# Sijia Group Company Limited
# 思嘉集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1863)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014 AND CONTINUED SUSPENSION OF TRADING

## FINANCIAL HIGHLIGHTS

- Revenue decreased by 25.1% to RMB682.9 million
- Gross profit decreased by 56.3% to RMB48.1 million
- Loss for the year attributable to owners of the Company was RMB159.2 million
- Basic loss per share was RMB18.68 cents

## CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended since 14 February 2013 and will remain suspended until further notice.

# Annual Results

The board of directors (the "Board") of Sijia Group Company Limited (the "Company") announces the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014, together with the comparative figures for 2013 as follows:

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **TURNOVER** | 5 | 682,858 | 911,550 |
| Cost of sales | | (634,746) | (801,430) |
| **GROSS PROFIT** | | 48,112 | 110,120 |
| Other income and gains | 6 | 7,769 | 6,673 |
| Selling and distribution costs | | (21,423) | (20,242) |
| Administrative expenses | | (84,126) | (68,160) |
| Other expenses | | (7,995) | (6,334) |
| **(LOSS)/PROFIT FROM OPERATIONS** | | (57,663) | 22,057 |
| Impairments of various assets | | (74,822) | (32,613) |
| Finance costs | 7 | (16,543) | (18,094) |
| **LOSS BEFORE TAX** | 8 | (149,028) | (28,650) |
| Income tax expense | 9 | (10,545) | (6,976) |
| **LOSS FOR THE YEAR** | | (159,573) | (35,626) |
| **Other comprehensive (expenses)/income after tax:** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences on translation of non-PRC operations | | (263) | 1,829 |
| **TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR** | | (159,836) | (33,797) |
| **LOSS FOR THE YEAR ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | (159,227) | (35,222) |
| Non-controlling interests | | (346) | (404) |
| | | (159,573) | (35,626) |
| **TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | (159,490) | (33,393) |
| Non-controlling interests | | (346) | (404) |
| | | (159,836) | (33,797) |
| **LOSS PER SHARE (RMB cents)** | | | |
| – Basic | 10 | (18.68) | (4.13) |
| – Diluted | | (18.68) | (4.13) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 875,797 | 987,224 |
| Prepaid land lease payments | | 28,063 | 33,527 |
| Intangible assets | | 2,742 | 3,332 |
| Deposits paid for acquisition of property, plant and equipment | | 26,488 | 50,075 |
| Available-for-sale investment | | 4,140 | 4,140 |
| Deferred tax assets | | 24,810 | 28,562 |
| **Total non-current assets** | | 962,040 | 1,106,860 |
| **Current assets** | | | |
| Inventories | | 112,758 | 128,765 |
| Trade and bills receivables | 11 | 268,221 | 330,012 |
| Prepayments, deposits and other receivables | | 98,603 | 194,327 |
| Pledged deposits | | 70,075 | 100,569 |
| Cash and cash equivalents | | 69,940 | 48,152 |
| | | 619,597 | 801,825 |
| **Non-current assets classified as held for sale** | | 108,212 | – |
| **Total current assets** | | 727,809 | 801,825 |
| **Current liabilities** | | | |
| Trade and bills payables | 12 | 328,101 | 457,962 |
| Other payables and accruals | | 129,629 | 98,322 |
| Interest-bearing bank borrowings | | 203,000 | 186,786 |
| Deferred income | | 360 | 360 |
| Tax payable | | 15,957 | 14,923 |
| | | 677,047 | 758,353 |
| **Liabilities associated with assets classified as held for sale** | | 42,666 | – |
| **Total current liabilities** | | 719,713 | 758,353 |
| **Net current assets** | | 8,096 | 43,472 |
| **Total assets less current liabilities** | | 970,136 | 1,150,332 |
| **Non-current liabilities** | | | |
| Interest-bearing bank borrowings | | 60,000 | 80,000 |
| Deferred income | | 1,770 | 2,130 |
| Deferred tax liabilities | | 14,293 | 14,293 |
| **Total non-current liabilities** | | 76,063 | 96,423 |
| **NET ASSETS** | | 894,073 | 1,053,909 |
| **Capital and reserves** | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | | 747 | 747 |
| Reserves | | 876,733 | 1,036,223 |
| | | 877,480 | 1,036,970 |
| **Non-controlling interests** | | 16,593 | 16,939 |
| **TOTAL EQUITY** | | 894,073 | 1,053,909 |

## 1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 7 October 2009. The address of its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal places of business is located at Unit 11A, 6th Floor, Silvercord Tower Two, 30 Canton Road, Tsim Sha Tsui, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and have been suspended for trading since 14 February 2013.

The Company acts as an investment holding company. The Company, through its major subsidiaries, is principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials, (ii) conventional materials and (iii) downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market.

In the opinion of the directors (the "Directors") of the Company, as at the date of issue of these consolidated financial statements, Hopeland International Holdings Company Limited ("Hopeland International") is the ultimate holding company and Mr. Lin Shengxiong ("Mr. Lin") is the ultimate controlling party. Hopeland International does not produce financial statements available for public use.

## 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Group incurred loss attributable to owners of the Company for two consecutive years of year ended 31 December 2013 and 31 December 2014 and the Company's shares have been suspended for trading since 14 February 2013. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the controlling shareholder, at a level sufficient to finance the working capital requirements of the Group. The controlling shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 4. SEGMENT INFORMATION

There is only one operating segment which is principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials, (ii) conventional materials and (iii) downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market.

**Geographical information**

| | **Revenue from external customers** | | **Non-current assets** | |
|---|---|---|---|---|
| | **Year ended 31 December** | | **As at 31 December** | |
| | **2014** | **2013** | **2014** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| PRC | 562,527 | 654,064 | 933,090 | 1,074,158 |
| Others | 120,331 | 257,486 | – | – |
| | 682,858 | 911,550 | 933,090 | 1,074,158 |

In presenting the geographical information, the revenue information is based on the locations of the customers while the non-current asset information is based on the location of assets and excludes financial instruments and deferred tax assets. No revenue from transactions with a single country other than PRC amounted to 10% or more of the Group's total sales for the year (2013: Nil).

**Information about major customers**

No revenue from transactions with a single customer amounted to 10% or more of the Group's total sales for the year (2013: Nil).

## 5. TURNOVER

The Group's turnover which represents sales of goods to customers is as follows:

| | **2014** | **2013** |
|---|---|---|
| | **RMB'000** | **RMB'000** |
| Sales of goods | 682,858 | 911,550 |

## 6. OTHER INCOME AND GAINS

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Bank interest income | 1,106 | 1,463 |
| Government subsidies (note) | 4,088 | 4,124 |
| Gross rental income | 48 | 95 |
| Dividend income from available-for-sale investment | 232 | 123 |
| Sundry income | 2,295 | 868 |
| | 7,769 | 6,673 |

Note: Government subsidies are received and used for development of new products and implementation of environmental protection development programmes. These government subsidies are not attributable to any non-current assets and there were no other specific conditions attached to the subsidies. Therefore, the Group recognised the subsidies upon receipt during the years ended 31 December 2014 and 2013.

## 7. FINANCE COSTS

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | 23,179 | 25,556 |
| Less: interests capitalised | (6,636) | (7,462) |
| | 16,543 | 18,094 |

## 8. LOSS BEFORE TAX

The Group's loss before tax is stated after charging:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Cost of inventories sold* | 634,746 | 801,430 |
| Depreciation of property, plant and equipment | 71,623 | 64,650 |
| Amortisation of prepaid land lease payments | 941 | 982 |
| Amortisation of intangible assets | 1,140 | 1,218 |
| Loss on disposals of property, plant and equipment | 6,455 | 1,769 |
| Staff costs (including directors' remuneration): | | |
| Wages and salaries | 38,411 | 49,861 |
| Retirement benefits scheme contributions | 2,481 | 1,825 |
| Staff welfare expenses | 1,397 | 2,283 |
| | 42,289 | 53,969 |
| Operating lease charges on land and buildings | 2,259 | 2,250 |
| Research and development costs | 37,548 | 30,586 |
| Exchange losses, net | 222 | 3,566 |
| Impairment of property, plant and equipment | 40,251 | 4,106 |
| Impairment of deposits paid for acquisition of property, plant and equipment | 1,110 | – |
| Impairment of trade receivables | 5,680 | 7,948 |
| Impairment of inventories | 27,781 | 20,559 |
| Auditors' remuneration | 2,744 | 2,317 |

* Cost of inventories sold includes RMB89,913,000 (2013: RMB91,860,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

## 9. INCOME TAX EXPENSE

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Current tax – the PRC | | |
| Charge for the year | 3,435 | 2,083 |
| Under/(over) provision in prior year | 3,358 | (876) |
| Deferred tax | 3,752 | 5,769 |
| | 10,545 | 6,976 |

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

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2014 on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for each of the years ended 31 December 2014 and 2013.

In accordance with the Corporate Tax Law of the PRC, the profits of the following PRC subsidiaries are subject to the following tax rates:

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Fujian Sijia Industrial Material Co., Ltd. #<br>(福建思嘉環保材料科技有限公司) ("Fujian Sijia") | (a) | 15% | 15% |

\# The English name is for identification only

Notes:

(a) Pursuant to the approval of the tax bureau, Fujian Sijia, being a high-tech enterprise, was levied at the tax rate of 15% for the year (2013: 15%) according to the New Corporate Income Tax Law.

(b) Other subsidiaries are subject to a corporate income tax rate of 25% during the year according to the PRC Corporate Income Tax Law (2013: 25%).

## 10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

**Loss per share**

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB159,227,000 (2013: approximately RMB35,222,000) and the weighted average number of approximately 852,612,000 ordinary shares (2013: approximately 852,612,000 ordinary shares) in issue during the year.

**Diluted loss per share**

Diluted loss per share for the years ended 31 December 2014 and 2013 is the same as the basic loss per share as the Company did not have any dilutive potential ordinary shares during the years.

## 11. TRADE AND BILLS RECEIVABLES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Trade receivables | 268,221 | 329,992 |
| Bills receivable | – | 20 |
| | 268,221 | 330,012 |

The Group's trading terms with customers mainly comprise credit and cash on delivery. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

The aging analysis of trade receivables at the end of the reporting period, based on the date the Group is entitled to receive, and net of allowance, is as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Within 3 months | 50,084 | 184,981 |
| More than 3 months but within 6 months | 24,444 | 45,732 |
| More than 6 months but within 1 year | 43,355 | 90,538 |
| More than 1 year | 150,338 | 8,761 |
| | 268,221 | 330,012 |

## 12. TRADE AND BILLS PAYABLES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Trade payables | 128,397 | 165,370 |
| Bills payables | 199,704 | 292,592 |
| | 328,101 | 457,962 |

The aging analysis of trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Within 3 months | 181,769 | 256,661 |
| More than 3 months but within 6 months | 128,749 | 188,000 |
| More than 6 months but within 1 year | 10,859 | 7,448 |
| More than 1 year | 6,724 | 5,853 |
| | 328,101 | 457,962 |

# 13. SHARE CAPITAL

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---:|---:|
| **Authorized:** | | |
| 2,000,000,000 ordinary shares of HK$0.001 each | 1,760 | 1,760 |
| **Issued and fully paid:** | | |
| 852,612,470 ordinary shares of HK$0.001 each | 747 | 747 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

There is no movement of the number of shares issued and the share capital during the year.

Notes:

**(i) Share options**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements of the annual report.

**(ii) Unlisted warrants**

On 17 November 2010, 35,000,000 unlisted warrants of HK$0.01 each (the "Warrant(s)") for cash had been issued. The total proceeds and net proceeds from the placing of warrants after deducting all related expenses, were approximately HK$350,000 (equivalent to approximately RMB300,000) and approximately HK$188,000 (equivalent to approximately RMB161,000), respectively. The Company has utilised the net proceeds as general working capital. During the year 2013, no warrant was exercised and the subscription rights under the Warrant(s) has been expired on 16 November 2013.

**(iii) Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

# EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

ZHONGHUI ANDA CPA Limited has expressed qualified opinion on the audited consolidated financial statements of our Group for the financial year ended 31 December 2014, an extract of which is as follow:

## Basis for qualified opinion

### Corresponding figures

Our opinion on the consolidated financial statements of the Group for the year ended 31 December 2013, which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified because of the possible effects of the limitations on the scope of our audit, details of which are set out in our audit report dated 28 May 2014.

### Trade receivables and advances to suppliers

Up to the date of this report, we have not yet obtained sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of the trade receivables and advances to suppliers of approximately RMB227 million and RMB69 million respectively as at 31 December 2014. There are no other satisfactory audit procedures that we could adopt to determine whether any allowance for non-recovery of the amounts should be made in the financial statements.

Any adjustments to the figures mentioned above might have consequential effects on the Group's results for the year ended 31 December 2014 and 2013, the financial positions of the Group as at 31 December 2014 and 2013, and the related disclosures thereof in the consolidated financial statements.

## Qualified opinion

In our opinion, except for the possible effects of the matters as described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2014, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Emphasis of Matter – Going Concern Basis

Without further qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates the Group incurred a loss of approximately RMB159,573,000 for the year ended 31 December 2014 and the Company's shares have been suspended for trading since 14 February 2013. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

# MANAGEMENT DISCUSSION AND ANALYSIS

Over the past years, the Group has experienced tough and challenging moments. To uphold the Group's business, a series of measures were implemented to stabilize the development of its business, including repositioning of the products, focusing on the development of new materials business and actively liaising with customers, in order to restore and rebuild customers' confidence as well as the Group's reputation. The Group reported an audited consolidated net loss of approximately RMB159.2 million, mainly due to various reasons as discussed below.

## Business Review

The Group is a recognised industry leader in the PRC in providing reinforced new materials for a wide spectrum of industries, such as modern transportation, construction, renewable energy, agriculture, healthcare, sports, outdoor leisure and daily supplies. The management team of the Group has vast experience in proprietary technology, product innovation and marketing and insists on market-focused strategy and joint development, manufacturing, sales of novel products with research and development ("R&D") team and academic institutions. Various novel products and production techniques of the Group possess independent intellectual property rights and national patents on technology.

The Group's reinforced materials (the "Reinforced Materials") business, located in Fuzhou and Shanghai, utilises self-developed facilities and techniques, which has acquired national patents on innovation, to produce new materials, including architectural membrane, waterproofing membrane, air tightness materials, inflatable materials, biogas tank materials, tarpaulin materials, wader and protective garment materials, etc.. Such materials exhibit nine characteristics, including high tensile strength, anti-tearing, anti-stripping, flame retardancy, anti-bacteria, anti-corrosive, durable, low temperature resistance and sunlight resistance. Meanwhile, the Group has also expanded into downstream end products (the "End Products") business.

Given the diverse applications of the Reinforced Materials and End Products, the Group's products can be applied in 11 major markets including outdoor, sports, renewable energy, protection, construction, logistic, packaging, medical use, safety, advertising and daily supplies.

For the year under review, revenue was approximately RMB682.9 million, representing a decrease of approximately RMB228.7 million, or 25.1%, compared to revenue of approximately RMB911.6 million for last year. The decrease was primarily attributable to a decrease in selling price of certain products due to intensifying market competition and decrease in sale of End Products.

For the year under review, the Group's products can be categorised into three types : (i) Reinforced Materials; (ii) conventional materials ("Conventional Materials"); and (iii) End Products. The Group generated most of its revenue from the Reinforced Materials which accounted for approximately 70.3% (2013: approximately 42.9%) of total revenue. For the year under review, local sales continued to be its major source of revenue, representing approximately 82.4% (2013: approximately 71.8%) of the total revenue while export sales only accounted for approximately 17.6% (2013: approximately 28.2%) of the total revenue.

The table below sets forth the Group's revenue by products:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | (RMB million) | % | (RMB million) | % |
| Reinforced Materials | 480.2 | 70.3 | 390.9 | 42.9 |
| Conventional Materials | 129.5 | 19.0 | 168.1 | 18.4 |
| End Products | 73.2 | 10.7 | 352.6 | 38.7 |
| | 682.9 | 100.0 | 911.6 | 100.0 |

The table below sets forth the Group's revenue by geographical locations:

| | For the year ended 31 December | |
|---|---|---|
| | 2014 | 2013 |
| PRC | 562.6 | 654.1 |
| Others | 120.3 | 257.5 |
| | 682.9 | 911.6 |

### Reinforced Materials

For the year under review, in respect of the Reinforced Materials, the Group delivered the most in inflatable materials, followed by air-tightness materials and tarpaulin materials. With its effort to build up the brand image and reputation, the Group also delivered bag materials and membrane structure materials to serve our high-end customers. The strategy of the Group is to leverage its leading marketing position and offer products at a competitive price.

As at 31 December 2014, the Group owned a total of 81 patents with 24 on its innovations, 39 on new applications and 18 on exterior designs.

For the year under review, the Group's revenue generated from our Reinforced Materials amounted to approximately RMB480.2 million (2013: approximately RMB390.9 million) which accounted for approximately 70.3% (2013: approximately 42.9%) of total revenue, representing an increase in sales of 22.8%. The increase in revenue from the Reinforced Material was mainly attributable to the increase in sale and production of tarplulin materials with the full-year operation of the production facilities in our Shanghai factory.

### Conventional Materials

For the year under review, the Group's revenue generated from the Conventional Materials amounted to approximately RMB129.5 million (2013: approximately RMB168.1 million) which accounted for approximately 19.0% (2013: approximately 18.4%) of total revenue, representing a decrease in sales of approximately 23.0%.

### End Products

For the year under review, the Group's revenue generated from the End Products amounted to approximately RMB73.2 million (2013: approximately RMB352.6 million) which accounted for approximately 10.7% (2013: approximately 38.7%) of total revenue, representing a decrease in sales of approximately 79.2%. As at 31 December 2014, the Group had 8 local sales offices mainly for the promotion of the End Products.

The decrease was primarily due to our Group's strategy to reduce our labour intensive End Products business which encountered increasing labour cost and fierce competition. In the future, our Group will focus more on our Reinforced Materials business with higher barrier of entry and better profit margin. In line with this strategy, the Group has entered into an equity transfer agreement with an independent third party for the disposal of 51% equity interest in Hubei Sijia Outdoor Products Co., Ltd., the operation of which was highly labour intensive, on 4 December 2014 at a consideration of RMB18,000,000. The disposal was completed on 6 March 2015.

# Financial Review

## Revenue

The Group's revenue for the year ended 31 December 2014 was approximately RMB682.9 million, representing a decrease of approximately RMB228.7 million, or 25.1%, compared to revenue of approximately RMB911.6 million for last year. For the year ended 31 December 2014, the Group's major sales segments, namely, (1) Reinforced Materials reported revenue of approximately RMB480.2 million (2013: approximately RMB390.9 million); (2) Conventional Materials reported a revenue of approximately RMB129.5 million (2013: approximately RMB168.1 million); and (3) End Products recorded a revenue of approximately RMB73.2 million (2013: approximately RMB352.6 million).

The overall decrease in revenue was primarily attributable to a decrease in selling price of certain products due to intensifying market competition and our Group's strategy to reduce our labour intensive End Products business which encountered increasing labour cost and fierce competition.

## Gross Profit and Gross Margin

Gross profit was approximately RMB48.1 million for the year under review (2013: approximately RMB110.1 million), with gross profit margin of approximately 7.0% (2013: 12.1%). The reduction in gross margin was mainly due to a general decrease in selling price of our products arisen from intense market competition.

The table below sets forth the Group's gross profit margin by products:

| | **2014** | **2013** |
|---|---|---|
| | **%** | **%** |
| Reinforced Materials | 10.1 | 17.0 |
| Conventional Materials | 0.2 | 6.3 |
| End Products | -0.5 | 9.8 |
| Overall | 7.0 | 12.1 |

## Selling and Distribution Costs

For the year under review, selling and distribution costs increased by approximately RMB1.2 million or 5.8% to approximately RMB21.4 million, or 3.1% of revenue for the year under review, from approximately RMB20.2 million, or 2.2% of revenue for the last year. The increase in selling and distribution costs was primarily due to an increase in transportation costs incurred which amounted to approximately RMB10.9 million (2013: approximately RMB8.3 million) for the year under review.

## Administrative Expenses

For the year under review, administrative expenses increased by approximately RMB16.0 million or 23.4% to approximately RMB84.1 million, or 12.3% of revenue for the year under review, from approximately RMB68.2 million, or 7.5% of revenue for last year. The increase in administrative expenses was mainly attributable to an increase in R&D expenses amounted to approximately RMB37.5 million (2013: approximately RMB30.6 million).

### Research and Development

For the year under review, R&D costs amounted to approximately RMB37.5 million, or 5.5% of revenue (2013: approximately RMB30.6 million, or 3.4% of revenue). The Group believes that its on-going R&D efforts are critical in maintaining long-term competitiveness, retaining existing customers, enchanting its ability to attract new customers and developing new markets. It plans to continue to dedicate its resources to the R&D activities for developing raw materials at lower costs, streamlining manufacturing processes, increasing production capacities, and developing high value-added New Materials.

### Impairments and Write-Offs

The Group's management took a prudent approach in assessing the values of assets and collectability of accounts receivable. This includes taking into consideration, the credit history of the Group's customers and the prevailing market condition.

For the year under review, impairments have been recognised in respect of:

(i) inventories in the amount of approximately RMB27.8 million (2013: approximately RMB20.6 million) mainly attributable to write down of slow moving and obsolete End Products/stocks;

(ii) trade receivables in the amount of approximately RMB5.7 million (2013: approximately RMB7.9 million);

(iii) property, plant and equipment of our Group in the amount of approximately RMB40.3 million (2013: approximately RMB4.1 million); and

(iv) deposits paid for acquisition of property, plant and equipment of RMB1.1 million (2013: Nil).

### Finance Costs

Finance costs for the year under review was approximately RMB16.5 million (2013: approximately RMB18.1 million). This equates to approximately 2.4% and approximately 2.0% of revenue for 2014 and 2013, respectively. The decrease in finance cost for the year under review compared to last year was mainly attributable to decrease in bank borrowings.

### Interest Income

Interest income amounted to approximately RMB1.1 million for the year under review (2013: approximately RMB1.5 million).

### Loss for the Year

As a combined effect of the above, during the year under review, the Group incurred a loss of approximately RMB159.6 million, as compared to a loss of approximately RMB35.6 million for last year. Notwithstanding the loss attributable mainly to the impairment of assets for RMB74.8 million, the Directors, after taking into account the gross profit of approximately RMB48.1 million for the financial year ended 31 December 2014, the confirmed orders to date and prospects of the Group's future sales, are of the view that its business is viable and sustainable.

### Dividends

The Board did not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: nil).

### Liquidity and Financial Resources

#### Shareholders' Funds

Total shareholders' funds amounted to approximately RMB894.1 million as at 31 December 2014, as compared to approximately RMB1,053.9 million at 31 December 2013, representing a decrease of 15.2%.

#### Financial Position

As at 31 December 2014, the Group has total current asset of RMB727.8 million and total current liabilities of RMB719.7 million, with net current assets of RMB8.1 million. Taking into account the financial support of the controlling shareholder as set out under note 2 of this result announcement, the Directors are of the view that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future.

As at 31 December 2014, the Group's net gearing, expressed as a percentage of total interest-bearing liabilities to total assets, was at 15.5% as compared to 14.0% as at 31 December 2013.

#### Cash and Cash Equivalents

As at 31 December 2014, the Group had cash and cash equivalents of approximately RMB69.9 million (31 December 2013: approximately RMB48.2 million), most of which were denominated in Renminbi.

#### Bank Borrowings

The Group had interest-bearing bank borrowings of approximately RMB263.0 million (31 December 2013: RMB266.8 million) while total banking facilities amounted to RMB484.0 million (31 December 2013: approximately RMB680.0 million).

#### Capital Expenditure

For the year under review, the Group incurred capital expenditure of approximately RMB88.7 million mainly for the purchase of production facilities for the second phase factory in Fuzhou. All of the capital expenditure for the year under review were financed by the Group's internal resources.

#### Human Resources

As at 31 December 2014, the Group employed a total of 586 employees (31 December 2013: 1,076 employees).

The reduce in staff headcount was mainly due to our strategy to scale down our labour intensive End Products operations, in order to focus more on our Reinforced Materials operations.

## PROSPECTS

Looking forward, the Group intends to focus on, amongst others, (i) the development of the Shanghai factory to produce materials for tarpaulins and truck covers, materials for automotives' windows and membrane for double membrane gas holders including plans to increase the plant and equipment in order to achieve the economies of scale; (ii) the development of business in Fuzhou by gradually expanding and developing the production of inflated materials, materials for waterproof trousers, ethylene vinyl acetate ("EVA") materials and new materials; (iii) continuing to cut down the number of products with high labour costs and to develop high value-added products related to labour protection and; (iv) the establishment of overseas sales offices or agents in order to strengthen our effort to explore the overseas market. Accordingly, the Group, apart from continuing our strength in products such inflatable materials, inflatable boats and materials for waterproof trousers, also plans to develop products with high profit margins such as materials for broaden tarpaulins and truck covers, materials for membrane structures and membrane for double membrane gas holders and etc.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions contained in the Corporate Governance Code (effective from 1 April 2012) (the "Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2014.

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' 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 as the standard for securities transactions by Directors. The company has made specific enquiries to all the Directors and all the Directors have confirmed their compliance with the required standards set out in the Model Code for the year ended 31 December 2014.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares for the year ended 31 December 2014.

## SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2014 as set out in this preliminary announcement have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited. These figures were the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2014. The work performed by ZHONGHUI ANDA CPA Limited in respect of this announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

## REVIEW OF ANNUAL RESULTS

The audit committee, comprises three independent non-executive directors of the Company, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's audited consolidated financial statements for the year ended 31 December 2014 have been reviewed by the audit committee and agreed with all the accounting treatments which has been adopted therein.

## SUSPENSION OF TRADING

At the request of our Company, trading in the shares of our Company on the Stock Exchange has been suspended since 14 February 2013 and will remain suspended until further notice.

## PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE COMPANY AND THE STOCK EXCHANGE

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sijia.hk). The annual report for the year ended 31 December 2014 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

By Order of the Board
**Sijia Group Company Limited**
**Lin Shengxiong**
*Chairman*

Hong Kong, 31 March 2015

*As at the date of this announcement, the executive Directors are Mr. Lin Shengxiong, Mr. Zhang Hongwang and Mr. Huang Wanneng, and the independent non-executive Directors are Mr. Chong Chi Wah, Mr. Cai Weican and Mr. Wu Jianhua.*