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SHENGLONG
盛 龙

SHENGLONG SPLENDECOR INTERNATIONAL LIMITED

盛龍錦秀國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8481)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The board (the “**Board**”) of directors (the “**Directors**”) of Shenglong Splendecor International Limited (the “**Company**” and its subsidiaries, collectively the “**Group**”) is pleased to announce the audited condensed consolidated results of the Group for the year ended 31 December 2018. This announcement, containing the full text of the 2018 annual report of the Company, complies with the relevant requirements of The Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (“**GEM Listing Rules**”) in relation to information to accompany preliminary announcement of annual results. Printed version of the Company’s 2018 annual report will be delivered to the shareholders of the Company and available for viewing on the websites of GEM at www.hkgem.com and of the Company at www.splendecor.com on or before 29 March 2019.

By Order of the Board

Shenglong Splendecor International Limited

Sheng Yingming

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 21 March 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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This report, for which the directors (the “Directors”) of Shenglong Splendecor International Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Sheng Yingming
Ms. Sheng Sainan
Mr. Fang Xu
Mr. Yu Zemin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tso Ping Cheong Brian
Mr. Ma Lingfei
Ms. Huang Yueyuan

AUTHORISED REPRESENTATIVES

Mr. Sheng Yingming
Mr. Tam Chun Wai Edwin

COMPANY SECRETARY

Mr. Tam Chun Wai Edwin *CPA Practising*

COMPLIANCE OFFICER

Mr. Yu Zemin

AUDIT COMMITTEE

Mr. Tso Ping Cheong Brian (*Chairman*)
Mr. Ma Lingfei
Ms. Huang Yueyuan

REMUNERATION COMMITTEE

Ms. Huang Yueyuan (*Chairman*)
Mr. Ma Lingfei
Mr. Tso Ping Cheong Brian

NOMINATION COMMITTEE

Mr. Ma Lingfei (*Chairman*)
Mr. Tso Ping Cheong Brian
Ms. Huang Yueyuan

LEGAL ADVISER AS TO HONG KONG LAWS

Dennis Fong & Co.
in association with Llinks Law Offices

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISER

Messis Capital Limited

PRINCIPAL BANKERS

China Construction Bank Corporation
Shanghai Pudong Development Bank Corporation

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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FINANCIAL HIGHLIGHTS

	Notes	2018	2017	Changes
Results				
Revenue (RMB'000)		349,411	320,069	9.2%
Profit before income tax (RMB'000)		15,001	8,204	82.8%
Profit attributable to owners of the Company (RMB'000)		13,733	7,004	96.1%
Earnings per share (Basic and diluted) (RMB cents)		2.75	1.62	1.13%
Financial Position				
Non-current assets (RMB'000)		234,910	213,680	9.9%
Current assets (RMB'000)		188,959	192,443	-1.8%
Non-current liabilities (RMB'000)		3,418	3,516	-2.8%
Current liabilities (RMB'000)		247,915	242,828	2.1%
Total equity (RMB'000)		172,536	159,779	8.0%
Key financial ratios				
Gross profit margin	1	20.2%	22.6%	-2.4%
Net profit margin	2	3.9%	2.2%	1.7%
Interest coverage	3	7.04 times	5.03 times	40.0%
Gearing ratio	4	0.64	0.64	–
Inventory turnover days	5	57.4 days	59.9 days	-2.5 days
Trade receivables turnover days	6	90.7 days	78.6 days	12.1 days
Trade payables turnover days	7	71.3 days	77.2 days	-5.9 days

Notes:

- (1) Gross profit margin is calculated by the gross profit divided by the revenue and multiplied by 100.0%.
- (2) Net profit margin is calculated by the net profit attributable to owner of the Company divided by the revenue and multiplied by 100.0%.
- (3) Interest coverage is calculated by the profit before interest and tax divided by the finance costs (interest).
- (4) Gearing ratio is calculated based on the interest-bearing liabilities divided by the total equity.
- (5) Inventory turnover days are calculated as the average of the beginning and ending balance of inventories divided by cost of sales and multiplied by the number of days in the year.
- (6) Trade receivables turnover days are calculated as the average of the beginning and ending trade receivables balance divided by revenue and multiplied by the number of days in the year.
- (7) Trade payables turnover days are calculated as the average of the beginning and ending trade payables balance divided by cost of sales and multiplied by the number of days in the year.

CHAIRMAN'S STATEMENT

To Our Shareholders,

On behalf of the board of Directors of the Company (the "Board"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Year").

FINANCIAL PERFORMANCE

The Group's performance in 2018 has been delivered with great support from the external environment, while the global economy began to lose some steam as the year progressed, mainly due to the continued trade tensions between the United States and China, which have significantly impacted market confidence. Notwithstanding to the uncertainties throughout the global economy in the year of 2018, the Group maintained a steady growth during the year ended 31 December 2018 with revenue increased from approximately RMB320.1 million for the year ended December 2017 ("FY2017") to approximately RMB349.4 million for the year ended 31 December 2018 ("FY2018"), increased by approximately RMB29.3 million or 9.2%. Meanwhile, the net profit of the Group for the FY2018 amounted to approximately RMB13.7 million against a profit of approximately RMB16.2 million (excluding listing expenses of approximately RMB9.2 million) for the FY2017. The increase in the Group's revenue was mainly driven by the growth of sales from the PRC market and partially offset by the decrease in sales from Pakistan market. On the contrary, we experienced an increase in purchase costs of our key raw materials, in particular the base paper and PVC mould. As a result of increase in purchase costs of the raw materials, the Group's gross profit margin decreased during the FY2018.

OUTLOOK

While uncertainties, mostly linked to geopolitical and political factors, have increased and global growth has moderated and become less balanced, the global economy is still expected to advance at a reasonably strong rate. The worldwide decorative paper industry has experienced substantial growth over the past years. Such growth was led by the rapid expansion of property market worldwide which created demand for decorative paper for application on the manufacturing of furniture and flooring and is expected to continue to grow.

In addition, many countries have tightened up government policies on the restriction of lumbering, which in turn led to the limited supply of real wood and has facilitated the expansion of decorative paper products as a substitute material. It is expected that the global demand for decorative paper will be increased further, especially, as PRC, Southeast Asia and South Asia are gradually increasing their share in the worldwide decorative paper market, construction and decoration markets in developing countries will also be opened up gradually. Coupled with the implementation of "The Belt and Road Initiative" which will give a huge impetus for infrastructure development within coverage countries of the initiative, construction and decoration sectors in these countries will also be growing. We are confident to maintain our current market position by improving our production technologies and expanding into new markets, in particular, the overseas markets, by expanding our sales and marketing network, with a view to further improve the financial returns for our shareholders.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to thank the shareholders for their continued support and to extend my thanks to every management and staff at all levels for their contributions and efforts over the year. I would also like to express our sincere appreciation to all my fellow directors for their incisive contributions as we continue our efforts on positioning the Group and we look forward to the years ahead.

Sheng Yingming

Chairman and Chief Executive Officer

Hong Kong, 21 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and sales of decorative printing materials products which mainly comprise of (i) decorative paper; (ii) melamine impregnated paper; (iii) finish foil paper; (iv) PVC furniture film; and (v) PVC flooring film. The Group served over 500 customers in both domestic and overseas markets for the Year. The overseas sales reached over 30 countries in Asia, North America, South America, Europe, Oceania and Africa.

FINANCIAL REVIEW

Revenue

Revenues increased by approximately 9.2% to approximately RMB349.4 million (2017: RMB320.1 million) for the Year on a year-on-year basis. The increase in the Group's revenue was mainly driven by the growth of sales from the PRC market and partially offset by the decrease in sales from Pakistan market. The following table sets forth the revenues by products:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Decorative paper	161,597	46.2	173,817	54.3
Melamine impregnated paper	123,787	35.4	94,424	29.5
Finish foil paper	17,348	5.0	19,354	6.1
PVC furniture film	10,817	3.1	8,588	2.7
PVC flooring film	33,791	9.7	23,151	7.2
Others ^(Note)	2,071	0.6	735	0.2
	349,411	100.0	320,069	100.0

Note: Others mainly include laminated board and plate rollers.

Revenues from sales of melamine impregnated paper increased by approximately 31.1% to approximately RMB123.8 million for the Year on a year-to-year basis. The increase was driven by the increase in cooperation with certain sizable PRC-based furniture manufacturers and their continued strong demand. PVC furniture film and PVC flooring film continued to record rapid growth during the Year. The sales from these products increased by approximately 26.0% and 46.0%, respectively, on a year-to-year basis. As a result of the decrease in sales in Pakistan market, the sales of decorative paper decreased by 7.0% on a year-to-year basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Cost of sales increased by approximately 12.6% to approximately RMB278.9 million (2017: RMB247.7 million) for the Year on a year-on-year basis was mainly due to the increase in purchase costs of our key raw materials, in particular the base paper and PVC mould.

Gross profit and gross profit margin

As a result of the increase in purchase costs of the raw materials, the Group's gross profit margin during the Year dropped to approximately 20.2% (2017: 22.6%).

Selling expenses

The selling expenses increased by approximately 11.6% to approximately RMB22.2 million (2017: RMB19.9 million) for the Year on a year-on-year basis. The increase was primarily due to the payment of licensing fee to one of its customers for using the customer's registered trademarks.

Administrative expenses

The administrative expenses decreased from approximately RMB44.7 million for the year ended 31 December 2017 to approximately RMB32.8 million for the Year. The decrease was mainly attributable to (i) the decrease in one-off listing expenses of approximately RMB9.2 million and (ii) the decrease in travelling expenses and entertainment expenses.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets increased by approximately RMB0.9 million, from approximately RMB0.4 million for the year ended 31 December 2017 to approximately RMB1.3 million for the Year, mainly arising from the expected credit loss of trade and other receivables at amortised cost. The expected credit loss were derived with reference to the payment profiles of the sales record and the corresponding historical credit losses experienced within the period. The historical loss rates were then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Other income and other gains – net

The Group's other income and other gains – net increase by approximately RMB0.5 million, to approximately RMB3.6 million for the Year from approximately RMB3.1 million for the year ended 31 December 2017. The increase was mainly due to the gain in foreign exchange difference as a result of the depreciation of RMB against US Dollars and partially offset by the decrease in government grants income during the Year.

Finance expenses – net

The finance expenses – net increased by approximately 20.8% to approximately RMB2.9 million (2017: RMB2.4 million) for the Year on a year-on-year basis. This was primarily due to the decrease in capitalisation rate of borrowings during the Year, resulted in the increase in interest expenses recorded.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expenses

The income tax expenses increased from approximately RMB1.2 million for the year ended 31 December 2017 to approximately RMB1.3 million for the Year. The increase in income tax expenses was in a lesser extent than the increase in profit before income tax during the Year primarily due to (i) the increased additional deductible allowance for research and development expenses for the Year; and (ii) the non-deductible listing expenses incurred during the year ended 31 December 2017.

Profit attributable to owners of the Company

The profit attributable to owners of the Company for the Year amounted to approximately RMB13.7 million (2017: RMB7.0 million), representing an increase of approximately 95.7% on a year-on-year basis. By excluding the listing expenses, the Group's net profit for the year ended 31 December 2017 would have been approximately RMB16.2 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had current assets of approximately RMB189.0 million (2017: RMB192.4 million) which comprised of cash and cash equivalents of approximately RMB16.9 million as at 31 December 2018 (2017: RMB14.7 million). The Group had current liabilities amounting to approximately RMB247.9 million as at 31 December 2018 (2017: RMB242.8 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 0.76 times as at 31 December 2018 (2017: 0.79 times).

Notwithstanding the Group's current liabilities exceeded its current assets by approximately RMB59.0 million (2017: approximately RMB50.4 million) as at 31 December 2018, after taking into account the continuous availability of bank facilities, the successful renewal of bank facilities upon expiry, and other measures as mentioned in note 2.1.1 to these financial statements, the Directors are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2018.

As at 31 December 2018, total bank borrowings of the Group amounted to approximately RMB110.8 million (2017: RMB102.1 million), representing an increase of approximately 8.5% as compared to that of 31 December 2017. Accordingly, the gearing ratio of the Group, calculated as based on the interest-bearing liabilities divided by the total equity, was approximately 0.64 (2017: 0.64).

FINANCIAL RATIOS

The Group took stringent control over the stock level. During the Year, the inventory turnover days of the Group decreased to approximately 57.4 days (2017: 59.9 days). Due to the increase in sales of the Group, the Group's inventories increased by approximately 0.7% to approximately RMB44.0 million as at 31 December 2018 from approximately RMB43.7 million as at 31 December 2017.

Trade receivables turnover days of the Group during the Year increased to approximately 90.7 days (2017: 78.6 days), which was attributable to a longer credit period granted to some of the strategic customers to enhance relationship with them. Trade receivables as at 31 December 2018 decreased by approximately RMB1.7 million to approximately RMB86.0 million (31 December 2017: RMB87.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Trade payables turnover days of the Group for the year decreased to approximately 71.3 days (2017: 77.2 days). The trade payables of the Group decreased to approximately RMB48.7 million as at 31 December 2018 (31 December 2017: RMB60.3 million). The Group would continue to maintain solid relationships with its suppliers.

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the PRC, but a significant portion of its sales is made to foreign countries, and thus the Group is exposed to foreign currency risks arising from various currency exposures, mainly with respect to US Dollars, Euro and Hong Kong dollars. The Group regularly and closely monitors the level of the foreign exchange risk exposures and will make necessary hedging arrangements to minimise its foreign currency exposure arising from the change in foreign exchange in the future.

As a result of depreciation of RMB, the Group recorded a net foreign exchange gain of approximately RMB1.6 million during the Year, compared to a net foreign exchange loss of approximately RMB1.8 million for the year ended 31 December 2017.

During the Year, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign currency risk.

INFORMATION ON EMPLOYEES

As at 31 December 2018, the Group had 316 employees (2017: 324 employees), including the executive Directors. The Group recorded staff costs (including Directors' remuneration) of approximately RMB38.3 million (2017: RMB39.5 million). Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. The Group also operates a defined contributions to Mandatory Provident Fund scheme for its employees in Hong Kong and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC.

MATERIAL ACQUISITIONS OR DISPOSALS

There was no material acquisitions or disposals of the Group during the Year.

CHARGES OF ASSETS

As at 31 December 2018, the Group's bank borrowings are secured by its assets as below:

Land use rights with a total net book value of approximately RMB42.2 million (2017: RMB43.3 million) were pledged as collateral for the Group's borrowings.

Property, plant and equipment with a total net book value of approximately RMB73.6 million (2017: RMB14.2 million) were pledged as collateral for the Group's borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENT

As at 31 December 2018, the capital commitments which the Group had contracted for but were not provided for in the financial information in respect of the acquisition of property, plant and equipment amounted to approximately RMB6.1 million (2017: RMB12.0 million).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2017 and 2018.

USE OF PROCEEDS

The Company was listed on the Stock Exchange on 17 July 2017 and the net proceeds were approximately RMB44.6 million. The Company intends to apply (i) approximately 71.8% or RMB32.0 million for enhancing production capacity; (ii) approximately 19.2% or RMB8.6 million for repaying the bank loans; and (iii) the balance of approximately 9.0% or RMB4.0 million for using as general working capital of the Group.

Up to the date of this report, the Group had utilised (i) approximately RMB23.5 million for enhancing production capacity; (ii) approximately RMB8.6 million for repaying the bank loans; and (iii) approximately RMB4.0 million as general working capital of the Group.

The Directors will constantly evaluate the Group's business objectives and change or modify their plans against the changing market condition to ascertain the business growth of the Group.

RISK FACTORS FACED BY THE GROUP

The Group's key risk exposures are summarised as follows:

- (i) The Group's business, financial condition and results of operation may be affected by the decrease or loss of overseas markets.
- (ii) The Group relies on sales agents for reaching new customers and liaising with existing customers. The failure to effectively manage the sales agents and maintaining a good relationship with them may materially and adversely affect the Group's revenue and brand recognition.
- (iii) Fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact the Group's operations and may affect the profitability.
- (iv) The Group do not enter into long-term supply contracts with our suppliers and the production cost and schedule may be adversely affected if the Group fails to secure supply.
- (v) If the Group is unable to maintain existing level of utilisation rates at the production facilities, the Group's margin and profitability may be materially and adversely affected.

Further details of the principal risks and uncertainties faced by the Company are set out in the section headed "Risk Factors" in the prospectus of the Company dated 30 June 2017 (the "Prospectus").

MANAGEMENT DISCUSSION AND ANALYSIS

EVENT AFTER THE REPORTING PERIOD

There is no material event affecting the Group that occurred after the reporting period.

PROSPECTS AND FUTURE PLAN

In view of the recent global economic condition, we see uncertainties and risks clouding 2018 and years ahead. The escalating international tensions on the horizon, including the US-China trade war, the deadline for Brexit and pressure to reach an agreement between the UK and the European Union, the recent currency turmoil in Turkey, have contributed to market volatilities. Although the adverse effect of which had not been yet fully emerged, all these already eroded confidence in the business sectors, threatening the global economic expansion and hence will further cloud the market outlook.

Against the backdrop of the increasingly challenging market landscape, the Group will exert extra efforts in improving the competitiveness to tackle the risk. During the Year, the Group had taken various cost control measures, including streamlining production processes and boosting the production efficiency in order to increase the gross profit margin. On the other hand, the Group is committed to increase research and development capabilities in order to optimise the product mix and the production efficiency. The Group will continue to improve the manufacturing technologies including plate roller engraving, ink development and impregnation technology.

The Group remains prudently optimistic of the future development of the Group's business. The growth of the overall business of the Group remains sound and healthy. The popularity of the Group's products and brand has been heightened, resulting in the strong purchase orders secured for the Group. Leveraging on the extensive product design, increased investment in development capabilities, coupled with highly diversified products and product quality, the Group is well positioned to capture the market share of the decorative printing materials industry.

FORWARD LOOKING STATEMENTS

This report contains forward looking statements with respect to the financial conditions, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Sheng Yingming (盛英明), aged 55, is the chief executive officer and the chairman of the Board. He founded the Group in July 1993 and has over 20 years of experience in the decorative printing materials industry. Mr. Sheng is responsible for overall management, strategic development and major decision-making of the Group.

Prior to joining the Group, Mr. Sheng worked at Lin'an Ling Long Silk Factory (臨安玲瓏絲廠) from September 1980 to July 1986, which was primarily engaged in manufacturing of bedding, as the chief of supply and marketing section, and was primarily responsible for procurement of raw materials, sales of products and maintaining customer relationship. During the period August 1986 to August 1993, he was the chief of supply and marketing section at Lin'an No.2 Paper Mill (臨安第二造紙廠), which was primarily engaged in manufacturing base papers, decorative papers and plates, and was primarily responsible for the procurement of raw materials, sales of products and updating the latest market trend.

He is the father of Ms. Sheng Sainan and the father-in-law of Mr. Fang Xu, both of whom are executive Directors of the Company.

Ms. Sheng Sainan (盛賽男), aged 31, is responsible for overall management of financial of the Group. She joined the Group in October 2012 as a director of Zhejiang Shenglong Decoration Material Co., Ltd. ("Shenglong Decoration") and is responsible for overseeing the financial management of Shenglong Decoration and she has been a deputy manager of the financial department, who was primarily responsible for financial management and the financial accounting, since October 2013. She completed courses in financial management professional accounting option and obtained a diploma of technology from British Columbia Institute of Technology in Canada in July 2013.

She is the spouse of Mr. Fang Xu and the daughter of Mr. Sheng, both of whom are executive Directors of the Company.

Mr. Fang Xu (方旭), aged 32, is responsible for overseeing the sales and marketing activities and participating in the day-to-day management of the Group's operation. He joined the Group in June 2012 as a production assistant, who was primarily responsible for assisting the head of production department in the management of production and has been the vice general manager of Shenglong Decoration since June 2015.

Prior to joining the Group, Mr. Fang worked at Hangzhou Shenzhou Digital Co., Ltd. (杭州神州數碼有限公司), which was an integrated IT services provider, as a technician, and was primarily responsible for design and development of audio and video application systems, from August 2010 to May 2012. Mr. Fang graduated from Hangzhou Dianzi University (杭州電子科技大學) in the PRC with a degree of bachelor in integrated circuit design and integration system in June 2009.

He is the spouse of Ms. Sheng Sainan and the son in law of Mr. Sheng, both of whom are executive Directors of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yu Zemin (俞澤民), aged 59, is responsible for overseeing the production and participating in the day-to-day management of the Group's operation. Mr. Yu is also the compliance officer of the Company. He joined the Group in 2009 as the vice general manager.

Mr. Yu graduated from Zhejiang Radio & Television University (浙江廣播電視大學) in the PRC with a diploma of party and politics cadre management foundation (黨政管理幹部基礎) in December 1988. Prior to joining the Group, Chengguan Staple Food Control Office (臨安市城關糧管所) from December 1976 to March 1978. During the period Mr. Yu worked as a ticket staff primarily responsible for management and distribution of food stamps at Lin'an City April 1978 to October 1981, he served in the armed forces of the PRC. From October 1981 to August 2001, he was a section chief primarily responsible for management of the local transactions for certain types of the food at Lin'an City Grain Bureau (臨安市糧食局). He joined the Lin'an City Development and Reform Bureau the Surveillance of the Commodity Price Substation (臨安市發展和改革局物價檢查分局) as the chief primarily responsible for supervision and administration of local prices for education and health sectors in September 2001 and retired in January 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tso Ping Cheong Brian (曹炳昌), aged 39, was appointed as an independent non-executive Director on 1 June 2018. He is responsible for providing independent advice to the Board. He is the chairman of the audit committee, and a member of the nomination committee and remuneration committee of the Company.

Mr. Tso has over 14 years of experience in accounting and financial management. From September 2003 to November 2008, he worked in Ernst & Young with last position as manager. From December 2008 to May 2010, he was the financial controller of Greenheart Group Limited (formerly known as Omnicorp Limited) (Stock code: 94). From May 2010 to August 2012, He was the senior vice president of Maxdo Project Management Company Limited. From January 2013 to present, he has been the sole proprietor of Teton CPA Company, an accounting firm.

Mr. Tso obtained his bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 2003. He obtained his master degree in corporate governance from the Hong Kong Polytechnic University in October 2013. Mr. Tso is currently a practising and fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

Mr. Tso served as a non-executive director of Kong Shum Union Property Management Limited (Stock code: 8181) from July 2014 to February 2015. He served as an independent non-executive director of GreaterChina Professional Services Limited (Stock code: 8193) from July 2014 to January 2018. He is currently an independent non-executive director of Guru Online (Holdings) Limited (Stock code: 8121) since May 2014, Larry Jewelry International Company Limited (Stock code: 8351) since October 2014 and Newtree Group Holdings Limited (Stock code: 1323) since February 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ma Lingfei (馬靈飛), aged 60, was appointed as an independent non-executive Director on 22 June 2017. He is responsible for providing independent advice to the Board. He is the chairman of the nomination committee, and a member of the audit committee and remuneration committee of the Company.

Zhejiang A & F University (浙江農林大學), and a deputy director of National Engineering Research Center for Mr. Ma is currently a professor, who is engaged in wood science and technology research, at School of Engineering, Comprehensive Utilisation of Wood Resources (國家木質資源綜合利用工程技術研究中心) and is primarily engaged in the research of the processing plate. Mr. Ma graduated from Zhejiang A & F University majoring in forestry in January 1982. He obtained a doctorate degree in agriculture from Kyoto University in Japan in November 1998. Since January 1982, Mr. Ma worked at Zhejiang A & F University as a lecturer and researcher of wood science and technology research. During the period April 1999 to May 2002, Mr. Ma joined the Institute of Wood Technology, Akita Prefectural University in Japan as a temporary research scientist. From September 2007 to March 2008, he was a foreign visiting scholar (招聘外國人學者) of Research Institute for Sustainable Humanosphere, Kyoto University in Japan.

Ms. Huang Yueyuan (黃月圓), aged 37, was appointed as an independent non-executive Director on 22 June 2017. She is responsible for providing independent advice to the Board. She is the chairman of the remuneration committee, and a member of the audit committee and nomination committee of the Company.

She is currently working at the development and liaison office of Zhejiang University (浙江大學發展聯絡辦公室) as a Zhejiang University (浙江大學上市公司協會副秘書長) and she is primarily responsible for resource development and manager of development department (Division II) and a deputy secretary of the association of listed companies of donator relationship maintenance. Ms. Huang obtained her bachelor's degree in horticulture from Zhejiang University (浙江大學) in the PRC in June 2004 and graduated from Zhejiang University in the PRC with a master's degree of Zhejiang University EMBA project, at EMBA education center, school of management, Zhejiang University (浙江大學 horticulture in June 2006. Since May 2006, she joined as a head tutor primarily responsible for the operation of the management college EMBA education center), and from June 2010 to August 2015, she worked as a deputy director of EMBA education center, school of management, Zhejiang University and was primarily responsible for the promotion of the brand and marketing for Zhejiang University EMBA.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee Ho Yiu, Thomas (李浩堯), aged 41, was an independent non-executive Director from 22 June 2017 to 31 May 2018. He was responsible for providing independent advice to the Board. He was the chairman of the audit committee, and a member of the nomination committee and remuneration committee of the Company. Mr. Lee retired at the annual general meeting of the Company held on 31 May 2018 and did not offer himself for re-election due to his decision to devote more time to his personal endeavours. Upon his retirement, Mr. Lee ceased to be an independent non-executive Director of the Company and the chairman of the audit committee and a member of each of the remuneration committee and the nomination committee of the Company.

Mr. Lee has extensive experience in accounting and corporate finance and is currently a partner at Lee, Au & Co, an audit professional firm. He previously worked as an assistant financial controller in Ingrid Millet Ltd, a French cosmetics and beauty salon group and also worked at KPMG as assistant manager. Mr. Lee obtained his bachelor's degree in accounting and finance from Warwick Business School of University of Warwick in the United Kingdom in July 2000 and graduated from Tsinghua University (清華大學) in the PRC with a second bachelor's degree of Chinese law in July 2008. Mr. Lee obtained a Master Degree of business administration from the University of London in the United Kingdom in August 2016 through long distance learning course.

Mr. Lee is a fellow member of the Association of Chartered Certified Accountants, a practicing member of the Hong Kong Institute of Certified Public Accountants, a certified tax advisor and member of the Hong Kong Taxation Institute, a certified internal auditor of the Institute of Internal Auditors and a certified information systems auditor of the ISACA.

Mr. Lee served as an independent non-executive director of Inno-Tech Holdings Limited (Stock code: 8202) from January 2013 to February 2018, Suncorp Technologies Limited (Stock code: 1063) from April 2011 to June 2018 and Sino Energy International Holdings Group Limited (previously known as Active Group Holdings Limited) (Stock code: 1096) from September 2011 to June 2018. He is currently an independent non-executive director of Dongwu Cement International Limited (Stock code: 695) since May 2012.

SENIOR MANAGEMENT

Ms. Lu Miaoling (呂妙玲), aged 39, is primarily responsible for supervision of the research and development department and the development of technical projects of the Group. She joined the Group in January 1998 and she is currently the manager of the research and development department. Ms. Lu has more than 15 years of experience in research and development in the decorative printing materials industry. Ms. Lu attended part-time adult higher education (成人高等教育) top-up degree course (專升本課程) majoring in accounting at Zhejiang A & F University (浙江農林大學) in the PRC and graduated in June 2016.

COMPANY SECRETARY

Mr. Tam Chun Wai Edwin (談俊緯), aged 37, is the company secretary of the Group. Mr. Tam is responsible for secretarial work of the Group. He was appointed on 4 July 2018. Mr. Tam holds a bachelor degree in accounting and finance from The Manchester Metropolitan University in United Kingdom and has approximately 15 years of experience in financial and accounting management, corporate governance and compliance affairs. Mr. Tam is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and fellow of the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS

The Directors are pleased to present this report and the audited financial statements for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacturing and sales of decorative printing materials products which mainly comprise of (i) decorative paper; (ii) melamine impregnated paper, (iii) finish foil paper; (iv) PVC furniture film; and (v) PVC flooring film. There were no significant changes in the nature of the Group's principal activities during the Year.

SUBSIDIARIES

Detail of the Company's subsidiaries as at 31 December 2018 are set out in Note 11 to the consolidated financial statements.

BUSINESS REVIEW

General

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 7 to 12 of this annual report. This discussion forms part of this directors' report.

Environmental Policies and Compliance with Law and Regulations

The Group is committed to supporting the environmental sustainability. Being manufacturing companies in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group.

A report on the environmental, social and governance aspects is prepared in accordance with Appendix 20 to the GEM Listing Rules will be published on the Company's and the Stock Exchange's websites as close as possible to, and in any event no later than three months after, the publication of the Company's annual report.

Relationship with Stakeholders

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

SEGMENT INFORMATION

Detail of segment information are set out in Note 6 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the Year and the Group's financial position at that date are set out in the financial statements on pages 42 to 103.

The Board do not recommend the payment of final dividend for the Year.

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held on Monday, 27 May 2019. For determining the shareholders' entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 21 May 2019.

FINANCIAL SUMMARY

A Summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 104 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 21 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the Year are set out in note 22 and note 33(b) to the consolidated financial statements. As at 31 December 2018, the reserves of the Company available for distribution, as calculated in accordance with statutory provisions applicable in the Cayman Islands was approximately RMB111.2 million (2017: RMB110.2 million).

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the section headed “CORPORATE GOVERNANCE REPORT” from pages 25 to 35 of this report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best of knowledge of the Directors, the Group has complied with all relevant laws, rules and regulations during the Year.

DISCLOSURES UNDER RULES 17.22 TO 17.24 OF THE GEM LISTING RULES

As at 31 December 2018, the Group had no circumstances which would give rise to a disclosure obligation under Rules 17.22 to 17.24 of the GEM Listing Rules.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions amounted to approximately RMB15,370.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group’s five largest customers accounted for less than 30% of the total sales for the Year. Purchases from the Group’s five largest suppliers accounted for approximately 61.7% of the total purchases for the Year and purchases from the largest supplier included therein amounted to approximately 23.9%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company’s share capital) had any beneficial interest in the Group’s five largest suppliers.

DIRECTORS

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

Executive Directors

Mr. Sheng Yingming (*Chairman and Chief Executive Officer*)

Ms. Sheng Sainan

Mr. Fang Xu

Mr. Yu Zemin (*Compliance Officer*)

Independent non-executive Directors

Mr. Ma Lingfei

Ms. Huang Yueyuan

Mr. Tso Ping Cheong Brian (appointed on 1 June 2018)

Mr. Lee Ho Yiu Thomas (retired on 31 May 2018)

The biographical details of the Directors are set out in “Biographical Details of Directors and Senior Management” in this report.

REPORT OF THE DIRECTORS

In accordance with Articles of Association of the Company (the “Articles”), Mr. Yu Zemin and Mr. Tso Ping Cheong Brian will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each Director is subject to retirement by rotation in accordance with the Articles.

The Company has received annual confirmation of independence from each of the independent non-executive Directors. As at the date of this annual report, they are considered to be independent.

EMOLUMENT POLICY

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience). The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are recommended by the remuneration committee of the Company, having regard to the Group’s operating results, market competitiveness, individual performance and achievement, to the Board for determination.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in note 9 to the consolidated financial statements.

DIRECTORS’ SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years which is subject to termination by either party giving not less than three month’s written notice. Each of the independent non-executive Directors has entered into a service contract with the Company for a term of one year, renewable automatically for successive terms of one year each commencing from the day after the expiry of the then current term of the service contract and until terminated by either party giving not less than three months’ written notice.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance covering the liabilities of its Directors and officers in respect of legal actions that may be brought against them. The Company has maintained appropriate insurance cover for the Directors and officers throughout the Year and are currently in force.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries was a party during the Year.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2018, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (with the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long position in ordinary shares of the Company

Name of Director	Capacity/Nature of interest	Number of ordinary shares held	Percentage of shareholding <i>(Note 3)</i>
Mr. Sheng Yingming ("Mr. Sheng") <i>(Note 1)</i>	Interest in controlled corporation	239,950,000 shares	47.99%
Mr. Yu Zemin <i>(Note 2)</i>	Interest in controlled corporation	11,250,000 shares	2.25%

Notes:

- (1) These 239,950,000 shares are held by Bright Commerce Investment Limited ("Bright Commerce") which is wholly owned by Mr. Sheng and hence, Mr. Sheng is deemed or taken to be interested in all the Shares held by Bright Commerce for the purpose of SFO.
- (2) These 11,250,000 shares are held by Well Power Ventures Limited ("Well Power") which is wholly owned by Mr. Yu Zemin and hence, Mr. Yu Zemin is deemed or taken to be interested in all the Shares held by Well Power for the purposes of SFO.
- (3) The percentage is calculated on the basis of 500,000,000 shares in issue at the date of this report.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS OF THE COMPANY AND IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as was known to the Directors and the chief executives of the Company, the following persons/entities (not being the Director or chief executive of the Company) had, or deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of ordinary shares held <i>(Note 1)</i>	Percentage of shareholding
Bright Commerce	Beneficial interest	239,950,000 shares (L)	47.99%
Ms. Chen Deqin <i>(Note 2)</i>	Interest of spouse	239,950,000 shares (L)	47.99%
Mr. Ren Yunan	Beneficial interest	81,300,000 shares (L)	16.26%
Ms. Lin Ying <i>(Note 3)</i>	Interest of spouse	81,300,000 shares (L)	16.26%

Notes:

(1) All interests stated are long positions.

(2) Ms. Chen Deqin is the spouse of Mr. Sheng. She is deemed, or taken to be, interested in all shares in which Mr. Sheng is interested for the purposes of SFO.

(3) Ms. Lin Ying is the spouse of Mr. Ren Yunan. She is deemed, or taken to be, interested in all shares in which Mr. Ren Yunan is interested for the purposes of SFO.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2018, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person or corporation (other than the Director and chief executive of the Company) who had any interests or short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 22 June 2017 (the “Share Option Scheme”). The principal terms of the Share Option Scheme are set out in note 23 to the financial statements.

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions made by the eligible participants, to attract skilled and experienced personnel, to incentivise them to remain with the Company and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

No option has been granted since the adoption of the Share Option Scheme.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles or the laws of Cayman Islands.

Equity-linked Agreements

During the Year, save for the Share Option Scheme, the Company did not enter into any equity-linked agreements in respect of shares of the Company.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company’s total number of issued shares were held by the public as at the latest practicable date prior to the date of this annual report.

Directors’ Interests in a Competing Business

None of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group.

REPORT OF THE DIRECTORS

Non-competition Undertaking by Controlling Shareholders

In order to avoid potential conflicts of interests with our Company, each of our controlling shareholders, namely Bright Commerce and Mr. Sheng, have entered into a Deed of Non-Competition in favour of our Company (for itself and for the benefits of other members of our Group) on 22 June 2017, pursuant to which they (individually or with their close associates) have undertaken, among others, not to compete with the business of the Group. Each of the controlling shareholders furthers that if he/it/she or his/its/her close associates is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it/she shall promptly notify the Group in writing and the Group shall have a right of first refusal to take up such opportunities. Details of the Deed are set out in the section headed “Deed of Non-Competition” of the Prospectus.

Each of the controlling shareholders has made a written confirmation to the Board in respect of their compliance with the undertakings in the Deed since the entering of the Deed on 22 June 2017 to 31 December 2018. Upon receiving the confirmations from the controlling shareholders, the independent non-executive Directors had reviewed the same as part of the annual review process and confirmed that the controlling shareholders had complied with the Deed during the period.

Related Party Transactions

Details of the related party transactions undertaken by the Group during the Year are set out in note 31 to the consolidated financial statements in this report.

Connected Transactions

During the Year, the Group has not conducted any “connected transaction” or “continuing connected transaction” (as defined under Chapter 20 of the GEM Listing Rules) which is subject to reporting and annual review requirements under the GEM Listing Rules.

Compliance Adviser’s Interests

As at 31 December 2018, save and except for the compliance adviser’s agreement entered into between the Company and Messis Capital Limited (the “Compliance Adviser”) dated 29 June 2017, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Sheng Yingming

Chairman and Chief Executive Officer

21 March 2019

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the Company's annual report for the Year.

The Board is committed itself to enhance the standard of corporate governance practices and business ethics with the firm belief that they are essential for maintaining and promoting investors' confidence and maximising shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellent corporate governance.

CORPORATE GOVERNANCE

Subject to the deviation as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules throughout the Year.

BOARD OF DIRECTORS

The Board currently consists of four executive Directors and three independent non-executive Directors:

Executive Directors

Mr. Sheng Yingming
Ms. Sheng Sainan
Mr. Fang Xu
Mr. Yu Zemin

Independent non-executive Directors

Mr. Tso Ping Cheong Brian
Mr. Ma Lingfei
Ms. Huang Yueyuan

The Board is responsible for the Company's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual, quarterly and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Pursuant to Article 108 of the Articles, at each annual general meeting one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

No corporate governance committee has been established and the Board is also delegated with the corporate governance functions under code provision D.3.1 of the Corporate Governance Code.

CORPORATE GOVERNANCE REPORT

Details of the backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 13 to 16 of this Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. The family relationships among the Board members, if any, are disclosed under “Biographical Details of Directors and Senior Management” section in this annual report.

The Company has three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Tso Ping Cheong Brian, Mr. Ma Lingfei and Ms. Huang Yueyuan are the independent non-executive Directors. All of them were appointed for a term of one year, renewable automatically for successive terms of one year commencing from the day after the expiry of the then current term of service contract and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s Articles.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules. All independent non-executive Directors are identified as such in all corporate communications containing the names of the Directors.

The Company has arranged Directors’ and officers’ liability insurance for the Directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Sheng acted as both the chairman and the chief executive officer who would provide a strong and consistent leadership to the Group and allow for more effective planning and management of the Group. Pursuant to Appendix 15 of the GEM Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, in view of Mr. Sheng’s extensive experience in the industry, personal profile and critical role in the Group and the Group’s historical development, the Group considered that it would be beneficial to the business prospects of the Group that Mr. Sheng is acting as both our chairman and our executive officer. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises of experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

Training and Support for Directors

All Directors, including executive Directors and independent non-executive Directors, should keep abreast of their collective responsibilities as Directors and of the businesses and activities of the Group. Each newly appointed Director would receive an induction package covering the Group’s businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors’ knowledge and skills, and updates all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance code.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

The Board held a full board meeting for each quarter. During the Year, the number of Board meetings and general meetings attended by each Director is set out in the following table.

	Number of Board meetings attended	Number of general meetings attended
Mr. Sheng	4/4	1/1
Ms. Sheng Sainan	4/4	0/1
Mr. Fang Xu	4/4	0/1
Mr. Yu Zemin	4/4	0/1
Mr. Ma Lingfei	4/4	0/1
Ms. Huang Yueyuan	4/4	0/1
Mr. Tso Ping Cheong Brian (appointed on 1 June 2018)	3/3	0/0
Mr. Lee Ho Yiu Thomas (retired on 31 May 2018)	1/1	1/1

Apart from the above regular Board meetings of the year, the Board will meet on other occasions when a Board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each Board meeting.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials, and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. The Board notes that the Chairman of the Board and the chairmen or, in their absence, other members of the audit committee (“Audit Committee”), nomination committee (“Nomination Committee”) and remuneration committee (“Remuneration Committee”) of the Company should attend the annual general meeting to answer questions and collect views of shareholders.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 22 June 2017. The current chairman of the committee is Ms. Huang Yueyuan, an independent non-executive Director, and other members are Mr. Ma Lingfei and Mr. Tso Ping Cheong Brian (independent non-executive Directors).

Under Rule 5.34 of the GEM Listing Rules, a listed issuer should establish a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties, the Company established a Remuneration Committee as required under Rule 5.34 of the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

The role and function of the Remuneration Committee included, among others, making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment) and making recommendations to the Board for the remuneration of Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the Year under review, one meeting of the Remuneration Committee was held in March 2018. Details of the attendance of the meeting of the Remuneration Committee are as follows:

Members Attendance Times

Ms. Huang Yueyuan	1/1
Mr. Ma Lingfei	1/1
Mr. Tso Ping Cheong Brian (appointed on 1 June 2018)	0/0
Mr. Lee Ho Yiu Thomas (retired on 31 May 2018)	1/1

The Remuneration Committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The Remuneration Committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable. Details of the emoluments of the Directors are set out in note 9 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 22 June 2017. The current chairman of the committee is Mr. Ma Lingfei, an independent non-executive Director, and other members are Mr. Tso Ping Cheong Brian and Ms. Huang Yueyuan, both of them are independent non-executive Directors. The duties of the nomination committee include, among others, formulating nomination policies and making recommendation to the Board regarding nomination, appointment and replacement of directors. The committee will also establish recruitment procedures, review the structure, number of members and composition of the Board and assess the independence of the independent non-executive directors. The committee held one meeting in March 2018.

Members Attendance Times

Mr. Ma Lingfei	1/1
Mr. Tso Ping Cheong Brian (appointed on 1 June 2018)	0/0
Mr. Lee Ho Yiu Thomas (retired on 31 May 2018)	1/1
Ms. Huang Yueyuan	1/1

The committee considers the past performance, qualification, general market conditions and the Company's Articles in selecting and recommending candidates for directorship during the Year.

CORPORATE GOVERNANCE REPORT

NOMINATION POLICY

The Board has adopted a nomination policy (the “Nomination Policy”) which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

Selection Criteria

When evaluating and selecting candidates for directorships, the members of the Nomination Committee or the Board shall consider the following criteria:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company’s business and corporate strategies;
- Willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;
- In case of independent non-executive Directors, whether the candidates would be considered independent in accordance with the Listing Rules;
- The Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and
- Such other perspectives appropriate to the Company’s business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Nomination Procedures

Appointment of New Director

- The Nomination Committee shall, upon receipt of the proposal on appointment of new director and the personal information (or relevant details) of the proposed candidate(s), evaluate such candidate(s) based on the criteria as set out above to determine whether such candidate(s) is qualified for directorship;
- If there is more than one desirable candidate, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);
- The Nomination Committee shall then recommend to the Board to appoint the appropriate candidate for directorship; and
- For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

CORPORATE GOVERNANCE REPORT

Re-election of Director at General Meeting

- The Nomination Committee shall review the overall contribution and service to the Company of the retiring director including his/her attendance of Board meetings and, where applicable, general meetings, and his/her level of participation and performance on the Board and the Company's business;
- The Nomination Committee shall also review and determine whether the retiring director continues to meet the selection criteria as set out above; and
- The Board, with the recommendation from Nomination Committee, shall then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

The Nomination Committee will monitor the implementation of the Nomination Policy and report to the Board when necessary. Also, the Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

BOARD DIVERSITY POLICY

The Board adopted the board diversity policy ("Board Diversity Policy") in accordance with the requirement set out in the Codes. Such policy aims to set out the approach to achieve diversity on the Board.

The Nomination Committee is responsible for the review of the Board's diversity policy, considering factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Board members, and review the measurable objectives that the Board has set for implementing the Board's diversity policy, and monitor the progress on achieving the measurable objectives.

The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

The Board adopted the dividend policy (“Dividend Policy”) in accordance with the requirement set out in the Codes. Such policy aims to set out the approach to maintain a balance between meeting shareholders’ expectations and prudent capital management with a sustainable dividend policy. In view of this, the dividend payout ratio shall be determined by the Board from time to time. Such declaration and payment of dividends shall remain to be recommended by the Board. In addition, any final dividend for a financial year will be subject to shareholders’ approval. The remaining net profit will be used for the Group’s operations and development.

The Company’s ability to pay dividends will depend upon, among other things, the Company’s current and future operations, corporate development plans, liquidity position, capital requirements and future expected capital needs, as well as dividends received from the Company’s subsidiaries and associates. The payment of dividend is also subject to any restrictions under the relevant laws, rules and regulations and subject to the articles of association of the Company.

The Dividend Policy reflects the Company’s current views on the financial and cash-flow position of the Group prevailing at the time of its adoption. The Board will continue to review the Dividend Policy from time to time and may adopt changes as appropriate at the relevant time as part of its commitment to maximizing shareholder value, taking into consideration the financial performance of the Company and market conditions. There is no guarantee that any particular amount of dividends will be distributed for any specific periods.

AUDIT COMMITTEE

On 22 June 2017, the Company established an Audit Committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules and paragraphs C.3.3 and C.3.7 of the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, financial controls, internal control and risk management systems of the Group and provide advice and comments on the Group’s draft annual reports and accounts, half year reports and quarterly reports to Directors. The Audit Committee comprises of three members, the current chairman of the committee is Mr. Tso Ping Cheong Brian an independent non-executive Director and other members are Mr. Ma Lingfei and Ms. Huang Yueyuan, both of them are independent non-executive Directors.

The Audit Committee held four meetings during the Year under review. Details of the attendance of the Audit Committee meetings are as follows:

Members Attendance Times

Mr. Tso Ping Cheong Brian (appointed on 1 June 2018)	2/2
Mr. Lee Ho Yiu Thomas (retired on 31 May 2018)	2/2
Mr. Ma Lingfei	4/4
Ms. Huang Yueyuan	4/4

The Group’s unaudited quarterly and interim results and annual audited results for the Year have been reviewed by the Audit Committee during the Year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company engages an external service provider to provide company secretarial services and has appointed Mr. Tam Chun Wai Edwin as its Company Secretary on 4 July 2018. The biographical details of Mr. Tam are set out under the section headed “Biographical Details of Directors and Senior Management” in the annual report.

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Tam has confirmed that for the Year under review, he has taken no less than 15 hours of relevant professional training. Mr. Tam is not an employee of our Group and he is responsible for advisory to the Group on corporate governance matters. Mr. Yu Zemin, our executive director, is the person who Mr. Tam can contact for the purpose of code provision F.1.1 of the Code.

SENIOR MANAGEMENT’S REMUNERATION

The senior management’s remuneration payment of the Group for the Year falls within the following band:

	Number of Individuals
Nil – HK\$1,000,000	1

AUDITORS’ REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Group.

During the Year, the fees charged by PricewaterhouseCoopers for audit services of the Group amounted to approximately RMB1,130,000.

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements of the Group. The statements of the external auditors of the Group, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Report of Auditor on pages 36 to 41 of this annual report.

The Group had net current liabilities of approximately RMB59.0 million as at 31 December 2018, of which approximately RMB110.8 million and RMB57.6 million represented current bank borrowings and bank acceptance notes payable, respectively, to be repayable in the coming twelve months. Based on the Group’s cash flow forecast which has taken into account the continuous availability of bank facilities, the successful renewal of bank facilities upon expiry, and other measures as mentioned in note 2.1.1 to these consolidated financial statements, the Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any other material uncertainties relating to events or conditions that may cast significant doubt upon the Group’s ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management systems. Such internal control and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board had conducted a review on the effectiveness of the Group's internal control and risk management systems once during the Year which covered financial, operational, compliance procedural and risk management functions and had considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. The Group does not have an internal audit function. The Board currently takes the view that there is no immediate need to set up an internal audit function in light of the size, nature and complexity of the Group's business. The need for an internal audit function will be reviewed from time to time.

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Company. The Company has therefore made continued efforts to uplift its quality of corporate governance. It has established a highly effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Company is able to safeguard its assets and protect the interests of its shareholders.

The Board is of the view that the systems of internal control and risk management are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

The US government and other jurisdictions, including the European Union, the United Nations and the Australia government, have comprehensive or broad economic sanctions targeting the Sanctioned Countries (note 1) and Sanctioned Persons (note 2).

Note 1 – Sanctioned Countries are those countries which are the targets of economic sanctions as administered by the U.S., the EU, the United Nations and Australia.

Note 2 – Sanctioned Persons are certain person(s) and entity(ies) listed on the United States Department of Treasury's Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the EU, the United Nations or Australia.

The Board had effectively monitored and evaluated our business exposure to sanctions risk, including assigning senior staff to review and approve all relevant business transaction documents from customers or potential customers from Sanctioned Countries and Sanctioned Persons. The designated staff reviewed information relating to the counterparty of the contract (such as identity, nature of business, etc.) along with the draft business transaction documentation. The designated staff checked the counterparty against the various lists of restricted parties and countries maintained by the US, the European Union, Australia or the United Nations, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in any of the Sanctioned Countries or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from external legal counsel with necessary expertise.

During the Year, none of our products were sold to any Sanctioned Countries or Sanctioned Persons.

CORPORATE GOVERNANCE REPORT

AUDITOR

During the Year under review, the performance of the external auditor of the Company has been reviewed and the Board proposed to put forward a resolution to reappoint PricewaterhouseCoopers as the external auditor in the forthcoming annual general meeting.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to communicate with shareholders and investors of the Company. These include (i) the publication of quarterly, interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquires from shareholders timely; (iv) updated and key information of the Company available on the website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's share registrar in Hong Kong providing services to the shareholders regarding all share registration matters.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to Article 64 of the Articles, shareholder(s) holding not less than one tenth of the paid up capital of the Company having the right of voting at general meetings may make a request in writing for the convening of an extraordinary general meeting and the Board shall convene an extraordinary general meeting within two months of such requisition.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company by addressing them to the principal place of business of the Company in Hong Kong located at 27th Floor, Henley Building, 5 Queen's Road Central, Central by post or by email to 8481@joviancomm.com.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the Year.

CORPORATE GOVERNANCE REPORT

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the SFO and the Listing Rules and the overriding principle that Inside Information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of Inside Information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the “Guidelines on Disclosure of Inside Information” published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has formulated inside information policies and disclosed its policies on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has strictly prohibited unauthorised use of confidential or Inside Information; and
- the Group regularly reminds the Directors and employees about due compliance with all policies regarding the Inside Information, as well as keeps them apprised of the latest regulatory updates.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Starting from July 2017, the Company had designated Directors for the purpose of receiving notification and providing acknowledgment in respect of dealing in securities of the Company under Rule B.8 of the Model Code in accordance with a stipulated memorandum detailing notification procedures to ensure compliance with the Model Code by the Directors. Following a specific enquiry by the Company, each of the Directors confirmed that he/she complied with the Model Code for transactions in the Company’s securities throughout the Year.

The Company has also adopted a code of conduct governing securities transactions by employees who may possess or have access to the Inside Information.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

During the Year, there had been no significant changes in the constitutional documents of the Company.

LOOKING FORWARD

The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavor to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Code introduced by the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the shareholders of Shenglong Splendecor International Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Shenglong Splendecor International Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 42 to 103, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) 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 (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

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 identified in our audit is related to revenue recognition and capitalisation of internal development costs.

Key Audit Matter

Revenue recognition

Refer to Note 2.23 and Note 6 to the Group's consolidated financial statements.

During the year ended 31 December 2018, the Group recognised revenue from sales of goods amounting to RMB349 million.

Revenue from the sale of goods is recognised when control of the products has transferred, being when the products are delivered to customers, and there is no unfulfilled obligation that could affect customers' acceptance of the products.

We focused on this area due to the large volume of revenue transactions generated from numerous customers across different locations.

How our audit addressed the Key Audit Matter

We understood, evaluated and validated management's key controls in respect of the Group's sales transactions from contract approval, recording of sales based on underlining documents, including sales orders, invoices, goods delivery notes, bills of lading and customs declaration forms ("underlining documents"), to reconciliations with cash receipts and customers' records.

We performed tests of details on revenue covering different locations and customers, on a sampling basis, by examining the underling documents and evidence of settlement.

We confirmed customers' balances at the balance sheet date on a sampling basis, by considering the amount, nature and characteristics of those customers.

Our audit procedures also covered testing sales transactions that occurred around the balance sheet date.

Based on our audit procedures, we found the Group's revenue recognition was supported by the evidence that we gathered.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Capitalisation of internal development costs

Refer to Note 2.8.1, Note 5(c) and Note 16 to the consolidated financial statements.

The Group incurs significant cost and efforts on internal research and development activities to develop manufacturing technique. Management capitalises the costs on development projects when the criteria set out in the accounting standard for capitalization of such costs have been met. RMB4.25 million of internal development costs have been capitalized and recorded as addition to intangible assets during the year ended 31 December 2018.

We focused on this area due to the significance of the costs capitalised and the fact that there were judgments applied by management in assessing whether the criteria set out in the relevant accounting standards required for capitalisation of such costs have been met, including whether it is technical feasible to complete the development projects, whether the new manufacturing technique can generate probable future economic benefits, and whether costs incurred were directly attribute to the development of the technique.

How our audit addressed the Key Audit Matter

We understood, evaluated and tested management's key controls surrounding the capitalization of internal development costs.

We obtained the basis of considerations from management for determining whether the projects had entered the development stage, in terms of how the specific requirements of the relevant accounting standards were met and whether it is appropriate to start the capitalisation of the costs attributable to the projects.

We conducted interviews with individual project managers and reviewed project documentation such as management's approval of the specific projects, commercial and technical feasibility report and project progress concluding report to corroborate management's explanations.

We tested samples of cost incurred in projects to assess its nature and necessity and evaluate whether the cost items selected for testing were directly attributable to the projects.

Based on above, we found that the judgment applied by management in assessing whether the criteria for capitalisation of internal development costs had been met were supported by the evidence we gathered.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

Audit committee of the Company (the "Audit Committee") are responsible for overseeing the Group's financial reporting process.

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

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

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITOR'S REPORT

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

The engagement partner on the audit resulting in this independent auditor's report is Chow Sai Keung.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21 March 2019

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2018	2017
		RMB'000	RMB'000
	Notes		
Revenue from contracts with customers	6	349,411	320,069
Cost of sales of goods	8	(278,864)	(247,688)
Gross profit		70,547	72,381
Selling expenses	8	(22,153)	(19,853)
Administrative expenses	8	(32,786)	(44,661)
Net impairment losses on financial and contract assets	3.1(b)	(1,335)	(351)
Other income and other gains – net	7	3,618	3,061
Operating profit		17,891	10,577
Finance income	10	558	534
Finance costs	10	(3,448)	(2,907)
Finance costs-net	10	(2,890)	(2,373)
Profit before income tax		15,001	8,204
Income tax expense	12	(1,268)	(1,200)
Profit for the year		13,733	7,004
Profit attributable to			
– Owners of the Company		13,733	7,004
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB cents per share)			
– Basic and diluted	13	2.75	1.62

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
<i>Notes</i>		
Profit for the year	13,733	7,004
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(976)	(1,985)
Other comprehensive income for the year, net of tax	(976)	(1,985)
Total comprehensive income for the year	12,757	5,019
Total comprehensive income for the year attributable to:		
– Owners of the Company	12,757	5,019

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

		As at 31 December		
		2018	2017	
		RMB'000	RMB'000	
Notes				
ASSETS				
Non-current assets				
	Land use rights	14	42,247	43,316
	Prepayments for land use rights	14	4,900	4,900
	Property, plant and equipment	15	176,950	160,081
	Intangible assets	16	5,017	991
	Deferred income tax assets	27	5,796	4,392
			234,910	213,680
Current assets				
	Inventories	18	44,046	43,723
	Trade and other receivables	19	95,221	97,482
	Restricted bank deposits	20	32,800	36,550
	Cash and cash equivalents	20	16,892	14,688
			188,959	192,443
Total assets			423,869	406,123

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2018	2017
		RMB'000	RMB'000
EQUITY AND LIABILITIES	<i>Notes</i>		
Equity attributable to owners of the Company			
Share capital	21	4,253	4,253
Other reserves	22	99,575	98,606
Retained earnings		68,708	56,920
Total equity		172,536	159,779
LIABILITIES			
Non-current liabilities			
Deferred revenue	24	3,418	3,516
		3,418	3,516
Current liabilities			
Trade and other payables	25	137,115	140,728
Short-term bank borrowings	26	110,800	50,100
Current portion of long-term bank borrowings		—	52,000
		247,915	242,828
Total liabilities		251,333	246,344
Total equity and liabilities		423,869	406,123
Net current liabilities		(58,956)	(50,385)
Total assets less current liabilities		175,954	163,295

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

The financial statements on pages 42 to 103 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf.

Sheng Yingming
Director

Yu Zemin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity owners of the Company			
	Share capital RMB'000 (Note21)	Other reserves RMB'000 (Note22)	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	790	37,901	51,424	90,115
Comprehensive income				
Profit for the year	–	–	7,004	7,004
Other comprehensive income				
Currency translation differences	–	(1,985)	–	(1,985)
Total comprehensive income	–	(1,985)	7,004	5,019
Transactions with owners in their capacity as owners				
New Issue	1,083	72,492	–	73,575
Transaction costs attributable to issue of shares	–	(8,930)	–	(8,930)
– Capitalisation Issue	2,380	(2,380)	–	–
Appropriation to statutory reserves	–	1,508	(1,508)	–
Total transactions with owners in their capacity as owners	3,463	62,690	(1,508)	64,645
Balance at 31 December 2017	4,253	98,606	56,920	159,779
Balance at 1 January 2018	4,253	98,606	56,920	159,779
Comprehensive income				
Profit for the year	–	–	13,733	13,733
Other comprehensive income				
Currency translation differences	–	(976)	–	(976)
Total comprehensive income	–	(976)	13,733	12,757
Transactions with owners in their capacity as owners				
Appropriation to statutory reserves	–	1,945	(1,945)	–
Total transactions with owners in their capacity as owners	–	1,945	(1,945)	–
Balance at 31 December 2018	4,253	99,575	68,708	172,536

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

		Year ended 31 December	
		2018	2017
		RMB'000	RMB'000
Cash flows from operating activities			
	Notes		
Cash generated from/(used in) operations	29(a)	24,222	(13,527)
Income tax paid		(2,050)	(3,716)
Net cash generated from/(used in) operating activities		22,172	(17,243)
Cash flows from investing activities			
Purchase of property, plant and equipment		(25,290)	(39,754)
Increase of intangible assets		(4,102)	(126)
Payment of amount due from related parties		–	(17,609)
Proceeds from disposals of property, plant and equipment	29(b)	56	382
Proceeds from disposals of intangible assets		–	195
Decrease in restricted bank deposits		3,750	1,270
Receipt of amount due from related parties		–	18,163
Government grants received		2,681	256
Interest received		558	534
Net cash used in investing activities		(22,347)	(36,689)
Cash flows from financing activities			
Proceeds from bank borrowings		125,200	78,300
Repayments of bank borrowings		(116,500)	(81,400)
Interest paid		(6,525)	(6,450)
Proceeds from issuance of ordinary shares		–	73,575
Payment for listing expenses		–	(5,723)
Net cash generated from financing activities		2,175	58,302
Net increase in cash and cash equivalents		2,000	4,370
Cash and cash equivalents at beginning of the year		14,688	11,344
Exchange gains/(losses) on cash and cash equivalents		204	(1,026)
Cash and cash equivalents at end of the year		16,892	14,688

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 25 July 2013 as an exempted company with limited liability under the Cayman Companies Law of the Cayman Island. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Group are principally engaged in the manufacturing and sales of decorative printing materials products in the People's Republic of China ("PRC") and overseas. The ultimate holding company of the Company is Bright Commerce Investment Limited ("Bright Commerce"), which is incorporated in the British Virgin Islands.

On 17 July 2017, shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange.

The audited consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

The English names of companies mentioned in this financial statements represented the best effort by directors of the Company in translating their Chinese names as they may not have official English names.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.1 *Going concern*

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB59.0 million. As at the same date, the Group had current bank borrowings of RMB110.8 million to be repayable in the coming twelve months; and had bank acceptance notes payable amounting to RMB57.6 million which were pledged by the Group's bank deposits of RMB32.8 million. In addition, the Group had capital commitments amounting to RMB6.1 million in relation to the acquisition of plant and equipment as at 31 December 2018. The directors of the Company have reviewed the Group's cash flow forecast covering a period of not less than twelve months from 31 December 2018, and have given due consideration to the liquidity of the Group and adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

- (a) The Group has not experienced any significant difficulties in renewing its bank borrowings upon their maturities and issuing its bank acceptance notes. In addition, all the Group's lending banks have advised their intention in writing, though not legally binding, to have the existing uncommitted facilities be available at the current terms for the period till 31 December 2019. There is no indication that the banks will not renew the existing bank borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the consolidated financial statements, the Group has renewed short-term borrowings of approximately RMB28.9 million for another twelve months, and issued new bank acceptance notes of RMB4.6 million.
- (b) The directors also expect that sufficient sales orders will be secured in the coming year and the Group will continue its effort to strengthen its working capital position such that net operating cash inflows will be generated.

Based on the above, considering the continuous availability of bank facilities, and the successful renewal of bank facilities upon expiry, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2018. Accordingly, the directors of the Company are of the opinion that the Group will continue as a going concern and have prepared the consolidated financial statements on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

2.1.2 Change in accounting policy and disclosure

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers

The new accounting policies adopted are set out in Note 2.10 and Note 2.23 below. There are no other standards or amendments that are effective for the first time for the year beginning on 1 January 2018 that would be expected to have a material impact on the Group.

Impact of HKFRS 9 adopted by the Group.

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

All of the Group's financial assets and financial liabilities were carried at amortised cost, therefore, the new guidance had no significant impact on the classification and measurement of its financial assets and financial liabilities.

The Group did not have any hedging instruments. There was no impact arising from the new hedging accounting rules.

In relation to the impairment of financial assets, the Group has adopted the simplified expected credit loss ("ECL") model for its trade receivables. This model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses under HKAS 39. The adoption of ECL model had no significant effect on the loss allowance of impairment of trade receivables as the trade receivables of the Group are short term and of low credit risk.

The Group applies to HKFRS 9 three-stage approach to measure ECL of other receivables. The other receivables are performing with either low credit risk or have not had significant increase in credit risk since initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

2.1.2 Change in accounting policy and disclosure (Cont'd)

(a) New and amended standards adopted by the Group (Cont'd)

Impact of HKFRS 15 adopted by the Group.

HKFRS 15 replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and related literature. The new standards is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The Group recognises revenue mainly from sales of decorative printing materials products and providing shipping service. Based on management's assessment, the adoption of the new standards has no significant impact on the Groups financial position and results of operations.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 16, 'Leases'

Nature of change

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed for lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. However at the reporting date, the Group has no non-cancellable operating lease commitments.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

2.1.2 Change in accounting policy and disclosure (Cont'd)

(b) New standards and interpretations not yet adopted (Cont'd)

HKFRS 16, 'Leases' (Cont'd)

Date of adoption by the Group

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance of the operating segments, and has been identified as the board of directors of the Company that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Shenglong Splendecor International Limited's functional currency is Hong Kong dollar (HK\$). As the major operations of the Group are within in the PRC, the Group presents its consolidated financial statements in RMB, unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.5 Foreign currency translation *(Cont'd)*

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transaction); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

2.6 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation, net of any impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.7 Property, plant and equipment (Cont'd)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Useful lives	Residual values
Buildings	20-25 year	5%
Machinery and equipment	10 year	5%
Furniture and other equipment	5 year	5%
Motor vehicles	5 year	5%

Assets under construction represent buildings on which construction work has not been completed and plant, machinery and equipment pending installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, assets under construction are transferred to the appropriate categories of property, plant and equipment at cost, net of impairment losses, if any. No depreciation is charged for assets under construction until they are completed and available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income and gains-net' in the consolidated income statement.

2.8 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on the straight-line method or other more appropriate methods that can reflect the pattern in which the asset's economic benefits are expected to be realised over its estimated useful life.

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

Intangible assets represent the capitalised development costs and computer software measured at historical costs.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.8 Intangible assets (Cont'd)

2.8.1 Capitalised development costs including patents

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new products and technique) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the new products and technique so that it will be available for use;
- management intends to complete the new products and technique and use or sell it;
- there is an ability to use or sell the new products and technique;
- it can be demonstrated how the new products and technique will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the new products and technique are available; and
- the expenditure attributable to the new products and technique during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense is not recognised as an asset in a subsequent period.

The Group amortises capitalised development costs with limited useful life using straight-line method over 5 to 10 years.

2.8.2 Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives of 10 years on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Investment and other financial assets

2.10.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Recognition and derecognition

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.10 Investment and other financial assets (Cont'd)

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated income statement.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.10 Investment and other financial assets *(Cont'd)*

2.10.3 *Measurement (Cont'd)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.10.4 *Impairment*

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.10 Investment and other financial assets *(Cont'd)*

2.10.5 Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Accounting policies applied until 31 December 2017

Classification

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group only had financial assets classified as loans and receivables in the reporting period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period, these are classified as non-current. The Group's loans and receivables comprise trade and other receivables, restricted bank deposits and cash and cash equivalents.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.10 Investment and other financial assets *(Cont'd)*

2.10.5 Accounting policies applied until 31 December 2017 (Cont'd)

Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excluded borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 90 days and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.15 Restricted bank deposits

Restricted bank deposits represent deposits held by the bank in a segregated account as security for issuing bank acceptance. Such restricted bank deposits will be released when the Group repays the related notes payables.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.18 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. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.21 Current and deferred income tax *(Cont'd)*

(b) Deferred income tax (Cont'd)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.22 Employee benefits

The Group operates various defined contribution plans, including pension obligations, housing funds, medical insurances and other social insurances.

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organized by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior year. The contributions are recognised as employee benefit expense when they are due.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below.

(a) Sales of goods

Revenue from the sale of goods is recognised when control of the products has transferred, being when the products are delivered to customers, and there is no unfulfilled obligation that could affect customers' acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to customers, and the customer has accepted the products in accordance with the sales contract.

(b) Rental income

Rental income from the land leases is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(c) Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under the policies approved by the Board of Directors (the "Board"). The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, but a significant portion of its sales is made to foreign countries, and thus the Group is exposed to foreign currency risks arising from various currency exposures, mainly with respect to US dollar ("USD"), Euro ("EUR") and HK\$.

Exchange rate fluctuations and market trends have always been the concern of the Group. The Group regularly and closely monitors the level of our foreign exchange risk exposure, and may take prudent measures, including entering into forward exchange contracts or currency swap contracts despite the Group did not have such arrangements during the year ended 31 December 2018.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets		
USD	43,647	41,751
HK\$	3,902	8,012
EUR	148	105
Total	47,697	49,868
Liabilities		
USD	135	36
HK\$	—	799
EUR	—	1
Total	135	836

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

If RMB had strengthened/weakened by 5% against the relevant foreign currencies, with all other variable had been held constant, the profit before income tax would (decrease)/increase as follows:

	Year ended 31 December			
	2018		2017	
	(Decrease)/increase on profit before income tax if exchanges rates change by		(Decrease)/increase on profit before income tax if exchanges rates change by	
	5%	-5%	5%	-5%
	RMB'000	RMB'000	RMB'000	RMB'000
USD	(2,176)	2,176	(2,086)	2,086
HK\$	(195)	195	(361)	361
EUR	(7)	7	(5)	5

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted bank deposits and trade and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

(i) Risk management and security

The Group expects that there is no significant credit risk associated with cash and cash equivalents and restricted bank deposits since they are substantially deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade and other receivables. The Group assess the credit quality of and sets credit limits on their customers by taking into account their financial position, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables
- other receivables

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(ii) Impairment of financial assets (Cont'd)

Trade receivables (Cont'd)

On that basis, the loss allowance provision as at 31 December 2018 and 31 December 2017 is determined as follows for trade receivables:

	Less than 3 months	More than 3 months but not exceeding 1 year	More than 1 year	Total
31 December 2018				
Expected loss rate	0.21%	2.47%	56.73%	
Gross carrying amount – trade receivables	68,722	14,225	4,845	87,792
Loss allowance	144	351	2,748	3,243
	Less than 3 months RMB'000	More than 3 months but not exceeding 1 year RMB'000	More than 1 year RMB'000	Total RMB'000
31 December 2017				
Expected loss rate	0.30%	3.00%	26.23%	
Gross carrying amount – trade receivables	65,343	17,553	4,394	87,290
Loss allowance	196	527	1,152	1,875

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(ii) Impairment of financial assets (Cont'd)

Trade receivables (Cont'd)

	Trade receivables	
	2018 RMB'000	2017 RMB'000
31 December – calculated under HKAS 39	1,875	1,480
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	1,875	–
Increase in trade receivables loss allowance recognised in profit or loss during the year	1,368	395
At 31 December	3,243	1,875

Trade receivables is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 3 years past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(ii) Impairment of financial assets (Cont'd)

Other receivables

Other receivables at amortised cost mainly includes advances to employees, deposits for utilities and product quality assurance, deposits paid to suppliers, interests receivables and others which are included in trade and other receivables (Note 19).

The loss allowance provision as at 31 December 2017 and 31 December 2018 is determined as follows for other receivables, the expected credit losses below also incorporated forward looking information.

	Other receivables at amortised cost	
	2018 RMB'000	2017 RMB'000
31 December – calculated under HKAS 39	1,086	1,130
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	1,086	–
Unused amount reversed	(33)	(44)
At 31 December	1,053	1,086

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising uncommitted banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Total RMB'000
At 31 December 2018				
Bank borrowings (including interest payable upon maturity)	114,303	–	–	114,303
Trade and other payables excluding non-financial liabilities	123,810	–	–	123,810
Total	238,113	–	–	238,113
	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Total RMB'000
At 31 December 2017				
Bank borrowings (including interest payable upon maturity)	116,368	–	–	116,368
Trade and other payables excluding non-financial liabilities	131,378	–	–	131,378
Total	247,746	–	–	247,746

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital management

The Group's objectives when 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 the cost of capital.

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

The Group monitors capital on the basis of the gearing ratio periodically to ensure the gearing ratio is in an acceptable range. This ratio is calculated as interest-bearing liabilities divided by total equity.

The gearing ratio as at 31 December 2018 is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bank borrowings	110,800	102,100
Total interest-bearing liabilities	110,800	102,100
Total equity	172,536	159,779
Gearing ratio	64%	64%

4 FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amounts less impairment allowance of trade and other receivables excluding prepayments, restricted bank deposits, cash and cash equivalents, short-term bank borrowings, and trade and other payables excluding non-financial liabilities approximates their fair values due to their short maturities.

As at 31 December 2018, the Group had no other level 1, level 2 and level 3 financial instrument.

NOTES TO THE FINANCIAL STATEMENTS

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Income taxes and deferred taxation

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be recognised. The outcome of their actual recognition may be different.

(b) Impairment of trade receivables

The Group applies the HKFRS 9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected loss rates are based on the Group's past loss experiences, existing market conditions as well as forward looking estimates at the end of each reporting periods.

The identification of doubtful debts requires the use of judgment.

(c) Capitalization of internal development costs

Costs incurred on development projects are recognized as intangible assets when it is probable that the projects will be successful considering the criteria set out in Note 2.8. Significant judgements applied by management in determining the development costs to be capitalised include whether it is technical feasible to complete the development projects, whether the new manufacturing technique can generate probable future economic benefits, and whether costs incurred were directly attribute to the development of the technique.

6 REVENUE AND SEGMENT INFORMATION

The Board assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are related to manufacturing and sales of decorative printing materials products. Therefore, management considers there is only one operating segment, under the requirements of HKFRS 8, Operating Segments.

The Group's five largest customers accounted for approximately 16.8% (2017: 19.1%) of the Group's total revenue for the year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

6 REVENUE AND SEGMENT INFORMATION *(Cont'd)*

The Group derives revenue from the transfer of goods at a point in time in the following geographical regions (based on the location of the customers):

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
PRC	200,696	166,938
Pakistan	72,789	84,756
India	15,719	17,512
Kenya	11,127	9,146
Thailand	6,511	6,410
Other countries	42,569	35,307
	349,411	320,069

7 OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Government grants income including amortisation of deferred government grants	349	2,683
Income of sales of scrap and surplus materials	1,475	1,713
Rental income	104	96
Foreign exchange gain/(loss), net	1,630	(1,767)
Gain/(loss) on disposal of property, plant and equipment <i>(Note 29(b))</i>	35	(36)
Loss on disposal of intangible assets	–	(8)
Others	25	380
	3,618	3,061

NOTES TO THE FINANCIAL STATEMENTS

8 EXPENSES BY NATURE

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Raw materials and consumables used	226,972	210,980
Changes in inventories of finished goods and work in progress	4,445	(4,587)
Employee benefit expenses (<i>Note 9</i>)	34,132	35,431
Depreciation and amortisation	13,213	11,343
Utilities	11,177	10,239
Transportation expenses	4,344	5,805
Travelling expenses	3,123	4,251
Commission expenses	1,883	2,847
Entertainment expenses	1,887	2,285
Other taxes and levies	2,922	2,757
Marketing and exhibition expenses	2,759	1,018
Licensing fee	7,263	4,678
Auditors' remuneration-audit service	1,363	1,058
Legal and professional expenses	1,037	646
Research and development costs		
– Employee benefit expenses (<i>Note 9</i>)	4,171	4,095
– Depreciation and amortisation	298	207
– Raw materials and consumables used and others	5,390	6,319
Listing expenses	–	9,245
Inventory write-back	–	(53)
Other expenses	7,424	3,638
Total cost of sales, selling expenses and administrative expenses	333,803	312,202

NOTES TO THE FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Salaries, wages and bonuses	34,058	35,311
Pension costs	2,608	2,786
Other social security costs	1,637	1,429
	38,303	39,526

(a) Directors' and chief executive's emoluments

The remuneration of the directors and chief executives for the year ended 31 December 2018 and 31 December 2017 are set out below:

Name	Salaries, bonus, pension and other social security costs Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Executive directors		
Mr. Sheng Yingming ("Mr. Sheng") (i)	1,280	1,280
Mr. Fang Xu ("Mr. Fang")	364	329
Mr. Yu Zemin	358	358
Ms. Sheng Sainan	292	292
Independent non-executive directors		
Mr. Ma Lingfei	84	42
Ms. Huang Yueyuan	84	42
Mr. Tso Ping Cheong Brian (ii)	59	–
Mr. Lee Ho Yiu, Thomas (iii)	42	52
	2,563	2,395

- (i) Mr. Sheng is also the chief executive of the Company.
- (ii) Mr. Tso Ping Cheong Brian was appointed as independent non-executive directors of the Company on 1 June 2018.
- (iii) Mr. Lee Ho Yiu, Thomas resigned from independent non-executive directors of the Company on 31 May 2018.

NOTES TO THE FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Cont'd)

(b) Five highest paid individuals

For the year ended 31 December 2018, the five individuals whose emoluments were the highest in the Group included four directors (2017: three) whose emoluments are reflected in the analysis shown in Note 9(a). The emoluments payable to the remaining one individual during the year are as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Salaries, wages and bonuses	274	1,262
Pension costs	2	3
Other social security costs	3	17
	279	1,282

The emoluments fell within the following bands:

Number of individuals

Emolument bands	Year ended 31 December	
	2018	2017
HK\$ 0 – HK\$1,000,000	1	2

NOTES TO THE FINANCIAL STATEMENTS

10 FINANCE EXPENSES-NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance expenses:		
– Interest expenses on borrowings	5,618	5,646
Less: capitalised interest (<i>Note 15</i>)	(3,077)	(3,543)
– Interest expenses	2,541	2,103
– Bank service charges	907	804
Finance expenses	3,448	2,907
Finance income:		
– Interest income derived from bank deposits	(558)	(534)
Finance expenses – net	2,890	2,373

NOTES TO THE FINANCIAL STATEMENTS

11 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2018:

Name	Place of incorporation/ establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Haoyu Capital Limited (“Haoyu Capital”)	Incorporated in BVI, limited liability company	–	100%	Investment holding in HK
Splendecor Hong Kong Limited	Incorporated in HK, limited liability company	HK\$100	100%	Investment holding in HK
Zhejiang Shenglong Decoration Material Co., Ltd. (“Shenglong Decoration”)	Established in the PRC, limited liability company	RMB20,650,000	100%	Manufacturing and sales of decorative printing materials products in the PRC
Hangzhou Splendor Decoration Co. Ltd. (“Splendor Decoration”)	Established in the PRC, limited liability company	RMB22,710,000	100%	Manufacturing and sales of decorative printing materials products in the PRC
Hangzhou Jiayou Art Co. Ltd.	Established in the PRC, limited liability company	RMB3,000,000	100%	Manufacturing and sales of craft pictures in the PRC

NOTES TO THE FINANCIAL STATEMENTS

12 INCOME TAX EXPENSE

Current income tax
Deferred income tax (*Note 27*)

Year ended 31 December	
2018	2017
RMB'000	RMB'000
2,672	2,501
(1,404)	(1,301)
1,268	1,200

(a) PRC corporate income tax ("CIT")

The corporate income tax rate applicable to the Group entities located in PRC other than Shenglong Decoration is 25% according to the PRC Corporate Income Tax Law (the "CIT Law") effective on 1 January 2008.

Shenglong Decoration obtained the certificates of High and New Technology Enterprises from local government, in accordance with which, Shenglong Decoration enjoyed a preferential tax rate of 15% (2017: 15%) during the year.

(b) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands and, is exempted from Cayman Islands income tax. Haoyu Capital was incorporated under the International Business Companies Act of the British Virgin Islands and, is exempted from British Virgin Islands income tax. Splendecor Hong Kong Limited is subject to Hong Kong profits tax at the rate of 16.5%.

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from these jurisdictions during the year ended 31 December 2018 (2017: Nil).

(c) PRC withholding tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding income tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. During the year, the directors reassessed the dividend policy of its major subsidiaries established in the PRC, Shenglong Decoration and Splendor Decoration, based on the Group's current business plan and financial position, and no retained earnings as of 31 December 2018 would be distributed to its non-PRC registered intermediate holding company in the foreseeable future. As such, no deferred tax liability has been provided by the Group for the earnings expected to be retained by the Shenglong Decoration and Splendor Decoration in the PRC and not to be remitted out of the PRC in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

12 INCOME TAX EXPENSE (Cont'd)

(d) Taxation on the Group's profit

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate in the PRC of 25% as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Profit before income tax	15,001	8,204
Tax calculated at applicable corporate income tax rate of 25%	3,751	2,051
Effect of different tax rates and preferential tax rates of subsidiaries	(2,203)	(1,768)
Expenses not deductible for taxation purposes	916	1,679
Additional deductible allowance for research and development expenses (i)	(1,196)	(762)
	1,268	1,200

- (i) Pursuant to the CIT Law, the Group can enjoy an additional tax deduction calculated at 75% (2017: 50%) of the actual research and development expenses recognised.

13 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of shares in issue, a total of 375,000,000 shares which have taken into account the Share Subdivision (Note 21(a)) and the Capitalisation Issue (Note 21(c)) were deemed to have been in issue since 1 January 2017.

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Profit attributable to owners of the Company (RMB'000)	13,733	7,004
Weighted average number of ordinary shares in issue ('000)	500,000	432,534
Basic and diluted earnings per share (RMB cents)	2.75	1.62

The Company did not have any potential ordinary shares outstanding during the year. Diluted earnings per share is equal to basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

14 LAND USE RIGHTS AND PREPAYMENTS FOR LAND USE RIGHTS

Movement of land use rights is analysed as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Opening net book amount	43,316	43,822
Reclassified from construction-in-process	–	589
Amortisation	(1,069)	(1,095)
Closing net book amount	42,247	43,316
Cost	52,069	52,069
Accumulated amortisation	(9,822)	(8,753)
Net book amount	42,247	43,316

The lease periods of land use rights are 50 year starting from the date of grant and are located in the PRC.

As at 31 December 2018, land use rights with a total net book value of approximately RMB42,247,000 (2017: RMB43,316,000) were pledged as collateral for the Group's borrowings (Note 26).

The prepayments for land use rights of RMB4,900,000 (2017: RMB4,900,000) as at 31 December 2018 represented the land compensation fee paid by the Group for the government's requisition of collective use land and thus is considered as the prepayment of the Group to obtain the land use rights in the future. The amount is refundable if the Group cannot obtain the land use rights subsequently.

NOTES TO THE FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture and other equipment RMB'000	Motor vehicles RMB'000	Construction- in-progress RMB'000	Total RMB'000
Year ended 31 December 2017						
Opening net book amount	46,090	40,456	2,411	1,689	35,240	125,886
Additions	294	5,510	1,215	1,601	36,835	45,455
Disposals	–	(640)	–	–	–	(640)
Transfer	(3,819)	9,858	2,299	–	(8,338)	–
Reclassified to land use rights	–	–	–	–	(589)	(589)
Depreciation	(2,388)	(6,688)	(369)	(586)	–	(10,031)
Closing net book amount	40,177	48,496	5,556	2,704	63,148	160,081
At 31 December 2017						
Cost	59,091	128,675	8,617	5,133	63,148	264,664
Accumulated depreciation	(18,914)	(80,179)	(3,061)	(2,429)	–	(104,583)
Net book amount	40,177	48,496	5,556	2,704	63,148	160,081
Year ended 31 December 2018						
Opening net book amount	40,177	48,496	5,556	2,704	63,148	160,081
Additions	272	2,298	1,875	583	24,229	29,257
Disposals	–	–	–	(21)	–	(21)
Transfer	8,467	16,270	–	–	(24,737)	–
Depreciation	(3,036)	(7,954)	(638)	(739)	–	(12,367)
Closing net book amount	45,880	59,110	6,793	2,527	62,640	176,950
At 31 December 2018						
Cost	67,832	147,091	10,490	5,695	62,640	293,748
Accumulated depreciation	(21,952)	(87,981)	(3,697)	(3,168)	–	(116,798)
Net book amount	45,880	59,110	6,793	2,527	62,640	176,950

As at 31 December 2018, the construction-in-progress were mainly capital expenditures incurred for the construction of new plant in the PRC, the amount transferred out from the construction-in-progress mainly represented part of buildings and production lines which had been completed and put into use.

NOTES TO THE FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Depreciation charges have been charged to consolidated income statement as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of sales	8,310	8,664
Administration expenses	3,902	1,589
	12,212	10,253

As at 31 December 2018, property, plant and equipment with a total net book value of approximately RMB73,585,000 (2017: RMB14,159,000) was pledged as collateral for the Group's borrowings.

Borrowing cost of RMB3,077,000 (2017: RMB3,543,000) has been capitalised in assets under construction for the year ended 31 December 2018.

The capitalisation rate of borrowings for the year ended 31 December 2018 was 3.91% (2017: 5.66%).

NOTES TO THE FINANCIAL STATEMENTS

16 INTANGIBLE ASSETS

	Capitalised development costs including patents RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2017			
Cost	1,783	440	2,223
Accumulated amortisation	(759)	(194)	(953)
Net book amount	1,024	246	1,270
Year ended 31 December 2017			
Opening net book amount	1,024	246	1,270
Additions	126	–	126
Disposals	(203)	–	(203)
Amortisation	(164)	(38)	(202)
Closing net book amount	783	208	991
At 31 December 2017 and 1 January 2018			
Cost	1,660	440	2,100
Accumulated amortisation	(877)	(232)	(1,109)
Net book amount	783	208	991
Year ended 31 December 2018			
Opening net book amount	783	208	991
Additions	4,256	–	4,256
Amortisation	(192)	(38)	(230)
Closing net book amount	4,847	170	5,017
At 31 December 2018			
Cost	5,917	401	6,318
Accumulated amortisation	(1,070)	(231)	(1,301)
Net book amount	4,847	170	5,017

NOTES TO THE FINANCIAL STATEMENTS

16 INTANGIBLE ASSETS (Cont'd)

Amortisation has been charged to consolidated income statement as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Cost of sales	192	153
Administration expenses	38	49
	230	202

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Financial assets at amortised cost		
Trade and other receivables excluding non-financial assets	94,247	94,191
Restricted bank deposits	32,800	36,550
Cash and cash equivalents	16,892	14,688
Total	143,939	145,429

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Financial liabilities at amortised cost		
Borrowings	110,800	102,100
Trade and other payables excluding non-financial liabilities	123,810	131,378
Total	234,610	233,478

NOTES TO THE FINANCIAL STATEMENTS

18 INVENTORIES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Raw materials	15,478	17,598
Work in progress	4,422	3,726
Finished goods	24,146	22,399
	44,046	43,723

The cost of inventories recognised as expense and included in “cost of sales” and “administrative expenses” amounted to RMB275,942,000 and RMB5,390,100 for the year ended 31 December 2018 (2017: to RMB244,931,000 and RMB6,319,000). No inventory write-back for the year ended 31 December 2018 (2017: RMB53,000) were included in “cost of sales”.

19 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade receivables	87,792	87,290
Notes receivables	1,420	2,247
Less: allowance for impairment of trade receivables	(3,243)	(1,875)
Trade receivables, net	85,969	87,662
Advances to employees	5,744	3,803
Deposits paid to suppliers	170	967
Deposits for utilities and product quality assurance	2,790	1,357
Interests receivables	153	178
Prepayments of raw materials	400	373
Government grants receivables	—	2,327
Others	1,048	1,901
Less: allowance for impairment of other receivables	(1,053)	(1,086)
	9,252	9,820
	95,221	97,482

NOTES TO THE FINANCIAL STATEMENTS

19 TRADE AND OTHER RECEIVABLES (Cont'd)

- (a) The credit terms of trade receivables granted by the Group are normally within 3 months. The ageing analysis of trade receivables based on the invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 3 months	68,722	65,343
More than 3 months but not exceeding 1 year	14,225	17,553
More than 1 year	4,845	4,394
	87,792	87,290

- (b) The carrying amounts of the Group's trade receivables were denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	48,395	46,614
USD	39,376	40,607
EUR	21	69
	87,792	87,290

- (c) Fair value of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

- (d) Notes receivables represented trade related bank acceptance with maturity period within 6 months and non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS

20 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Cash on hand	119	35
Cash at bank	49,573	51,203
Cash at bank and on hand	49,692	51,238
Less: Restricted bank deposits	(32,800)	(36,550)
Cash and cash equivalents	16,892	14,688

Cash at bank and on hand were denominated in the following currencies:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
RMB	41,391	42,659
USD	4,272	531
EUR	127	36
HK\$	3,902	8,012
	49,692	51,238

NOTES TO THE FINANCIAL STATEMENTS

21 SHARE CAPITAL

Share capital	Number of ordinary shares of HK\$0.10 each '000	Nominal value of ordinary shares HK\$'000	Number of ordinary shares of HK\$0.01 each '000	Nominal value of ordinary shares HK\$'000
Authorised				
At 1 January 2017	1,000,000	100,000	–	–
Shares Subdivision	(1,000,000)	(100,000)	10,000,000	100,000
Ordinary shares at 31 December 2017, 1 January 2018 and 31 December 2018	–	–	10,000,000	100,000

	Number of ordinary shares of HK\$0.10 each '000	Nominal value of ordinary shares HK\$'000	Number of ordinary shares of HK\$0.01 each '000	Nominal value of ordinary shares HK\$'000	Equivalent nominal value of ordinary shares RMB'000
Issued					
At 1 January 2017	10,000	1,000	–	–	790
Shares Subdivision (a)	(10,000)	(1,000)	100,000	1,000	–
New Issue (b)	–	–	125,000	1,250	1,083
Capitalisation Issue (c)	–	–	275,000	2,750	2,380
At 31 December 2017, 1 January 2018 and 31 December 2018	–	–	500,000	5,000	4,253

- (a) Pursuant to a shareholders' resolution dated 22 June 2017, all the authorised shares of the Company with a par value of HK\$0.1 each was subdivided into 10 shares with a par value of HK\$0.01 each, so that the authorised shares became 10,000,000,000 shares and the issued shares as at 22 June 2017 became 100,000,000 shares ("Shares Subdivision").
- (b) In connection with the listing of the shares of the Company on the GEM of the Stock Exchange on 17 July 2017, 125,000,000 shares of HK\$0.01 per share were issued at HK\$0.68 per share through a public offering ("New Issue") for HK\$85,000,000 (equivalent to RMB73,575,000). After the New Issue, the issued and fully-paid share capital of the Company increased by HK\$1,250,000 (RMB1,083,000). The difference between the New Issue proceeds and the increased issued and fully-paid share capital, amounting to RMB72,492,000, was credited to the share premium account (Note 22).
- (c) On 22 June 2017, pursuant to a shareholders' resolution, the directors were authorized to capitalize the amount of HK\$2,750,000 (RMB2,380,000) as 275,000,000 shares issued to the then existing shareholders, at HK\$0.01 each from the amount standing to the credit of the share premium account of the Company ("Capitalisation Issue"). These shares were issued in conjunction with the New Issue.

NOTES TO THE FINANCIAL STATEMENTS

22 OTHER RESERVES

	Share Premium RMB'000	Merger reserve RMB'000	Statutory Reserves RMB'000 <i>(Note a)</i>	Other reserves RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2017	50,477	(24,645)	10,711	1,822	(464)	37,901
New Issue <i>(Note 21(b))</i>	72,492	–	–	–	–	72,492
Transaction costs attributable to issue of shares	(8,930)	–	–	–	–	(8,930)
Capitalisation Issue <i>(Note 21(c))</i>	(2,380)	–	–	–	–	(2,380)
Appropriation to statutory reserves	–	–	1,508	–	–	1,508
Currency translation difference	–	–	–	–	(1,985)	(1,985)
At 31 December 2017	111,659	(24,645)	12,219	1,822	(2,449)	98,606
At 1 January 2018	111,659	(24,645)	12,219	1,822	(2,449)	98,606
Appropriation to statutory reserves	–	–	1,945	–	–	1,945
Currency translation difference	–	–	–	–	(976)	(976)
At 31 December 2018	111,659	(24,645)	14,164	1,822	(3,425)	99,575

(a) Statutory reserves

Pursuant to the Company Law of the PRC and the articles of association of certain PRC subsidiaries, the subsidiaries in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous year' losses) to statutory surplus reserve until the fund aggregates to 50% of their registered capital; after the appropriation to statutory surplus reserve, the subsidiaries in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous year' losses, to expand production operations, or to increase the capital of the respective companies. The entities in the PRC may transfer their respective statutory surplus reserves into paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less 25% of the registered capital.

NOTES TO THE FINANCIAL STATEMENTS

23 SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 22 June 2017 (the “Scheme”), the Company may grant options to any individual who is an employee of the Group (including directors) or any entity in which the Company holds any interest and such other persons who has or will contribute to the Group as approved by the Board from time to time, to subscribe for shares in the Company with the payment of HK\$1.00 upon each option granted.

The subscription price of a share shall be at least the higher of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the option (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange’s daily quotations sheet for the five trading days immediately preceding the date of grant of the option; and (iii) the par value of the shares of the Company on the date of grant of the option.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue on the date the shares of the Company commence trading on the Stock Exchange. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 months period up to the date of grant shall not exceed 1% of the shares of the Company then in issue.

No share option was granted, exercised, cancelled or lapsed since the adoption date of the Scheme on 22 June 2017 and there was no outstanding share option under the Scheme as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

24 DEFERRED REVENUE

Rental income receipt in advance and deferred government grants are included in deferred revenue. Rental received from leasing of certain land use rights to an independent third party was deferred and recognised in the consolidated income statements on a straight-line basis over the contractual lease term. Government grants relating to the construction of several environmentally-conscious projects which were related to assets were deferred and recognised in the consolidated income statements on a straight-line basis over the assets' useful lives.

Movement of deferred revenue is as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Receipt of grants		
At the beginning of the year	3,516	1,796
Receipt of grants	106	–
Receipt of rental income	–	1,916
Amortisation of deferred government grant	(100)	(100)
Amortisation of deferred rental income	(104)	(96)
At the end of the year	3,418	3,516

25 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade payables	48,699	60,321
Notes payables	57,600	54,330
Payables for purchase of property, plant and equipment	9,637	8,747
Accrued operating expenses (a)	5,477	7,119
Employee benefit payable	6,306	5,254
Other taxes payable	4,944	1,047
Advance from customers	2,055	3,049
Others	2,397	861
	137,115	140,728

(a) The amount mainly represented accruals for transportation expenses and commission expenses.

NOTES TO THE FINANCIAL STATEMENTS

25 TRADE AND OTHER PAYABLES (Cont'd)

- (b) The Group's trade and other payables excluding non-financial liabilities were denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	123,675	130,404
USD	135	56
HK\$	—	918
	123,810	131,378

- (c) As at 31 December 2018, the ageing analysis of the trade payables and notes payables based on invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 3 months	73,643	68,541
More than 3 months but not exceeding 1 year	30,801	46,038
More than 1 year	248	72
	104,692	114,651

- (d) As at 31 December 2018, all trade and other payables of the Group were non-interest bearing.

26 SHORT-TERM BANK BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Secured bank borrowings (a)	103,600	34,800
Unsecured bank borrowings	7,200	15,300
	110,800	50,100

- (a) Short-term bank borrowings of RMB103,600,000 (2017: RMB34,800,000) as at 31 December 2018, was secured by property, plant and equipment (Note 15) and land use rights (Note 14) of Shenglong Decoration.

- (b) The weighted average interest rate of short-term borrowings at 31 December 2018 was 5.15% (2017: 4.97%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

27 DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	2,093	1,893
– to be recovered within 12 months	3,703	2,499
	5,796	4,392

Movement of deferred income tax assets is as follows:

Deferred income tax assets	Allowance for impairment of trade receivables RMB'000	Inventory write-down RMB'000	Deferred government grants RMB'000	Unrealised profit on intra-group transactions RMB'000	Tax losses RMB'000	Total RMB'000
As at 1 January 2017	1,105	79	269	1,638	–	3,091
Recognised in the consolidated income statement	(459)	(11)	(15)	256	1,530	1,301
As at 31 December 2017	646	68	254	1,894	1,530	4,392
As at 1 January 2018	646	68	254	1,894	1,530	4,392
Recognised in the consolidated income statement	267	–	1	200	936	1,404
As at 31 December 2018	913	68	255	2,094	2,466	5,796

28 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2018 (2017: Nil).

NOTES TO THE FINANCIAL STATEMENTS

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to cash generated from/(used in) operations:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Profit before income tax	15,001	8,204
Adjustments for:		
Depreciation of property, plant and equipment (<i>Note 15</i>)	12,367	10,253
Amortisation of land use rights (<i>Note 14</i>)	1,069	1,095
Amortisation of intangible assets (<i>Note 16</i>)	230	202
(Gain)/loss on disposal of property, plant and equipment (<i>Note 7</i>)	(35)	36
Loss on disposal of intangible assets (<i>Note 7</i>)	–	8
Finance expenses – net (<i>Note 10</i>)	2,890	2,373
Allowance for impairment of trade receivables and other financial assets at amortised cost	1,335	351
	32,857	22,522
Changes in working capital:		
Inventories	(323)	(6,169)
Trade and other receivables	(2,575)	(34,299)
Trade and other payables	(5,737)	4,419
Cash generated from/(used in) operations	24,222	(13,527)

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Net book amount	21	418
Gain/(loss) on disposal of property, plant and equipment (<i>Note 7</i>)	35	(36)
Proceeds from disposal	56	382

NOTES TO THE FINANCIAL STATEMENTS

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	16,892	14,688
Borrowings – repayable within one year	(110,800)	(102,100)
Net debt	(93,908)	(87,412)
Cash and liquid investments	16,892	14,688
Gross debt – short term or variable interest rates	(110,800)	(102,100)
Net debt	(93,908)	(87,412)

	Other assets	Liabilities from financing activities		Total
	Cash	Borrowing due within 1 year	Borrowing due after 1 year	
	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2017	11,344	(53,200)	(52,000)	(93,856)
Cash flows	4,370	3,100	–	7,470
Other non-cash movement	–	(52,000)	52,000	–
Foreign exchange adjustments	(1,026)	–	–	(1,026)
Net debt as at 31 December 2017	14,688	(102,100)	–	(87,412)
Cash flows	2,000	(8,700)	–	(6,700)
Foreign exchange adjustments	204	–	–	204
Net debt as at 31 December 2018	16,892	(110,800)	–	(93,908)

NOTES TO THE FINANCIAL STATEMENTS

30 COMMITMENTS

Capital commitments

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Property, plant and equipment	6,092	11,959

31 RELATED PARTY TRANSACTIONS

(a) Names and relationship

The following is a summary of the significant transactions carried out between the Group and its related parties during the year ended 31 December 2018, and balances arising from related party transactions as at 31 December 2018.

Name of the related party	Relationship with the Group
Ms. Lu Miaoling	Key management personnel

(b) Transactions with related parties

(i) Key management personnel compensation

The compensations paid or payable to key management personnel (including directors and senior management) for employee services are shown below:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	3,158	2,381
Pension costs	6	14
Other social security costs	14	24
	3,178	2,419

NOTES TO THE FINANCIAL STATEMENTS

31 RELATED PARTY TRANSACTIONS *(Cont'd)*

(c) Period-end balances with related parties

(i) Amounts due from related parties

	As at 31 December		2017	
	2018			
	RMB'000	RMB'000	RMB'000	RMB'000
	<i>Maximum</i>		<i>Maximum</i>	
	<i>balance</i>		<i>balance</i>	
	<i>outstanding</i>		<i>outstanding</i>	
	<i>during the year</i>		<i>during the year</i>	
Key management personnel:				
Ms. Lu Miaoling	—	—	800	—

The above balances were repayable on demand and no interest bearing.

32 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

33 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

		Company	
		As at 31 December	
<i>Notes</i>	2018	2017	
	RMB'000	RMB'000	
ASSETS			
Non-current assets			
Investments in subsidiaries	110,711	107,651	
Current assets			
Amounts due from subsidiaries	939	297	
Prepayment, deposits and other receivables	316	50	
Cash and cash equivalents	3,530	6,489	
	4,785	6,836	
Total assets	115,496	114,487	
EQUITY			
Equity attributable to owners of the Company			
Share capital	4,253	4,253	
Other reserves	113,946	111,549	<i>33(b)</i>
Accumulated losses	(2,705)	(1,415)	
Total equity	115,494	114,387	
LIABILITIES			
Current liabilities			
Other payables and accruals	2	100	
Total equity and liabilities	115,496	114,487	

The balance sheet of the Company was approved by the Board of Directors on 21 March 2019 and was signed on its behalf.

Sheng Yingming
Director

Yu Zemin
Director

NOTES TO THE FINANCIAL STATEMENTS

33 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY (Cont'd)

(b) Reserves movement of the Company

Company	Share Premium RMB'000	Translation Reserve RMB'000	Total RMB'000
At 1 January 2017	50,477	6,790	57,267
New Issue	72,492	–	72,492
Capitalisation Issue	(2,380)	–	(2,380)
Transaction costs attributable to issue of shares	(8,930)	–	(8,930)
Currency translation differences	–	(6,900)	(6,900)
At 31 December 2017	111,659	(110)	111,549
At 1 January 2018	111,659	(110)	111,549
Currency translation differences	–	2,397	2,397
At 31 December 2018	111,659	2,287	113,946

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus, is set out below.

RESULTS

	For the year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	349,411	320,069	248,773	216,598	238,863
Profit before income tax	15,001	8,204	24,890	5,989	15,423
Income tax expenses	(1,268)	(1,200)	(4,159)	(670)	(2,507)
Profit for the year	13,733	7,004	20,731	5,319	12,916

ASSETS AND LIABILITIES

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	423,869	406,123	333,228	338,511	342,315
Total liabilities	251,333	246,344	243,113	256,668	268,797
Total equity	172,536	159,779	90,115	81,843	73,518

As at the date of this announcement, the Board comprises (i) four executive directors, namely Mr. Sheng Yingming, Ms. Sheng Sainan, Mr. Fangxu and Mr. Yu Zemin and (ii) three independent non-executive directors, namely Mr. Ma Lingfei, Mr. Tso Ping Cheong Brian and Ms. Huang Yueyuan.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website (<http://www.hkgem.com>) for at least 7 days from the date of its publication and on the Company’s website (<http://www.splendecor.com>).

In case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.