corporate governance practices. Information about the corporate governance practices adopted by the Company are set out in the Corporate Governance Report in this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained sufficient public float as required by the Listing Rules and at least 25% of the Company's entire issued share capital were held by the public from the Listing Date and up to the date of this annual report.

PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate insurance coverage for Directors' and officers' liabilities in respect of legal actions against the Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors (including any director(s) resigned during the year) as required by section 470 of the Companies Ordinance when the Directors' Report prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

AUDIT COMMITTEE

The audit committee has reviewed with the management of the Company these annual results and the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial statements matters, including the review of the consolidated financial statements of the Group for the year ended 31 December 2019.

AUDITOR

HLB Hodgson Impey Cheng Limited has been appointed as the auditor of the Company for the year ended 31 December 2019. HLB Hodgson Impey Cheng Limited has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

HLB Hodgson Impey Cheng Limited is subject to retirement and, being eligible, offers itself for re-appointment at the forthcoming AGM. A resolution for re-appointment of HLB Hodgson Impey Cheng Limited as auditor will be proposed at the AGM.

By Order of the Board
LIU Jing
Chairman and executive Director

Hangzhou, PRC, 31 March 2020

Corporate Governance Report

OVERVIEW

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board still strives to uphold good corporate governance and adopts sound corporate governance practices. Save as disclosed below, during the period from 1 January 2019 to 31 December 2019, the Company has applied the principles and code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules and has complied with all the code provisions and the recommended best practices, as appropriate.

COMPLIANCE WITH THE CODE

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that during the year ended 31 December 2019, they had complied with the required standards set out in the Model Code and the code of conduct regarding Directors' securities transactions.

BOARD OF DIRECTORS

The Board currently consists of seven Directors, being four executive Directors and three independent non-executive Directors.

Meetings and members of the Board

Executive Directors

Ms. Liu Jing
Mr. Chen Hua
Ms. Zhu Jianqin
Mr. Li Xiangyu

Independent non-executive Directors

Mr. Tian Jingyan
Mr. Ho Ho Tung Armen
Ms. Yu Zhen

Chairman

Ms. Liu Jing

Appointment of Directors

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of the Directors as set out in the Articles of Association.

In accordance with the Company's Articles of Association, one-third of the Directors (including executive Directors and independent non-executive Directors) shall retire from office by rotation. Pursuant to the code provision A.4.2, all Directors are subject to retirement by rotation at least once every three years.

Training and continuing development of Directors

The Company also provides regular updates on the business development of the Group. The Directors are regularly briefed on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and maintenance of good corporate governance practices. In addition, the Company has been encouraging the Directors to enroll in professional development courses and seminars relating to the Listing Rules, Companies Ordinance and corporate governance practices organized by professional bodies or chambers in Hong Kong. All Directors are requested to provide the Company with their respective training records pursuant to the Code.

During the year, all Directors have participated in appropriate continuous professional development and refreshed their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. Such professional development was completed by way of attending briefings, conferences, courses, forums, seminars and lectures which are relevant to the business or Directors' duties, as well as reading relevant information and participating in business-related research.

Meetings of the Board

During the year ended 31 December 2019, the Board held two meetings.

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's articles of association. The company secretary of the Company (the "Company Secretary") assists the Chairman to prepare the agenda of the meeting and each Director may request to include any matters in the agenda. Generally, notice would be given for a regular meeting of the Company at least 14 days in advance. The Directors will receive details of agenda items for decision at least 3 days before each Board meeting. The Company Secretary is responsible for distributing detailed documents to each of the Directors prior to the meetings of the Board to ensure that the Directors may receive accurate, timely and clear information to make informed decisions regarding the matters to be discussed in the meetings. All Directors may access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring the procedures of Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of Board meetings. All minutes of Board meetings will be recorded in sufficient details, including the matters considered by the Board and the decisions reached.

During the Reporting Period and up to the date of this annual report, the Company held three Board meetings. Details of the attendance of each Director are as follows:

Name of Director	Attendance
Executive Directors	
Ms. Liu Jing	3/3
Mr. Chen Hua	3/3
Ms. Zhu Jianqin	3/3
Mr. Li Xiangyu	3/3
Independent non-executive Directors	
Mr. Tian Jingyan	3/3
Mr. Ho Ho Tung Armen	3/3
Ms. Yu Zhen	3/3

BOARD COMMITTEES

We have established the audit committee, remuneration committee and nomination committee on 10 February 2020. Each of the above three committees has written terms of reference. The functions of the above three committees are summarised as follows:

Audit Committee

We established the audit committee with written terms of reference in compliance with the Listing Rules. The audit committee consists of Mr. Ho Ho Tung Armen, Mr. Tian Jingyan and Ms. Yu Zhen and is chaired by Mr. Ho Ho Tung Armen, who has the appropriate professional qualifications required under the Listing Rules. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

Since the Listing Date and up to the date of this annual report, the Audit Committee held one meeting to perform the following functions: reviewing annual results, approving the auditors' proposal for audit, reviewing the auditors' report, reviewing internal control policies, and reviewing the effectiveness of risk management and internal control system.

Name of Audit Committee Member	Attendance
Mr. Ho Ho Tung Armen *(Chairman)*	1/1
Mr. Tian Jingyan	1/1
Ms. Yu Zhen	1/1

Remuneration Committee

We established the remuneration committee with written terms of reference in compliance with the Listing Rules. The remuneration committee consists of Mr. Tian Jingyan, Mr. Chen Hua and Ms. Yu Zhen and is chaired by Mr. Tian Jingyan. The primary duties of the remuneration committee include making recommendations to our Board regarding our policy and structure for the remuneration of all of our Directors and senior management.

Since the Listing Date and up to the date of this annual report, the Remuneration Committee held one meeting. Details of the attendance of each member are as follows

Name of Remuneration Committee Member	Attendance
Mr. Tian Jingyan *(Chairman)*	1/1
Mr. Chen Hua	1/1
Ms. Yu Zhen	1/1

Since the Listing Date and up to the date of this annual report, the Remuneration Committee had formulated the remuneration policy for Directors, approved the terms of service contracts of Directors and devised the principle for the remuneration of executive Directors for 2020.

Nomination Committee

We established the nomination committee with written terms of reference in compliance with the Listing Rules. The nomination committee consists of Ms. Liu Jing, Mr. Ho Ho Tung Armen and Mr. Tian Jingyan and is chaired by Ms. Liu Jing. The primary functions of the nomination committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board and making recommendations on any proposed changes to our Board to complement our Company's corporate strategy, identifying individuals suitably qualified to become Board members, making recommendations to our Board on the appointment of members of our Board and succession planning of our Directors, and assessing the independence of our independent non-executive Directors.

Since the Listing Date and up to the date of this annual report, the Nomination Committee had reviewed the structure, size and composition of the Board, and conducted a full review on the professional qualifications and career background of all candidates to directorships and members of each Board committee as well as the independence of the independent Directors.

Since the Listing Date and up to the date of this annual report, the Nomination Committee held one meeting. Details of the attendance of each member are as follows

Name of Nomination Committee Member	Attendance
Ms. Liu Jing *(Chairman)*	1/1
Mr. Ho Ho Tung Armen	1/1
Mr. Tian Jingyan	1/1

AUDIT COMMITTEE

Mr. Ho Ho Tung Armen *(Chairman)*
Mr. Tian Jingyan
Ms. Yu Zhen

REMUNERATION COMMITTEE

Mr. Tian Jingyan *(Chairman)*
Mr. Chen Hua
Ms. Yu Zhen

NOMINATION COMMITTEE

Ms. Liu Jing *(Chairman)*
Mr. Ho Ho Tung Armen
Mr. Tian Jingyan

Independence of Independent Non-Executive Directors

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company. They serve actively on the Board and Board Committees to provide their independent and objective views. In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. Each independent non-executive director has submitted annual confirmation of his/her independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

NOMINATION OF DIRECTORS AND BOARD DIVERSITY POLICY

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth.

Pursuant to our board diversity policy, selection of our Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and any other factors that our Board may consider relevant and applicable from time to time. High emphasis is placed on ensuring a balanced composition of skills and experience at our Board level in order to provide a range of perspectives, insights and challenge that enable our Board to discharge its duties and responsibilities effectively, support good decision making in view of the core businesses and strategy of our Group, and support succession planning and development of our Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our nomination committee is responsible for monitoring the implementation of our board diversity policy. After the Listing, our nomination committee will review our Board's composition at least once annually taking into account the benefits of all relevant diversity aspects, and adhere to our board diversity policy when making recommendation on any Board appointments. Our nomination committee will also ensure that diversity of our Board is considered as part of the evaluation of our Board's effectiveness. A summary of our board diversity policy together with any measurable objectives and specific diversity targets set for implementing the policy, and the progress made towards achieving those objectives and targets will be disclosed in the corporate governance report contained in our Company's annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

We have adopted or expect to adopt a set of risk management measures and internal control policies to identify, evaluate and manage risks arising from our operations prior to Listing. Our internal control system is summarised as follows:

– We have formed an audit committee comprising three independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committee are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control, and risk management system of our Group, to oversee the audit process, and to perform other duties and responsibilities as assigned by our Directors;

– We have adopted and implemented comprehensive control policies in respect of various aspects of our business operations such as (i) risk management policies; (ii) conflict of interest guidelines; and (iii) disclosure guidelines;

– We shall establish system and manuals in relation to, among others, distribution of annual or interim reports and publication, handling and monitoring of inside information prior to public announcement and other requirements under the Listing Rules;

– Our Directors have attended training sessions conducted by our legal advisers as to Hong Kong laws on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange;

– We will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. To avoid potential conflicts of interest, we will implement corporate governance measures as set out in the paragraph headed "Relationship with Our Controlling Shareholders – Corporate governance measures" in this prospectus. Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance reports to be included in our annual reports after Listing;

– We have engaged Giraffe Capital Limited as our compliance adviser and will, upon Listing, engage a legal adviser as to Hong Kong laws, which will advise and assist our Board on compliance matters in relation to the Listing Rules and/or other relevant laws and regulations applicable to our Company; and

– When considered necessary and appropriate, we will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters relating to our internal controls and legal compliance.

In February 2019, we engaged an independent internal control consultant (the "Internal Control Consultant") to perform a review over certain key areas of our internal control system. The Internal Control Consultant provided recommendations for our management's consideration to enhance our internal controls and procedures.

The following table sets out the major findings of the internal control review and the corresponding measures recommended to be taken by our Group:

Major findings	Corresponding measures
We have not set up Board committees and appointed company secretary as required under the Listing Rules.	We should set up the audit committee, remuneration committee and nomination committee and appoint company secretary to ensure compliance with the Listing Rules before Listing.
We have not established an internal audit function.	We should appoint an independent third party to perform annual review of the risk management and internal control system of our Group and report directly to our audit committee.
We have no insurance coverage in respect of legal proceedings against our Directors.	We should arrange appropriate insurance coverage on our Directors' liabilities in respect of legal proceedings against our Directors arising out of corporate activities upon the Listing.

The Internal Control Consultant conducted a follow-up review in April 2019 to assess whether we have implemented the internal control measures recommended by the Internal Control Consultant and whether the deficiencies identified in the review have been rectified. Based on the result of this follow-up review, save for the setting up of our Board committees, appointment of an independent third party to perform annual review of the risk management and internal control system of our Group and the arrangement for insurance coverage on our Directors' liabilities which will be done upon or shortly after Listing, we demonstrated we have implemented all major internal control measures recommended. No material deficiencies were identified during the internal control review.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's financial statements for each financial period to give a true and fair view of the financial position, results and cash flows of the Group for the period. In preparing the financial statements for the year ended 31 December 2019, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REMUNERATION

During the Reporting Period, the Company appointed HLB Hodgson Impey Cheng Limited in accordance with the International Financial Reporting Standards to provide audit services to the Company. The remuneration relating to the annual audit services was RMB445,000. In addition, the Company separately appointed HLB Hodgson Impey Cheng Limited as the reporting accountant for the listing of the Company in Hong Kong and paid a remuneration of RMB1,516,000 to it in this regard.

SHAREHOLDERS' RIGHTS

Shareholders have the right to initiate and convene general meetings

In accordance with the provisions of the Articles of Association of the Company, the shareholders shall be entitled to the following rights: 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 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 (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 meetings

Shareholders are welcome to put forward proposals relating to the operations, strategy and/or management of the Group at a general meeting. Proposals shall be sent to the Board or the company secretary by written requisition to the company secretary at the Company's principal place of business in Hong Kong at 4404-10, 44/F, One Island East, 18 Westlands Road, Taikoo Place, Hong Kong.

Shareholders are entitled to the enquiry right

Shareholders are entitled to make enquiries to the Board by directly mailing to the Company at its principal place of business in Hong Kong at 4404-10, 44/F, One Island East, 18 Westlands Road, Taikoo Place, Hong Kong. The Company will deal with all enquiries in a timely and appropriate manner.

COMMUNICATIONS WITH SHAREHOLDERS

The Company believes that effective communication with shareholders is essential to the enhancement of the relationship with investors and enhancement of investors' understanding of the Company's business and strategies. The Company highly values shareholders' opinions and suggestions, and actively organises and conducts various activities related to the relationship with investors in order to maintain the communication with shareholders, and to timely satisfy the reasonable demands of all shareholders.

To enhance effective communication, the Company maintains its website at http://www.slkj.cn where latest information on the Company's business development, financial information, corporate governance practices and other information are available for public access.

The 2019 annual general meeting (the "AGM") of the Company will be held on 3 June 2020. The notice of the AGM will be sent to shareholders at least 20 clear business days before the AGM.

RELATIONSHIP WITH INVESTORS

The Company believes that good relationship with investors will help build a more stable shareholder base. As a result, since the Listing, the Company has been and will be dedicated to maintaining a higher degree of transparency, complying with the Listing Rules and timely providing investors with comprehensive and accurate information, and continuously performing its obligation of information disclosure as a listed company. The Company will strengthen its communication with investors and let investors understand corporate strategies and business operation by organising road shows, participating in investors summit, voluntary information disclosure and others.

The Company will continue to maintain a policy for open and effective communication with investors for the purposes of timely providing investors with the latest information on the Company's business while in compliance with the relevant regulatory provisions.

ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 10 February 2020 with effect from the Listing Date.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company actively fulfills its social responsibilities by protecting the environment, making good use of and cherishing resources, adopting more environmentally-friendly designs and technologies and improving the environmental awareness of its employees, partners and customers, so as to minimize the impacts of the business of the Company on the environment. For details, please refer to the 2019 Environmental, Social and Governance Report of Sunlight Technology Holdings Limited, which will be published on the website of the Stock Exchange (www.hkexnews.hk).

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

To the shareholders of Sunlight Technology Holdings Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sunlight Technology Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 54 to 119, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other 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 Boards (the "**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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables **Refer to note 21 to the consolidated financial statements**	
As at 31 December 2019, the Group had gross trade receivables of approximately RMB59,723,000 and provision for impairment of approximately RMB209,000. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to management's impairment assessment on trade receivables included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and • Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("**Other Information**").

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 AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- 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.

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
Revenue	8	**182,681**	167,307
Cost of sales		**(120,686)**	(116,619)
Gross profit		**61,995**	50,688
Other revenue	9	**2,833**	4,936
Other gains	10	**163**	1,764
Selling and distribution expenses		**(7,498)**	(7,005)
Administrative and general expenses		**(16,208)**	(14,546)
Finance costs	11	**(672)**	(530)
Listing expenses		**(11,637)**	–
Profit before tax	12	**28,976**	35,307
Income tax expenses	13	**(4,852)**	(4,517)
Profit for the year		**24,124**	30,790
Other comprehensive loss			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operation		**(121)**	–
Other comprehensive loss for the year		**(121)**	–
Total comprehensive income for the year		**24,003**	30,790
Profit for the year attributable to owners of the Company		**24,124**	30,790
Total comprehensive income for the year attributable to owners of the Company		**24,003**	30,790
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (RMB cents)	17	**3.22**	4.11

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	18	**62,049**	63,420
Right-of-use assets/prepaid lease payments	19	**17,181**	17,181
Deferred tax assets	29	**69**	90
		79,299	80,691
Current assets			
Inventories	20	**17,651**	12,962
Trade and bills receivables	21	**84,601**	67,532
Prepayments, deposits and other receivables	22	**7,350**	2,884
Pledged bank deposits	23	**2,544**	1,560
Bank balances and cash	23	**14,226**	10,162
		126,372	95,100
Current liabilities			
Trade and bills payables	24	**30,391**	23,732
Other payables and accruals	25	**4,465**	7,046
Deferred income	26	**137**	137
Tax payables		**2,446**	3,843
Amounts due to shareholders	27	**1,378**	–
Bank and other borrowings	28	**21,727**	10,000
Dividend payables		**–**	2,907
		60,544	47,665
Net current assets		**65,828**	47,435
Total assets less current liabilities		**145,127**	128,126
Non-current liability			
Deferred income	26	**821**	958
Net assets		**144,306**	127,168

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Capital and reserves			
Share capital	30	**670**	36,000
Reserves		**143,636**	91,168
Total equity		**144,306**	127,168

Approved and authorised for issue by the board of directors on 31 March 2020.

Ms. Liu Jing
Director

Mr. Chen Hua
Director

The accompany notes from an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Capital reserve** *RMB'000*	**Statutory reserve** *RMB'000* (note (a))	**Exchange reserve** *RMB'000*	**Retained earnings** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2018	36,000	–	61,274	4,955	–	44,549	146,778
Profit and total comprehensive income for the year	–	–	–	–	–	30,790	30,790
Transfer to statutory reserve	–	–	–	3,079	–	(3,079)	–
Dividend declared	–	–	–	–	–	(50,400)	(50,400)
At 31 December 2018 and 1 January 2019	36,000	–	61,274	8,034	–	21,860	127,168
Profit for the year	–	–	–	–	–	24,124	24,124
Other comprehensive loss for the year	–	–	–	–	(121)	–	(121)
Total comprehensive income for the year	–	–	–	–	(121)	24,124	24,003
Transfer to statutory reserve	–	–	–	3,309	–	(3,309)	–
Issue of shares	335	–	–	–	–	–	335
Effect of Reorganisation *(note (b))*	(35,665)	35,665	–	–	–	–	–
Dividend declared	–	–	–	–	–	(7,200)	(7,200)
At 31 December 2019	**670**	**35,665**	**61,274**	**11,343**	**(121)**	**35,475**	**144,306**

Notes:

(a) Subsidiary of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval.

(b) Effect of Reorganisation represents the effect of the completion of the acquisition of Zhejiang Sunlight Material Technology Co., Ltd (the "**Zhejiang Sunlight**") by HongKong Gorgeous Investment Limited (the "**HongKong Gorgeous**") on 18 April 2019. The considerations for acquisition of the equity interests in Zhejiang Sunlight were financed by the Shareholders' Loans. The Shareholders' Loans were capitalised by way of the Company allotting and issuing shares, credited as fully paid, to its shareholders as the part of Reorganisation as set out in Note 2 to the consolidated financial statements. As at 31 December 2018, the balance of share capital represented the paid-in capital of Zhejiang Sunlight under merger accounting for common control combination. Upon the completion of the acquisition of Zhejiang Sunlight, the Company became the holding company of the companies now comprising the Group including Zhejiang Sunlight, and the paid-in capital of Zhejiang Sunlight had been eliminated and the balance of share capital as at 31 December 2019 represents the share capital of the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Operating activities			
Profit before tax		**28,976**	35,307
Adjustments for:			
Depreciation of property, plant and equipment	12	**6,507**	6,628
Amortisation of prepaid lease payments	12	**–**	391
Depreciation of right-of-use assets	12	**391**	–
Gain on disposals of property, plant and equipment	10	**(19)**	(1,910)
(Reversal of)/provision for impairment loss on:			
– trade and bills receivables	10	**(137)**	206
– other receivables	10	**(7)**	(66)
Written off/(reversal of) on inventories	12	**156**	(582)
Bad debt written off on trade and bills receivables	10	**–**	6
Bank interest income	9	**(50)**	(67)
Finance costs	11	**672**	530
Operating cash inflows before movements in working capital		**36,489**	40,443
(Increase)/decrease in inventories		**(4,844)**	2,245
Increase in trade and bills receivables		**(16,933)**	(7,887)
Increase in prepayments, deposits and other receivables		**(5,158)**	(2,203)
Increase/(decrease) in trade and bills payables		**6,659**	(2,656)
Decrease in other payables and accruals		**(2,663)**	(2,482)
Decrease in deferred income		**(137)**	(137)
Cash generated from operating activities		**13,413**	27,323
Income tax paid		**(6,228)**	(2,430)
Net cash generated from operating activities		**7,185**	24,893

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Investing activities			
Purchases of items of property, plant and equipment		**(5,146)**	(2,638)
Proceeds from disposals of property, plant and equipment		**29**	10
(Increase)/decrease in pledged bank deposits		**(984)**	1,348
Interest received		**50**	67
Net cash used in investing activities		**(6,051)**	(1,213)
Financing activities			
Proceeds from bank and other borrowings		**21,830**	12,000
Repayment of bank and other borrowings		**(10,000)**	(12,000)
Increase in amounts due to shareholders		**37,378**	–
Paid up capital		**670**	–
Effect on Reorganisation		**(36,000)**	–
Dividend paid		**(10,107)**	(19,203)
Interest paid		**(590)**	(530)
Net cash generated from/(used in) financing activities		**3,181**	(19,733)
Net increase in cash and cash equivalents		**4,315**	3,947
Cash and cash equivalents at the beginning of the year		**10,162**	6,215
Effect of exchange rate changes on the balance of cash held in foreign currency		**(251)**	–
Cash and cash equivalents at the end of the year		**14,226**	10,162

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

Sunlight Technology Holdings Limited (the "**Company**") was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 January 2019 under the name of Darkblue Technology Co. Ltd.. On 29 January 2019, the name of the Company changed to Sunlight Technology Co., Ltd. then changed to Sunlight Technology Holdings Limited on 9 May 2019. The registered office address is at 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands. The head office and principal place of the Group is at No.2 Jiangshan Road, Meicheng Town, Jiande County, Hangzhou City, Zhejiang Province, PRC, respectively.

The Company's ultimate holding company is Sunlight Global Investment Limited ("**Sunlight Global**"), a company incorporated in the British Virgin Islands ("**BVI**"). Sunlight Global is ultimately controlled by Mr. Chen Hua.

The Company is an investment holding company and its subsidiaries (the "**Group**") are principally engaged in the manufacturing and sales of faux leather chemicals. Particulars of Group's subsidiaries are set out in Note 37 to the consolidated financial statements.

The shares of the Company (the "**Shares**") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") by way of international placing and Hong Kong public offer (collectively the "**Global Offering**") on 12 March 2020 (the "**Listing Date**").

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company. All values are rounded to the nearest thousands ("RMB'000") except otherwise indicated.

2. REORGANISATION

In connection with the listing of the Shares on the Main Board of the Stock Exchange, the Company underwent a reorganisation (the "**Reorganisation**").

Pursuant to the Reorganisation as fully explained in "History, Development and Reorganisation – Reorganisation" of the Prospectus of the Company dated 27 February 2020 (the "**Prospectus**"), the company became the holding company of the companies now comprising the Group on 18 April 2019. The Companies now comprising the Group were under the common control of Mr. Chen Hua and Ms. Liu Jing, two of controlling shareholder of the Company before and after the Reorganisation. Accordingly, the consolidated financial statements have been prepared on the basis by applying the principles of merger accounting as if the Reorganisation has been completed at the beginning of the reporting period.

2. REORGANISATION *(Continued)*

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the reporting period or since their respective date of incorporation, where there is a shorter period. The consolidated statement of financial position of the Group have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates, taking into account the respective dates of incorporation.

All intra-group transactions and balances have been eliminated on combination.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new and revised IFRSs issued by the International Accounting Standards Board (the "IASB"), which are effective for the Group's financial year beginning on or after 1 January 2019.

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

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 16 Leases *(Continued)*

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 as from 1 January 2019. The Group has elected to use the modified retrospective approach and recognised if any cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

As at 31 December 2018, the Group had no any non-cancellable operating lease commitments, therefore, the application of IFRS 16 would not have any impact on opening balance of equity at 1 January 2019, except for the following table summarises the impact of transition of IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Note	**Carrying amount previously reported at 31 December 2018** RMB'000	**Impact on adoption of IFRS 16 Reclassification** RMB'000	**Carrying amount as restated 1 January 2019** RMB'000
Right-of-use assets	(a)	–	17,572	17,572
Prepaid lease payments	(a)	17,572	(17,572)	–

Note:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB391,000 and RMB17,181,000 respectively were reclassified to right-of-use assets.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

At the date of this report, the Group has not early adopted the following New and Revised IFRSs that have been issued but not yet effective:

IFRS 3 (Amendments)	Definition of a Business[3]
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associates or Joint Venture[1]
IFRS 17	Insurance Contract[2]
IAS 1 and IAS 8 (Amendments)	Definition of Material[4]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[4]

1 Effective for annual periods beginning on or after a date to be determined.

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

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

The directors of the Company anticipate that the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements has been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("**IFRSs**") issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given exchange for goods and services.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements are determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and companies controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Merger accounting for common control combination

The consolidated financial statements incorporate the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of the controlling party.

The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses:

– buildings held for own use which are situated on leasehold land classified as held under operating leases; and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Building held for own use	over the shorter of the unexpired lease term and their estimated useful lives, being no more than 20 years after the date of completion
Machinery and equipment	5-10 years
Motor vehicles	5 years
Office equipment and others	3-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment 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 statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net proceeds and the carrying amounts of the relevant assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– Property, plant and equipment;

– Interests in leasehold land held for own use under operating leases;

– Investments in subsidiaries; and

– Right-of-use assets

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying value that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other revenue and other income" line item.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("**ECL**") on financial assets which are subject to impairment under IFRS 9 (including trade and bills receivables, other receivables, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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.

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

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

Irrespective of the outcome of the above assessments, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and bills receivables, other receivables, pledged bank deposits and bank balances and cash are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Measurement and recognition of ECL (Continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and bills payables, other payables and accruals, amounts due to shareholders and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of a financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due from settlement within one year and therefore are all classified as current. Trade receivables are carried at initial billing amounts, which approximate fair value due to the short term nature of the payment terms.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of processing, labour and indirect overheads, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price of inventories less all estimated costs of completion and 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.

Trade and other payables

Trade and other payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from vendors. Trade and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at billed amounts, which approximately fair value and subsequent measured at amortised cost using effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the government grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the government grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods or services (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

(i) Sales of faux leather chemicals

Revenue is recognised when goods are delivered to the customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts, rebates and returns.

(ii) Interest income is recognised as its accrues using the effective interest method.

Leases

Policy applicable from 1 January 2019

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.

The Group as lessee

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. 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, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Policy applicable from 1 January 2019 (Continued)

The Group as lessee (Continued)

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 asset 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.

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.

Policy applicable before 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownerships to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the consolidated statement of profit or loss and other comprehensive income or in equity if it relates to items that are recognised in the same or a different period directly in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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:

- where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a 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 joint operations, 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. Conversely, previously unrecognised deferred tax assets are reassessed at of the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Annual contributions to retirement benefit schemes operated by the government in the PRC are recognised in the profit or loss as and when incurred.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Borrowing costs directly attributable to the activity of a construction contract are included as part of the contract costs.

All other borrowing costs are expensed in the period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expense

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials and salaries where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure does not meet these criteria is recognised as an expense in the period in which it is incurred.

Related parties transactions

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

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

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

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or of a parent of the reporting entity.

(ii) 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 (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(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. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties transactions *(Continued)*

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

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

(viii) the entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Dividends

Dividends proposed by the directors of the Company are classified as a separate allocation of retained earnings within the equity section of the statements of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in Note 4 to consolidated financial statements, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

The following are the critical judgments, apart from those involving estimations, that the directors of the Company have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Impairment of non-financial assets

The Group tests whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 4 to consolidated financial statements. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flows projection, the estimated recoverable amounts of the non-financial assets and the Group's results would be significantly affected. Such impairment losses are recognised in the statement of profit or loss and other comprehensive income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

Estimated loss allowance of financial assets measured at amortised cost

Management estimates the amount of loss allowance for expected credit loss on financial assets that are measured at amortised cost based on the credit risk of the respective financial instrument. The loss allowance amount is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

Write-down of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, the management performs an inventory review on a product-by-product basis at the end of the reporting period and assess the need for write-down of inventories.

Income tax

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets at amortised cost		
– Trade and bills receivables	**84,601**	67,532
– Deposits and other receivables	**53**	158
– Pledged bank deposits	**2,544**	1,560
– Bank balances and cash	**14,226**	10,162
	101,424	79,412
Financial liabilities at amortised cost		
– Trade and bills payables	**30,391**	23,732
– Other payables and accruals	**2,431**	2,072
– Amounts due to shareholders	**1,378**	–
– Bank and other borrowings	**21,727**	10,000
	55,927	35,804

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The Group's principal financial instruments comprise trade and bills receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, trade and bills payables, other payables and accruals, amounts due to shareholders and bank and other borrowings. The main purpose of these financial instruments is to finance the Group's operation.

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

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Bank and other borrowings bearing fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively and the exposure to the Group is considered immaterial.

The exposure to interest rate risk for the Group bank balances is considered immaterial.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is expose to the foreign currency risk arising from financial instruments which are primarily denominated in United Stated Dollars ("USD") from its ordinary operating activities, these are not the functional currency of the group entities to which these transactions relate.

As at each reporting date, foreign currency denominated financial assets, translated into RMB closing rates, are as follows:

	2019 **RMB'000**	2018 RMB'000
Trade receivables:		
–USD	**1,085**	1,503

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Market risk *(Continued)*

Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity as at the end of each of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets) and the Group's entities.

	Increase/ (decrease) in rate of foreign currency	**Increase/ (decrease) in profit before tax**
	%	RMB'000
As at 31 December 2019		
If RMB weakens against USD	**5**	**(54)**
If RMB strengthens against USD	**(5)**	**54**
As at 31 December 2018		
If RMB weakens against USD	5	(75)
If RMB strengthens against USD	(5)	75

(b) Credit risk

The Group is exposed to credit risk in relation to its trade and bills receivables, other receivables and bank deposits. The carrying amounts of trade and bills receivables, other receivables and bank deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with bank deposits since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. The credit risks on bill receivables are limited because the counterparties are reputable banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

For deposits and other receivables, management make periodic collective assessments as well as individual assessment on the recoverability of deposits and other receivables based on historical settlement records and past experience. The management believe there is no material credit risk inherent in the outstanding balance of deposits and other receivables.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

The Group accounts for credit losses, if any, using an ECL model which utilises assumptions and estimates regarding expected future credit losses.

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime ECL provision for all trade receivables.

As at 31 December 2019 and 2018, the loss allowance provision for the trade receivables was determined as follows. The ECL below also incorporated forward looking information.

		Past due but not impaired			
	Current	**within 90 days**	**91 to 180 days**	**over 180 days**	**Total**
Trade receivables					
At 31 December 2019					
Expected loss rate (%)	**0.01**	**0.06**	**0.61**	**31.82**	**0.35**
Gross carrying amount (RMB'000)	**37,268**	**21,052**	**818**	**594**	**59,732**
Loss allowance provision (RMB'000)	**3**	**12**	**5**	**189**	**209**
At 31 December 2018					
Expected loss rate (%)	0.01	0.08	1.13	30.75	0.74
Gross carrying amount (RMB'000)	30,262	13,748	1,593	1,021	46,624
Loss allowance provision (RMB'000)	2	11	18	314	345

As at 31 December 2019 and 2018, the gross carrying amount of trade receivables was approximately RMB59,732,000 and RMB46,624,000 respectively and thus the maximum exposure to loss was approximately RMB209,000 and RMB345,000 respectively.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or an another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flows 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.

Management monitors the cash flows forecasts of the Group in meeting its liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group may be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weight average effective interest rate	On demand or within 1 year	Over 1 year and within 2 years	Over 2 years and within 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019						
Non-derivative financial liabilities						
Trade and bills payables	**–**	**30,391**	**–**	**–**	**30,391**	**30,391**
Other payables and accruals	**–**	**2,431**	**–**	**–**	**2,431**	**2,431**
Amounts due to shareholders	**–**	**1,378**	**–**	**–**	**1,378**	**1,378**
Bank and other borrowings	**3.40**	**21,895**	**–**	**–**	**21,895**	**21,727**
		56,095	**–**	**–**	**56,095**	**55,927**
At 31 December 2018						
Non-derivative financial liabilities						
Trade and bills payables	–	23,732	–	–	23,732	23,732
Other payables and accruals	–	2,072	–	–	2,072	2,072
Bank and other borrowings	5.13	10,000	–	–	10,000	10,000
		35,804	–	–	35,804	35,804

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid and ask prices respectively;

(ii) the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs); and

(iii) the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(e) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt (which includes amounts due to shareholders and bank and other borrowings), bank balance and cash, pledged bank deposits and total equity attributable to owners of the Company, comprising issued share capital and retained earnings.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Capital risk management *(Continued)*

Gearing ratio

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The ratio is calculated based on net debt and total equity.

The gearing ratio at the end of the reporting period was as follows:

		As at 31 December	
		2019	2018
		RMB'000	RMB'000
Amounts due to shareholders		**1,378**	–
Bank and other borrowings		**21,727**	10,000
		23,105	10,000
Less:	Bank balances and cash	**(14,226)**	(10,162)
	Pledged bank deposits	**(2,544)**	(1,560)
Net debt		**6,335**	(1,722)
Total equity		**144,306**	127,168
Gearing ratio		**4.39%**	N/A

\# Total debt comprises amounts due to shareholders and bank and other borrowings as detailed in Notes 27 and 28 to the consolidated financial statements, respectively.

7. SEGMENT INFORMATION

(i) Operating segment information

The Group's most senior executive management has been identified as the chief operating decision maker who reviews the Group's internal reporting in order to assess performance and allocate resources. The Group's most senior executive management has determined the operating segments based on these reports.

The Group's most senior executive management assesses the performance based on a measure of profit after income tax and considers all businesses to be included in a single operating segment.

The Group is principally engaged in the manufacturing and sales of faux leather chemicals. Information reported to the Group's most senior executive management for the purpose of resources allocation and performance assessment, focuses on the operating result of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

(ii) Geographical information

The Group's operation is principally in the PRC and all its non-current assets are situated in the PRC.

The Group's revenue are derived from the PRC and overseas (i.e. Mexico, Brazil, Turkey and Vietnam) based on the location of goods delivered as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
The PRC	**179,006**	163,629
Overseas	**3,675**	3,678
	182,681	167,307

7. SEGMENT INFORMATION

(iii) Information about a major customer

Revenue from a customer during the years contributing individually over 10% of the Group's revenue is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Company A	**25,056**	26,764

8. REVENUE

Revenue represents the amounts received and receivable from the sales of faux leather chemicals, net of discounts, sales return and sales related taxes during the years.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers:		
Recognised at a point in time		
Sales of faux leather chemicals	**182,681**	167,307

The Group has applied the practical expedient under IFRS 15 so that transaction price allocated to unsatisfied performance obligations under contracts for sales of faux leather chemicals are not disclosed as such contracts have an original expected duration of one year or less.

9. OTHER REVENUE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Bank interest income	**50**	67
Government grant (note (a))	**2,017**	4,117
Sundry income	**766**	752
	2,833	4,936

9. OTHER REVENUE *(Continued)*

Note:

(a) Government grants represent various form of subsidies granted to the Group by the local governmental authorities in the PRC for compensation of expenses incurred by the Group. These grants are generally made for business support and awarded to enterprises on a discretionary basis. The Group received these government grants in respect of its investments in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

10. OTHER GAINS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Reversal of/(provision for) impairment loss on:		
– trade and bills receivables	**137**	(206)
– other receivables	**7**	66
Bad debt written off on trade and bills receivables	**–**	(6)
Gain on disposal of properties, plant and equipment	**19**	1,910
	163	1,764

11. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	**672**	530

12. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Auditors' remuneration (Note (a))	**445**	75
Listing expenses	**11,637**	–
Cost of inventories sold	**120,686**	116,619
Depreciation and amortisation:		
– Depreciation of property, plant and equipment	**6,507**	6,628
– Depreciation of right-of-use assets	**391**	–
– Amortisation of prepaid lease payments	**–**	391
	6,898	7,019
Less: amounts included in cost of sales	**(5,120)**	(4,903)
	1,778	2,116
Directors' remuneration (Note 14)	**950**	699
Staff costs (excluding directors' remuneration)		
– wages, salaries, allowances and bonus	**10,911**	10,573
– contributions to retirement benefits schemes	**2,344**	2,173
	13,255	12,746
Less: amounts included in cost of sales	**(4,797)**	(4,155)
	8,458	8,591
Written off/(reversal of) on inventories	**156**	(582)
Exchange gain	**(6)**	(118)
Research and development expenses	**8,112**	7,249

Note:

(a) Exclude services for the listing of the Company.

13. INCOME TAX EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
PRC Enterprise Income Tax ("**EIT**")		
– Current income tax	**4,831**	4,462
Deferred tax (Note 29)	**21**	55
Total tax charge for the year	**4,852**	4,517

The PRC

The income tax provision of the Group in respect of its operations in the PRC was calculated at tax rate of 25% on the assessable profits for the reporting period, based on the existing legislation, interpretations and practices in respect thereof.

Zhejiang Sunlight is approved as "high and new technology enterprise" and accordingly, it is subject to a reduced preferential corporate income tax rate of 15% for the reporting period.

Cayman Islands, BVI and Hong Kong

No Provision for taxation has been recognised for companies incorporated in the Cayman Islands and BVI as they are not subject to any tax during the year ended 31 December 2019.

No provision for Hong Kong Profit Tax has been made for the year ended 31 December 2019 as the Group has no assessable profits in Hong Kong.

Withholding Tax in Mainland China ("WHT")

According to the New Corporate Income Tax Law ("**New EIT Law**"), distribution of profits earned by companies in Mainland China since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors, upon the distribution of profits to overseas incorporated immediate holding companies.

As at 31 December 2019 and 2018, the retained earnings of the Group's PRC subsidiary not yet remitted to holding company incorporated outside of the PRC, for which no deferred income tax liability had been provided, were approximately RMB44,441,000 and RMB21,860,000 respectively. For this unrecognised amount, the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

13. INCOME TAX EXPENSES *(Continued)*

The income tax expense during the years can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before tax	**28,976**	35,307
Tax at applicable tax rate applicable to profits in the jurisdiction concerned	**7,889**	8,827
Tax effect of expenses not deductible for tax purposes	**1,647**	71
Tax effect of income not taxable for tax purposes	**(37)**	(105)
Effect attributable to the additional qualified tax deduction relating to research and development costs	**(1,467)**	(1,233)
Tax effects of deductible temporary differences not recognised	**21**	(19)
Tax effect of unrecognised tax losses	**23**	–
Tax concession	**(3,224)**	(3,024)
	4,852	4,517

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors of the Company (including emoluments for services as employees/directors of the Group prior to becoming the directors of the Company) by entities comprising the Group during the years are as follows:

	Year ended 31 December 2019				
	Directors' fees RMB'000	**Salaries, allowance and benefits in kind RMB'000**	**Discretionary bonus RMB'000**	**Retirement scheme contribution RMB'000**	**Total RMB'000**
Executive directors:					
Mr. Chen Hua (note (i))	**–**	**280**	**–**	**54**	**334**
Ms. Liu Jing (note (ii))	**–**	**–**	**–**	**–**	**–**
Ms. Zhu Jianqin (note (iii))	**–**	**282**	**–**	**–**	**282**
Mr. Li Xiangyu (note (iv))	**–**	**281**	**–**	**53**	**334**
Independent non-executive directors:					
Mr. Tian Jingyan (note (v))	**–**	**–**	**–**	**–**	**–**
Mr. Ho Ho Tung Armen (note (vi))	**–**	**–**	**–**	**–**	**–**
Ms. Yu Zhen (note (vii))	**–**	**–**	**–**	**–**	**–**
	–	**843**	**–**	**107**	**950**

	Year ended 31 December 2018				
	Directors' fees RMB'000	Salaries, allowance and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contribution RMB'000	Total RMB'000
Executive directors:					
Mr. Chen Hua (note (i))	–	240	–	13	253
Ms. Liu Jing (note (ii))	–	–	–	–	–
Ms. Zhu Jianqin (note (iii))	–	211	–	6	217
Mr. Li Xiangyu (note (iv))	–	211	–	18	229
Independent non-executive directors:					
Mr. Tian Jingyan (note (v))	–	–	–	–	–
Mr. Ho Ho Tung Armen (note (vi))	–	–	–	–	–
Ms. Yu Zhen (note (vii))	–	–	–	–	–
	–	662	–	37	699

14. DIRECTORS' EMOLUMENTS *(Continued)*

The executive directors' emoluments shown were mainly for their service in connection with the management of the affairs of the Company and the Group.

During the reporting period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 15 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the reporting period.

Notes:

(i) Mr. Chen Hua was appointed as executive director and on 21 June 2019.

(ii) Ms. Liu Jing was appointed as executive director and chairman on 21 June 2019.

(iii) Ms. Zhu Jianqin was appointed as executive director on 21 June 2019.

(iv) Mr. Li Xiangyu was appointed as executive director on 21 June 2019.

(v) Mr. Tian Jingyan was appointed as independent non-executive director on 10 February 2020.

(vi) Mr. Ho Ho Tung Armen was appointed as independent non-executive director on 10 February 2020.

(vii) Ms. Yu Zhen was appointed as independent non-executive director on 10 February 2020.

15. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included 3 and 3 executive directors of the Company for the years ended 31 December 2019 and 2018 respectively, details of whose emoluments are set out in Note 14. The emoluments of the remaining highest paid individuals for the years ended 31 December 2019 and 2018 are 2 and 2 respectively and individuals disclosed are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, allowance and benefits in kind	**559**	406
Contributions to retirement benefits schemes	**107**	41
	666	447

15. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The number of remaining highest paid employees whose emoluments fell within the following bands is as follows:

	Year ended 31 December	
	2019	2018
Nil to HK$1,000,000	**2**	2

The number of the senior management (excluding directors) whose emoluments fell within the following bands is as follows:

	Year ended 31 December	
	2019	2018
Nil to HK$1,000,000	**2**	2

16. DIVIDENDS

Prior to the Reorganisation, a PRC subsidiary of the Company, Zhejiang Sunlight Material Technology Co., Ltd. ("**Zhejiang Sunlight**"), declared RMB50,400,000 and RMB7,200,000, respectively, dividends to its then shareholders during the years ended 31 December 2018 and 2019.

No dividend was paid or declared by the Company since its incorporation. The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2019.

17. EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended 31 December 2019 and 2018 is based on the profit attributable to the owners of the Company for the years ended 31 December 2019 and 2018 and on the assumption that 750,000,000 ordinary shares had been in issue, comprising 200,000,000 ordinary shares in issue and 550,000,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the section headed "Share Capital" set out in the Prospectus as if the shares as there were outstanding throughout the entire period.

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

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and office equipment RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2018	78,040	4,084	40,503	1,479	3,054	127,160
Additions	–	123	1,990	–	525	2,638
Transfer	–	–	1,276	–	(1,276)	–
Disposals	(33,206)	(137)	(101)	–	–	(33,444)
At 31 December 2018 and 1 January 2019	44,834	4,070	43,668	1,479	2,303	96,354
Additions	–	213	3,041	408	1,484	5,146
Transfer	267	–	2,869	–	(3,136)	–
Disposals	–	(146)	–	(44)	–	(190)
At 31 December 2019	**45,101**	**4,137**	**49,578**	**1,843**	**651**	**101,310**
Accumulated depreciation:						
At 1 January 2018	9,839	2,944	18,020	847	–	31,650
Charge for the year	2,406	324	3,624	274	–	6,628
Disposals	(5,119)	(130)	(95)	–	–	(5,344)
At 31 December 2018 and 1 January 2019	7,126	3,138	21,549	1,121	–	32,934
Charge for the year	2,143	300	3,926	138	–	6,507
Disposals	–	(138)	–	(42)	–	(180)
At 31 December 2019	**9,269**	**3,300**	**25,475**	**1,217**	**–**	**39,261**
Net carrying amount:						
At 31 December 2019	**35,832**	**837**	**24,103**	**626**	**651**	**62,049**
At 31 December 2018	37,708	932	22,119	358	2,303	63,420

As at 31 December 2019 and 2018, the buildings of approximately RMB35,832,000 and RMB37,707,000 were pledged to bank for the Group's bank borrowings, details of which are set out in Note 28 to the consolidated financial statements.

The legal titles of the buildings with aggregate carrying value of RMB28,364,000 as at 1 January 2018, have not been granted by the relevant government authorities and the relevant titles are still under application. In the opinion of the management of the Group, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of the buildings have been transferred to the Group. During the year ended 31 December 2018, the buildings were disposed to a former shareholder of Zhejiang Sunlight (Note 33(a)).

19. RIGHT-OF-USE ASSETS/PREPAID LEASE PAYMENTS

	RMB'000
Cost:	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	**19,550**
Accumulated depreciation/amortisation:	
At 1 January 2018	1,587
Charge for the year	391
At 31 December 2018 and 1 January 2019	1,978
Charge for the year	391
At 31 December 2019	**2,369**
Net carrying amount:	
At 31 December 2019	**17,181**
At 31 December 2018	17,572

Upon application of IFRS 16 on 1 January 2019, the prepaid lease payments were classified as right-of-use assets.

The carrying amount of right-of-use assets/prepaid lease payments of the Group analysed for reporting purposes as:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets	**–**	391
Non-current assets	**17,181**	17,181
	17,181	17,572

The right-of-use assets/prepaid lease payments are land use rights located in the PRC which are under medium lease.

As at 31 December 2019 and 2018, the carrying amount of the right-of-use assets/prepaid lease payments of approximately RMB14,808,000 and RMB15,146,000 were pledged to bank for the Group's bank borrowings, details of which are set out in Note 28 to the consolidated financial statements.

20. INVENTORIES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	**11,010**	8,080
Work in progress	**589**	624
Finished goods	**6,052**	4,258
	17,651	12,962

21. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**59,732**	46,624
Less: allowance for impairment	**(209)**	(345)
	59,523	46,279
Bills receivables	**25,078**	21,253
Total trade and bills receivables – net	**84,601**	67,532

The following is an ageing analysis of trade receivables presented based on the invoice dates:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 30 days	**17,216**	20,829
31 to 90 days	**32,542**	16,710
91 to 180 days	**9,241**	7,264
181 to 365 days	**340**	1,449
Over 1 year	**393**	372
	59,732	46,624

21. TRADE AND BILLS RECEIVABLES *(Continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for the customer. Credit limits attributed to customers and credit term granted to customers are reviewed annually. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables throughout the reporting period.

The Group generally allows an average credit period range from 30 to 120 days to its customers. During the years ended 31 December 2019 and 2018, the Group has applied the simplified approach to providing allowance for ECLs prescribed by IFRS 9, which permits the use of lifetime expected credit loss provision for all trade receivables at each reporting date. To measure the ECLs, the trade receivables have been grouped based on shared credit risk characteristics and the days past due. ECLs are estimated based on historical credit loss experience, adjusted for factors that are specific to the debtors and general economic condition. The assessment on expected credit loss provision set out in Note 6(b) to consolidated financial statements.

As at 31 December 2019 and 2018, all bills received by the Group are with a maturity period of less than 6 months.

Movements on the provision for impairment of trade receivables are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**345**	139
(Reversal)/provision for impairment	**(136)**	206
At the end of the year	**209**	345

As at 31 December 2019 and 2018, the fair values of trade and bills receivables approximate their carrying amounts. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Other receivables	**53**	158
Prepayment to suppliers	**3,999**	2,335
Prepaid land leases – current assets	**–**	391
Prepaid listing expenses	**3,298**	–
	7,350	2,884

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

(a) Cash and cash equivalents

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash at bank and on hand	**14,226**	10,162

Cash at banks deposit earn interest at floating rates based on daily bank deposit rates.

As at 31 December 2019 and 2018, bank balances and cash of the Group denominated in RMB amounted to approximately RMB14,087,000 and RMB10,162,000 respectively. RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. For the Group's cash and cash equivalents denominated in RMB located in Hong Kong are not subject to the foreign exchange control.

(b) Pledged bank deposits

As at 31 December 2019 and 2018, bank deposits of the Group of approximately RMB2,544,000 and RMB1,560,000 are pledged as collateral for issuing bills (Note 24).

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details the cash flows and non-cash changes in the Group's liabilities arising from financing activities. Except as disclosed below, there were no non-cash changes in the Group's liabilities arising from financing activities.

	Bank borrowings RMB'000	Other borrowing RMB'000	Amounts due to shareholders RMB'000	Total RMB'000
At 1 January 2018	10,000	–	–	10,000
Changes from financing cash flows:				
Proceed from bank borrowings	12,000	–	–	12,000
Repayment of bank borrowings	(12,000)	–	–	(12,000)
	–	–	–	–
At 31 December 2018 and 1 January 2019	10,000	–	–	10,000
Changes from financing cash flows:				
Proceed from bank and other borrowings	11,000	10,830	–	21,830
Repayment of bank and other borrowings	(10,000)	–	–	(10,000)
Increase in amounts due to shareholders	–	–	37,378	37,378
	1,000	10,830	37,378	49,208
Other changes:				
Exchange adjustments	–	(103)	–	(103)
Capitalisation of shareholders' loan	–	–	(36,000)	(36,000)
	–	(103)	(36,000)	(36,103)
At 31 December 2019	**11,000**	**10,727**	**1,378**	**23,105**

24. TRADE AND BILLS PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables	**21,911**	18,532
Bills payables	**8,480**	5,200
	30,391	23,732

The average credit period from suppliers is up to 30 to 90 days. The following is an ageing analysis of trade payables presented based on the invoice dates at the end of the reporting period:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 30 days	**13,206**	11,314
31 to 90 days	**8,139**	5,853
91 to 180 days	**217**	503
181 to 365 days	**220**	322
Over 1 year	**129**	540
	21,911	18,532

As at 31 December 2019 and 2018, all bills issued by the Group are with a maturity period of less than 6 months.

25. OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Accrued staff costs	**1,248**	981
Accrued expenses and other payables	**1,800**	1,113
Contract liabilities (note (a))	**156**	125
Payables for acquisition of property, plant and equipment	**631**	959
Other tax payables	**630**	3,868
	4,465	7,046

Note:

(a) Contract liabilities related to sales of faux leather chemicals contracts. All contracts are for periods within one year. Entire amount of the contract liabilities balance at the beginning of the year was recognised as revenue during the years ended 31 December 2019 and 2018.

26. DEFERRED INCOME

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Assets related governments grants	**958**	1,095

Movement of assets related government grants:

	RMB'000
At 1 January 2018	1,232
Credited to profit or loss	(137)
At 31 December 2018 and 1 January 2019	1,095
Credited to profit or loss	(137)
At 31 December 2019	**958**

26. DEFERRED INCOME *(Continued)*

The carrying amount of deferred income of the Group analysed for reporting purposes as:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current portion	**137**	137
Non-current portion	**821**	958
	958	1,095

27. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders were non-trade nature, unsecured, interest-free and repayable on demand. The outstanding balances were waived by shareholders on 10 February 2020.

28. BANK AND OTHER BORROWINGS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Bank borrowings – secured	**11,000**	10,000
Other borrowing – unsecured	**10,727**	–
Total bank and other borrowings	**21,727**	10,000
Less: amounts shown under current liabilities	**(21,727)**	(10,000)
Amounts shown under non-current liabilities	**–**	–

28. BANK AND OTHER BORROWINGS *(Continued)*

According to the repayment schedule, the bank and other borrowings are repayable as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within one year	**21,727**	10,000

As at 31 December 2019 and 2018, bank borrowings of approximately RMB10,000,000 and RMB11,000,000 were denominated in RMB, respectively.

As at 31 December 2019, Other borrowing of approximately RMB10,727,000 was denominated in HKD.

The ranges of effective interest rates (which equal to contracted interest rates) on the Group's borrowings are as follows:

	As at 31 December	
	2019	2018
Fixed rate borrowings	**2.00%-4.79%**	5.13%

Assets of the Group pledged to secure the bank borrowings comprises:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Buildings (Note 18)	**35,832**	37,707
Right-of-use assets/prepaid lease payments (Note 19)	**14,808**	15,146
	50,640	52,853

As at 31 December 2019 and 2018, the Group has unutilised banking facilities and other finance institute facilities amounting to approximately RMB11,820,000 and RMB23,360,000, respectively.

29. DEFERRED TAX ASSETS

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the reporting period are as follows:

	Provision of impairment RMB'000
At 1 January 2018	145
Charge to profit or loss (Note 13)	(55)
At 31 December 2018 and 1 January 2019	90
Charge to profit or loss (Note 13)	(21)
At 31 December 2019	**69**

30. SHARE CAPTIAL

(a) The Group

As at 31 December 2018, the balances represented share capital of Zhejiang Sunlight. As at 31 December 2019, the share capital of the Group represented share capital of the Company.

(b) The Company

Details of movements of share capital of the Company are as follows:

	Number of shares	**Share Capital** RMB'000
Authorised:		
At 29 January 2019 (date of incorporation), ordinary share of US$1 each (note (a))	50,000	335
Share subdivision (note (b))	49,950,000	–
Increasing authorised share capital (note (c))	950,000,000	6,365
At 31 December 2019, ordinary share of US$0.001 each	**1,000,000,000**	**6,700**

30. SHARE CAPITAL *(Continued)*

(b) The Company *(Continued)*

Details of movements of share capital of the Company are as follows: (continued)

	Number of shares	Share Capital RMB'000
Issued and fully paid:		
At 29 January 2019 (date of incorporation), ordinary share of US$1 each (note (a))	50,000	335
Share subdivision (note (b))	49,950,000	–
Issue of shares (note (d))	50,000,000	335
At 31 December 2019, ordinary share of US$0.001 each	**100,000,000**	**670**

Notes:

(a) The Company was incorporated on 29 January 2019 with authorised share capital of US$50,000 divided into 50,000 shares at a par value of US$1 each. On the same day, one share of US$1 was allotted and issued to initial subscriber of the Company, an independent third party. Such one share was then immediately transferred to Sunlight Global, following which 49,999 new shares of US$1 each were issued to Sunlight Global.

(b) On 17 April 2019, each Share then of a par value of US$1.00 was subdivided into 1,000 Shares of a par value of US$0.001 each. Upon completion of the share subdivision, the authorised share capital of the Company was US$50,000 divided into 50,000,000 Shares of a par value of US$0.001 each, all of which had been issued and credited as fully paid.

(c) On 9 May 2019, the authorised share capital of the Company was increased from US$50,000 divided into 50,000,000 Shares of US$0.001 each to US$1,000,000 divided into 1,000,000,000 Shares of US$0.001 each by creation of additional 950,000,000 Shares of US$0.001 each ranking pari passu in all aspects with the existing issued Shares.

(d) On 19 June 2019, the shareholders' loans owed by the Company to Sunlight Global Investment Limited, Lilian Global Investment Limited and Jumping Jive International Limited were capitalised by way of the Company allotting and issuing 50,000,000 Shares, credited as fully paid, to its shareholders.

31. RESERVES

(a) The Group

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

(b) The Company

	Share premium RMB'000	Exchange reserve RMB'000	Accumulated loss RMB'000	Total equity RMB'000
At 29 January 2019 (date of incorporation)	–	–	–	–
Loss for the period	–	–	(11,764)	(11,764)
Other comprehensive loss for the period	–	(103)	–	(103)
Total comprehensive loss for the period	–	(103)	(11,764)	(11,867)
Effect of Reorganisation	35,665	–	–	35,665
At 31 December 2019	**35,665**	**(103)**	**(11,764)**	**23,798**

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2019	Notes	2019 RMB'000
Non-current asset		
Investment in a subsidiary		**36,000**
Current assets		
Prepayments and other receivables		**3,653**
Bank balances and cash		**70**
		3,723
Current liabilities		
Other payables and accruals		**82**
Amounts due to subsidiaries		**4,446**
Bank and other borrowings		**10,727**
		15,255
Net current liabilities		**(11,532)**
Total assets less current liabilities		**24,468**
Net assets		**24,468**
Capital and reserves		
Share capital	30(b)	**670**
Reserves	31(b)	**23,798**
		24,468

33. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transaction balances with its related parties during the years:

Name of related parties	Relationship
Mr. Chen Hua	A director and a controlling shareholder of the Company
Mr. He Zhangcai	A senior management and a shareholder of the Company
Hangzhou Qiyue Investment Management Co., Ltd.* （杭州啟越投資管理有限公司） (formerly known as Deqing Qiyue Investment Management Co., Ltd.*) （前名為：德清啟越投資管理有限公司）	A former shareholder of Zhejiang Sunlight which is beneficially owned as to by Mr. Chen Hua and Mr. He Zhangcai
Sunlight Global Investment Limited	A controlling shareholder of the Company
Jumping Jive International Limited	A shareholder of the Company

* English name is for identification purpose only.

(a) Non-recurring transaction

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Sales of buildings to – Hangzhou Qiyue Investment Management Co., Ltd.	**–**	30,000

(b) Recurring transaction

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Rental expenses to a related party – Hangzhou Qiyue Investment Management Co., Ltd. (note i)	**193**	–

Note:

(i) In 2019, the Group entered into lease agreement and supplement lease agreement with Hangzhou Qiyue Investment Management Co., Ltd. for a term commencing on 1 June 2019 and ending on 30 June 2020 for the lease of the leased premises (collectively, the "**Lease Agreement**"). The rent payable under the Lease Agreement was determined with reference to the prevailing market rent for similar properties at the same development and in neighbouring areas at which the Leased Premises are located and confirmed by the independent professional valuer that the rent payable under the Lease Agreement is fair and reasonable and consistent with the market rent for similar premises in similar locations. The transaction contemplated under the Lease Agreement is fully exempt from shareholders' approval and all disclosure requirements under Chapter 14A of the Listing Rules.

33. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transaction balances with its related parties during the years (continued):

(c) Balance with related parties

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Amounts due to shareholders		
– Sunlight Global Investment Limited	**1,336**	–
– Jumping Jive International Limited	**42**	–
	1,378	–

The amounts due to shareholders were waived on 10 February 2020.

(d) Compensation of key management personnel

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,831**	1,381
Contributions to retirement benefits schemes	**294**	145
	2,125	1,526

34. COMMITMENTS

(a) Operating lease commitment

As at 31 December 2019 and 2018, the Group has no non-cancellable operating lease commitments.

34. COMMITMENTS *(Continued)*

(b) Capital commitment

Capital commitments of the Group as at 31 December 2019 and 2018 not provided for in the consolidated financial statements were as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Contracted but not provided for		
– Purchase of property, plant and equipment	**–**	100

35. NON-CASH TRANSACTIONS

During the year ended 31 December 2018, dividend payables of approximately RMB30,000,000 was settled by the way of offsetting on consideration receivables on sales of buildings to Hangzhou Qiyue Investment Management Co., Ltd..

36. SUBSEQUENT EVENTS

Save as disclosed in the report, subsequent to 31 December 2019, the following events took place:

(a) On 10 February 2020, written resolutions of the shareholders of the Company were passed to approve the followings:

(i) all the issued and unissued shares of the Company with par value of US$0.001 each was subdivided into two shares of US$0.0005 each. Accordingly, following the completion of the subdivision, the authorised share capital became US$1,000,000 divided into 2,000,000,000 Shares of par value of US$0.0005 each, each ranking pari passu with one another in all respects.

(ii) conditional upon the share premium account of the Company being credited as a result of the initial listing of shares of the Company on the Main Board of the Stock Exchange, the directors of the Company were authorised to capitalise an amount of US$550,000 standing to the credit of the share premium account of the Company and applied in paying up in full at par a total of 550,000,000 shares for allotment and issue to the shareholders of the Company.

(iii) the share option scheme of the Company was conditionally adopted on 10 February 2020 and the principal terms of which are set out in Appendix VI to the Prospectus.

36. SUBSEQUENT EVENTS *(Continued)*

Save as disclosed in the report, subsequent to 31 December 2019, the following events took place: (continued)

(b) The Company was successfully listed on the Stock Exchange on 12 March 2020 by way of share offer of 25,000,000 public offer share and 225,000,000 placing shares respectively at the offer price of HK$0.52 per share, the net proceeds were approximately RMB72,388,000 (equivalent to approximately HK$84,693,000). The proceeds were proposed to be used to finance the implementation plan as set forth in the section headed "Future Plans and use of Proceeds" of the Prospectus.

(c) After the outbreak of novel coronavirus (COVID-19) in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and many other countries. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this announcement, the Group was not aware of any material adverse effects as a result of the outbreak of COVID-19.

37. PARTICULARS OF SUBSIDIARIES

Upon completion of the reorganisation, the company becomes the holding company of the companies listed below. As at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of Company	Place and date of incorporation	Registered/paid up capital	Attributable equity interest and voting power held by the Company		Principal activities
			2019	2018	
Direct:					
Darkblue Investment Limited	the BVI, 31 January 2019	US$50,000	**100%**	N/A	Investment holding
Indirect:					
HongKong Gorgeous Investment Limited	Hong Kong, 7 March 2019	HK$10,000	**100%**	N/A	Investment holding
浙江深藍新材料科技有限公司 Zhejiang Sunlight Material Technology Co., Ltd* (formerly known as 浙江深藍輕紡科技有限公司 Zhejiang Sunlight Technology Co., Ltd*)	The PRC, 18 December 2003	RMB36,000,000	**100%**	N/A	Manufacturing and sales of faux leather chemicals

None of the subsidiaries had issued any debt securities at the end of the year.

38. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2020.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the published audited consolidated financial statements and the Prospects is set out below:

RESULTS

	Year ended 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**182,681**	167,307	157,641	151,160
Profit before taxation	**28,976**	35,307	38,486	29,644
Income tax expenses	**(4,852)**	(4,517)	(3,536)	(4,238)
Profit for the year	**24,124**	30,790	34,950	25,406
Total profit and comprehensive income for the year	**24,003**	30,790	34,950	25,406

ASSETS AND LIABILITIES

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**205,671**	175,791	197,447	203,160
Total liabilities	**61,365**	48,623	50,669	91,332
Total equity	**144,306**	127,168	146,778	111,828

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

No consolidated financial statements of the Group for the year ended 31 December 2015 have been published.

The financial information for the years ended 31 December 2016, 2017 and 2018 were extracted from the Prospectus of the Company dated 27 February 2020. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in Note 4 to the consolidated statements.