Form 51-102F1
Annual Management Discussion and Analysis
Pearl River Holdings Limited
For the year ended December 31, 2019

Date – June 15, 2019

The following Management Discussion and Analysis ("MD&A) should be read in conjunction with Pearl River Holdings Limited's Consolidated Financial Statements for the fiscal years ended December 31, 2019 and 2018 (the "Consolidated Financial Statements"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are available on SEDAR at www.sedar.com.

This MD&A relates to the consolidated financial condition and results of operations of Pearl River Holdings Limited ("Pearl", "Pearl River", or the "Company") together with Pearl's subsidiaries in the People's Republic of China ("China") and other jurisdictions. As used herein, the word "Company" means, as the context requires Pearl and its subsidiaries. The common shares of Pearl are listed on the TSX Venture Exchange (the "Exchange") under the symbol PRH. All information in this MD&A is presented in Chinese Renminbi (Yuan), unless otherwise indicated.

This MD&A is dated June 15, 2020 and is current to this date. The MD&A and the Consolidated Financial Statements were authorized for issuance by the Board of Directors on June 15, 2020.

Forward-Looking Statements

This annual management discussion and analysis ("**Annual MD&A**") contains certain forward-looking statements and information relating to Pearl River Holdings Limited ("**Pearl**" or the "**Company**"). All statements, other than statements of historical fact, included herein may be forward-looking information. Generally, forward-looking information may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved.

This forward-looking information reflects the Company's current beliefs and is based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to, the level of activity in the plastics industry and the economy generally, changing foreign exchange rates and actions by government authorities, consumer interest in the Company's products, and future costs and expenses being based on historical costs and expenses, adjusted for inflation. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks and other factors may include, but are not limited to: general business, economic, competitive, political and social uncertainties; fluctuations in raw material costs; competition; lack of insurance; changes in legislation, including environmental legislation, affecting the Company; timing and availability of external financing on acceptable terms; and lack of qualified, skilled labor or loss of key individuals.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

EXECUTIVE OVERVIEW

Corporation Profile and Summary

Pearl River Holdings Limited (the "Company", "Pearl", or "Pearl River") is incorporated under the Canada Business Corporations Act, and through its subsidiaries, which are disclosed in the table below, primarily operates in China and Australia. Its principal business activities are the manufacturing and distribution of plastic products to customers in China, Australia and the United States of America.

Group Structure and Key Corporate Events

The particulars of the subsidiaries, of which all are limited liability companies, as at December 31, 2019 are as follows:

Name of company	**Country of incorporation and operation**	**% of ordinary shares held by the Company**		**Principal activity**
		Direct	Indirect	
Pearl River Plastics Limited ("PRPL")	BVI	100%		Investment holding
Rodman Plastics Company Limited ("RPL")	Hong Kong	-	100%	Investment holding
Rodman Enterprises Limited ("REL")	Hong Kong	-	100%	Trading in plastic products
Guangzhou Rodman Industrial Design Services Co. Ltd. ("GRIDS")	PRC	-	100%	Trading in plastic products
Red Door Enterprises Limited ("RDE")	BVI	-	72.5%	Trading in plastic products
Red Door China Pty Limited ("RDC")	Australia	-	72.5%	Trading in plastic products
Guangzhou Rodman Plastics Limited ("GRPC")	PRC	-	64%	Manufacturing of plastic products
Guangzhou Rodman Plastics Limited Shanghai Branch Company ("SBC")	PRC	-	64%	Trading in plastic products

During fiscal 2019, the Group dissolved Rodman Enterprises Limited USA ("RELUSA") and incorporated a new wholly-owned subsidiary, GRIDS.

Overall Financial Performance

Overall, the revenues increased by approximately 3.15% or RMB8,561,103. The increases were a result of mainly higher export orders for coolers to a new client in USA. The Company was able to maintain profit margins as a result of increased marketing efforts and online sales efforts and better prices set for new products.

The cost of goods sold for this year has decreased by approximately (1.37%) or RMB(2,884,718). The decrease in costs is a result of the following: (1) overall costs of raw material decreased in 2019 as local demand for raw material dropped which was the negative impact of the trade war; (2) production efficiency for the cooler products was improved and labour cost was able to be better managed; (3) procurement of raw material in larger volumes helped to stabilize material costs; (4) the advantage of exchange rate for USD to RMB appreciated in 2019.

Outlook for 2020

It is expected that the Chinese economy will shrink for traditional products but increased domestic cooler sales will keep sales at approximately the same level as in 2019. For the non-cooler side of the business, sales are expected to drop with numerous businesses' either closing down due to the pandemic outbreak or reducing order quantity due to the continuing trade war. Our cooler market continues to expand with new product models for both local and export markets.

SELECTED ANNUAL INFORMATION

	2019 (RMB)	2018 (RMB)
Sales	**280,195,095**	**271,633,992**
Cost of Goods Sold	**207,741,801**	**210,626,519**
Gross Profit	**72,453,294**	**61,007,473**
Gross Profit Percentage	**25.9%**	**22.5%**
Expenses	**63,107,991**	**58,545,156**
Income before Other Items	**9,345,303**	**2,462,317**
Other Items	**118,180**	**3,125,840**
Earnings before Income Taxes	**9,463,483**	**5,588,157**
Earnings Percentage	**3.38%**	**2.06%**
Depreciation for property, plant, equipment	**9,555,484**	**8,704,605**
Depreciation for Right of Use Asset	**4,923,807**	**-**
Interest and Financing Charges	**2,948,083**	**267,640**
EBITDA	**26,890,857**	**14,560,402**
EBITDA as a % of Sales	**9.60%**	**5.36%**
Net Earnings	**9,302,740**	**5,013,178**
Basic Net Earnings per Share	**0.2221**	**0.1219**
Weighted Average number of Outstanding Shares (basic)	**27,309,927**	**27,309,927**
Total Assets	**174,162,864**	**142,071,065**
Total Liabilities	**65,348,230**	**42,718,318**

Reconciliation of EBITDA to Net Earnings:

	2019 (RMB)	2018 (RMB)
Net Earnings	**9,302,740**	**5,013,178**
Interest and Financing Charges	**2,948,083**	**267,640**
Income Taxes	**160,743**	**574,979**
Depreciation	**14,479,291**	**8,704,605**
EBITDA	**26,890,857**	**14,560,402**

Non-IFRS Measures

Earnings before interest, taxes, depreciation, and amortization, ("EBITDA") and EBITDA as a percentage of sales, are not generally accepted measures of financial performance under IFRS. Management utilizes these financial performance measures to assess profitability and return on equity in its decision making. In addition, the Company and its lenders and investors use EBITDA to measure performance and value for various purposes. Investors are cautioned, however, that EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating these financial performance measures may differ from other companies and, accordingly, they may not be comparable to measures used by other companies.

FISCAL 2019 RESULTS OF OPERATIONS

Year Ended December 31, 2019 as compared to the Year Ended December 31, 2018

Sales

Sales for the year ended December 31, 2019 increased 3.15% or RMB8,561,103 to RMB280,195,095 from sales of RMB271,633,992 in 2018. The increases were a result of higher export orders for coolers and higher production volumes of plastic products.

Gross Profit

Gross profit during the fiscal year increased by RMB11,445,821 to RMB72,453,294 from RMB61,007,473 in the prior year. Gross profit as a percentage of sales of 25.9% increased during the year with the gross profit as a percentage of sales in the prior year of 22.5%.

General and administrative

General and administrative expenses are mainly comprised of salaries and wages (31.1%), rent (11.7%) and royalty (2.2%). Expenses have increased by 5.6%, or RMB2,443,213 during the year due to an increase in depreciation, rent and R&D expenses for the new cooler products and legal and professional fee for the group restructuring.

Selling

Selling expenses are mainly comprised of freight (48.0%) and direct delivery team wages (15.6%) and export declaration expenses (15.2%). Expenses have decreased by 3.7%, or by RMB560,821. Selling costs as a % of sales has decreased from 5.5% in 2018 to 5.1% in 2019. The decrease is mainly due to the reduced sales team wages and commission as well as marketing and advertising costs.

Financial

Financial expenses are comprised of interest and financing charges which have increased by RMB2,680,443 to RMB2,948,083 from RMB267,640 incurred in the prior year. The expense increased mainly due to the new IFRS 16 implementations in 2019 which required the interest on lease liability amount of RMB2,604,857 to be included.

Income Tax Expense

Taxation mainly represents the PRC income tax of GRPC and SBC provided for the year and the withholding tax of dividend received from GRPC by REL. The decrease was due to higher tax-free allowance from the PRC government granted to the PRC operations of the Group.

Net Earnings and Earnings per Share

Net income in 2019 was RMB9,302,740 or 3.3% of sales compared to the prior year's net income of RMB5,013,178 or 1.8%. Net income per share was RMB0.2221 in fiscal 2019 versus RMB0.1219 in fiscal 2018.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarters Ended 2019			
	December 31 (unaudited)	**September 30** (unaudited)	**June 30** (unaudited)	**March 31** (unaudited)
	(RMB)	**(RMB)**	**(RMB)**	**(RMB)**
Revenue	**79,530,288**	**75,879,866**	**63,934,356**	**60,850,585**
Net Earnings (loss) attributable to Common shareholders	**3,701,804**	**2,010,454**	**593,356**	**(239,531)**
Net Earnings (loss) per share	**0.1356**	**0.0736**	**0.0217**	**(0.0088)**

	Quarters Ended 2018			
	December 31 (unaudited)	**September 30** (unaudited)	**June 30** (unaudited)	**March 31** (unaudited)
	(RMB)	**(RMB)**	**(RMB)**	**(RMB)**
Revenue	**68,282,439**	**71,136,131**	**68,754,878**	**63,460,544**
Net Earnings (loss) attributable to Common shareholders	**(330,068)**	**4,814,753**	**(1,118,810)**	**(37,435)**
Net Earnings (loss) per Share	**(0.0120)**	**0.1763**	**(0.0410)**	**(0.0014)**

Liquidity and Capital Resources

We monitor liquidity on our total holdings in cash and cash equivalents as well as our working capital ratio, which were as follows:

	2019 (RMB)	2018 (RMB)
Cash and cash equivalents	**37,397,836**	23,186,632
Working capital:		
Current assets	**121,225,604**	108,167,970
Current liabilities	**40,145,094**	38,106,279
	81,080,510	70,061,691
Working capital ratio	**3.02**	2.84
Total liabilities	**65,348,230**	42,718,318
Total equity	**108,814,634**	99,352,747
Debt-to-equity	**.60**	.43

Total liquid assets at December 31, 2019 are up in comparison to December 31, 2018 largely due to timing of payments to suppliers in December and cash receipts from customers. Overall working capital is consistent with prior year. Debt-to-equity ratio at December 31, 2019 is higher than the ratio at December 31, 2018.

The Corporation's primary capital management objective is to maintain a strong balance sheet through the optimization of the debt and equity balance affording the Corporation financial flexibility to achieve goals of continued growth and access to capital. The capital structure of the Company consists of shareholders' equity comprised of share capital and deficit.

The basis for the Corporation's capital structure is dependent on the Corporation's expected business growth and changes in the business environment. The Corporation manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objective stated above. To manage the capital structure, The Corporation may adjust capital spending, issue new shares, issue new debt, or repay existing debt.

The Corporation is not exposed to externally imposed capital requirements.

Cash Flow:

Year ended December 31,	**2019 (RMB)**	2018 (RMB)
Cash flows from operating activities	**30,278,103**	12,468,287
Cash flows from (used by) financing activities	**(7,593,915)**	1,208,000
Cash flows used by investing activities	**(5,873,488)**	(3,654,320)

The Company's cash flow from operations has increased from the prior year. The increase is due to a combination of a net decrease of receivables and other receivables, an increase in accounts payable and bank indebtedness less the increase of inventory.

Capital Spending

Overall capital spending for the years ended December 31, 2019 and 2018 is summarized below:

	2019 (RMB)	2018 (RMB)
Capital Expenditures	**5,873,488**	3,654,320

Long Term Liabilities

Pearl has substantial cash reserves and as such currently has no need for long term bank credit facilities. Pearl had cash of RMB37,397,836 at December 31, 2019, an increase of RMB14,211,204 from RMB23,186,632 at December 31, 2018.

The long-term liabilities at December 31, 2019 were RMB25,203,136, an increase of RMB20,591,097 from RMB4,612,039 at December 31, 2018. This was due to the change in reporting requirements for the adopted IFRS16 in 2019.

Management believes that Pearl's anticipated cash flow from operations is sufficient to meet its working capital, capital spending and debt service requirements for fiscal 2020.

Capital Structure

Summary of securities as at December 31, 2019 and December 31, 2018:

a) Authorized:

Unlimited number of common shares without nominal or par value
Unlimited number of first preferred shares, issuable in series
Unlimited number of second preferred shares, issuable in series

b) Issued:

	2019		2018	
	Number of common shares	**Amount (RMB)**	Number of common shares	Amount (RMB)
Balance, beginning and end of year	**27,309,927**	**52,242,949**	27,309,927	52,242,949

c) Stock option plan:

Under the Corporation's stock option plan, the aggregate number of common shares that may be reserved for issuance pursuant to options shall not exceed 10% of the outstanding common shares at the time of the granting of an option, less the aggregate number of common shares then reserved for issuance pursuant to any other share compensation arrangement. The exercise price per common share for option granted shall not be less than the market price. Every option shall have a term not exceeding and shall expire no later than five years after the date of grant. The options granted under this plan may not be assigned or transferred. The Board of Directors shall determine the manner in which an option shall vest and become exercisable.

As at December 31, 2019, there are 3,550,000 (2018 – 2,730,000) stock options outstanding and exercisable at a weighted average price of RMB1.74 (CAD - $0.33) per share and have a weighted average life remaining of 3.34 years.

On December 16th, 2019, the Company granted 1,320,000 stock options which vested immediately and are exercisable into one common share in exchange for CAD $0.285 per share for a period of five years. The options were valued using the Black Scholes option pricing model with the following inputs: volatility – 121.85%, risk-free interest rate – 1.70%, expected life – five years; and dividend yield – 0%. The Company recognized RMB1,579,600 (2018 – RMB nil) in share-based compensation during the year ended December 31, 2019.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements.

Transaction with Related Parties

Transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. During the year end in the ordinary course of business, the Group had the following material transactions with Guangzhou Plastics Industrial Joint Stock Company Limited, the non-controlling interest of GPRC:

	2019 (RMB)	2018 (RMB)
Purchase of raw materials	**33,239,682**	33,232,472
Royalty expenses	**183,962**	135,849

In 2018, included in trade payables and accruals was RMB1,777,075 payable to Guangzhou Plastics Industrial Joint Stock Company Limited, the non-controlling interest of GPRC. The balance is unsecured, interest free and has no fixed repayment terms. No such balance included in trade payables and accruals in 2019.

The amount due from ultimate holding company is unsecured, interest-free and repayable on demand.

b. During the year, the Corporation had the following other transactions included in general and administrative expenses with related parties:

	2019 (RMB)	2018 (RMB)
Administrative fees incurred with a Corporation controlled by a director of the Corporation	**588,044**	409,384

Included in accounts payable and accrued liabilities in respect to administrative fees incurred is RMB348,070 at December 31, 2019 (2018 – RMB78,070).

d. The remuneration of directors and other members of key management during the year was as follows:

	2019 RMB	2018 RMB
Salaries and benefits	**2,600,823**	3,163,689
Share-based compensation	**1,579,600**	-
	4,180,423	3,163,689

Proposed Transactions

The Company has no proposed transactions at December 31, 2019

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors 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 associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

In the process of applying the Group's accounting policies, management has made the following judgments apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognized in the financial statements.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or de-recognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of the Corporation's and the Group's assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment. Management will increase the depreciation charges where useful lives are less than previously estimated. It will impair technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realizable value of inventories. The assessment of the provision required involves management judgment and estimates. Where the actual outcome or future expectation is different from the original estimate, such differences will impact the carrying value of inventories and provision charged/reversed in the period in which the estimate has been changed.

Estimating the incremental borrowing rate — the Group as lessee

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") of the relevant lessee to measure lease liabilities. The IBR is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the lessee would have to pay, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs such as market interest rates when available.

To determine the IBR, the Group:

- Where possible, use recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and

- Makes adjustments specific to the lease, e.g. term, country, currency and security.

Impairment of trade receivables

The provision rate of trade receivables is made based on assessment of their recoverability and ageing analysis of trade receivables as well as other quantitative and qualitative information and on management's judgement and assessment of the forward-looking information. At the end of reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast of economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 26(a) of the consolidated financial statements.

NEW ACCOUNTING STANDARDS AND AMENDMENTS

New Standards and Amendments adopted during 2019:

A. IFRS 16 – Leases

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases ("IAS 17"). From a lessee's perspective, almost all leases are recognized in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17.

The Group has applied IFRS 16 using the cumulative effect approach and recognized the right-of-use assets as at 1 January 2019 at the amount equal to the lease liabilities as at 1 January 2019, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following table summarized the impact of transition to IFRS 16 on consolidated statement of financial position as at 31 December 2018 to that as at 1 January 2019 (increase/(decrease)):

	RMB
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets	28,589,127
Increase in total assets	28,589,127
Current lease liabilities	3,595,889
Non-current lease liabilities	24,993,238
Increase in total liabilities	28,589,127

The following reconciliation explains how the operating lease commitments disclosed under IAS 17 as at 31 December 2018 could be reconciled to the lease liabilities recognized in the consolidated statement of financial position as at 1 January 2019:

	RMB
Operating lease commitments disclosed as at 31 December 2018	42,755,711
Less: short term leases for which lease terms end within 31 December 2019	(531,107)
Less: total future interest expenses	(13,635,477)
Lease liabilities recognized as at 1 January 2019	28,589,127

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position as at 1 January 2019 is 10.56%.

The analysis of the net book value of the Group's right-of-use assets by class of underlying assets at the end of the year and at the date of adoption of IFRS 16 is as follows:

	1 January 2019 RMB
Properties leased for own use, carried at depreciated cost	28,589,127

The remaining contractual maturities of the Group's lease liabilities at the end of the year and at the date of adoption of IFRS 16 are as follows:

	31 December 2019		1 January 2019	
	Present value of the minimum lease payments RMB	Total minimum lease payments RMB	Present value of the minimum lease payments RMB	Total minimum lease payments RMB
Not later than 1 year	3,688,008	6,230,620	3,595,889	6,635,306
Later than 1 year and not later than 2 years	3,713,754	5,886,710	3,613,035	6,138,328
Later than 2 years and not later than 5 years	13,462,073	17,350,194	11,857,711	18,358,279
Later than 5 years	4,561,375	4,802,082	9,522,492	11,092,691
	25,425,210	34,269,606	28,589,127	42,224,604
Less: total future interest expenses		(8,844,396)		(13,635,477)
Present value of lease liabilities		25,425,210		28,589,127

Impact on the financial results and cash flows of the Group

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

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalized leases into their capital element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The new definition of a lease

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for each lease component and any associated non-lease components as a single lease component for all leases.

Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognize the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognized in the statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of whether they are operating leases or finance leases) are required to be capitalized in the statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalize (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognize right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on a straight-line basis over the lease terms.

The Group recognized a right-of-use asset and a lease liability at the date of adoption of IFRS 16, i.e. 1 January 2019.

Right-of-use asset

The right-of-use asset should be recognized at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Under the cost model, the Group measures the right-to-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability should be recognized at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognized the right-of-use assets as at 1 January 2019 at the amount equal to the lease liabilities as at 1 January 2019, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognized the lease liabilities at 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognize all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under IAS 17 at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as at that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics and (ii) applied the exemption of not to recognize right-of-use assets and lease liabilities for leases with term that will end within 12 months from the date of initial application (1 January 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.

Future Standards and Amendments not yet adopted:

(a) New/revised IFRSs that have been issued but not yet effective

The following new or revised IFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on 1 January 2020 when they first become effective.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business

<u>Amendments to IFRS 3 Definition of a business</u>

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

<u>Amendments to IAS 1 and IAS 8 Definition of material</u>

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the ICPA amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

<u>Financial Instruments and Other Instruments</u>

CAPITAL AND FINANCIAL RISK MANAGEMENT

The Group's objective of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of equity attributable to equity holders of the Company only, comprising share capital and reserves.

The main risks arising from the Group's financial instruments in the normal course of the Group's businesses are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

a) Credit risk

The Group's credit risk is primarily attributable to cash, and trade and other receivables and amount due from ultimate holding company. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

The carrying amounts of cash and cash equivalents and trade and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problems.

For trade and other receivables, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Most of these balances are due from major customers with good repayment history. There has been no material credit defaults in the past.

Trade receivables

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates no significantly different loss patterns by customer segments, the grouping for trade receivables for the assessment of ECLs is by past due days, except one customer that was assessed as being credit-impaired and at risk of default.

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Expected credit losses for trade and other receivables are detailed in the respective notes to these consolidated financial statements.

Prior to January 1, 2018, an impairment loss was recognized only when there were indications that the debtors or a group of debtors were experiencing significant financial difficulty, default or delinquency in payments.

At the end of the reporting period, the Group has a concentration of credit risk as 30% (2018: 29%) of trade receivables which was due from one customer (2018 : one customer) .

b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows including interest payments computed using contractual rates and the earliest date the Group is required to settle the obligations.

All values are in RMB

The Group	Carrying amount RMB	Total contractual undiscounted cash flows RMB	On demand RMB	Within 1 year RMB	Over 1 year but within 2 years RMB	More than 2 years RMB
2019						
Trade payables and accruals	27,604,594	27,604,594	-	27,604,594	-	-
Bank borrowings	8,050,000	8,339,456	-	8,339,456	-	-
Lease liabilities	25,425,210	34,269,606	-	6,230,620	5,886,710	22,152,276
Deferred liabilities	3,188,213	3,188,213	3,188,213	-	-	-
	64,268,014	73,451,869	3,188,213	42,224,670	5,886,710	22,152,276

The Group	Carrying amount RMB	Total contractual undiscounted cash flows RMB	On demand RMB	Within 1 year RMB
2018				
Trade payables and accruals	29,260,243	29,260,243	-	29,260,243
Bank borrowings	8,000,000	8,270,626	-	8,270,626
Deferred liabilities	4,365,040	4,365,040	4,365,040	-
	41,625,283	41,895,909	4,365,040	37,530,869

c) Interest rate risk

The Group's interest rate risk mainly arises from bank borrowings as disclosed in Note 16. Bank borrowings were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates.

d) Currency risk

The Group is exposed to currency risk primarily through transactions that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily United States dollar.

The operations and customers of the Company's subsidiaries are located in the PRC with most of the operating assets and transactions denominated and settled in RMB, which is the functional currency of the respective subsidiaries. RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

At December 31, 2019, the Group had trade receivables of US$4,640,615 (2018: US$2,866,456) denominated in United States dollar. It is estimated that profit of the Group will increase/decrease by RMB1,820,409 (2018: RMB985,709) where the United States dollar strengthens/weakens against Renminbi by 5% (2018: 5%).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the company entities; exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting period. The analysis is performed on the same basis for 2018.

Other than the above, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(e) **Price risk**

The Group is not exposed to any equity securities risk or commodity price risk

(f) **Fair values**

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2019 and 2018.

SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognized at December 31, 2019 and 2018 are categorized as follows:

	2019 (RMB)	2018 (RMB)
Financial assets		
Financial assets measured at amortized cost (including cash and cash equivalents)	**84,900,387**	61,095,069
Financial liabilities		
Financial liabilities measured at amortized cost	**61,871,239**	39,957,791

Risks and Uncertainties

Pearl operates in the Chinese market which involves various known and unknown risk factors and uncertainties and other factors affecting Pearl specifically or the markets generally. Pearl's future performance could be affected by these important factors which in some cases have affected, and which in the future could affect, Pearl's actual results. Pearl's actual results for 2019 and beyond could differ materially from those expressed in any forward looking statements made by or on behalf of Pearl. These risks and uncertainties include fluctuations in the level of local demand and capital, changes in Pearl's product costs and pricing, an inability to achieve or delays in achieving sayings related to the cost reductions, consolidation and restructuring program, changes in Pearl's product mix, the growth rate of the markets in which Pearl products are sold, market acceptance and demand for Pearl's products, changes in availability or prices for raw materials, pricing competition, difficulty in developing and introducing new products, failure to penetrate new markets effectively, limitations on foreign investment in local business and other political, economic and regulatory risks, difficulty in preserving proprietary technology, changes in environmental regulation and currency risk exposure. Certain of these risks and uncertainties are described in more detail below.

The price and availability of raw materials represents a substantial portion of the cost of manufacturing products. Historically, there have been fluctuations in these raw materials' prices and in some instances price movements have been volatile and affected by circumstances beyond Pearl's control. There can be no assurance that Pearl can pass on increase from normal market fluctuations in the price of resin to its customers through increases in selling price, or otherwise absorb such cost increases without significantly affecting its margins. In addition, the industry has occasionally found certain raw materials to be in short supply.

The Assessment of the Impact of COVID-19

Subsequent to year end, there was a global outbreak of a novel coronavirus identified as "COVID-19". On March 11, 2020, the World Health Organization declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets.

Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions.

The outbreak of COVID-19 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's business and operations. The Group experienced delays in re-opening their factories after the Chinese New Year due to government-imposed inspections and regulations; however, manufacturing operations in China have resumed to normal levels. As of the date these financial statements were approved, COVID-19 has not had a material impact on the Group's financial position or operating results.

Depending on the future development and spread of COVID-19, further changes in the economic environments in which the Group operates may impact the financial condition and operating results of the Group, the extent of which cannot be reliably estimated at the date these financial statements were approved.