



**思嘉集團有限公司**  
**SIJIA GROUP COMPANY LIMITED**

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 1863

Annual Report **2014**

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# Corporate Information

## Board of Directors

### Executive Directors

Lin Shengxiong (*Chairman*)  
Zhang Hongwang  
Huang Wanneng

### Independent Non-executive Directors

Cai Weican  
Wu Jianhua  
Chong Chi Wah

## Registered Office

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## Principal Place of Business in Hong Kong

Unit 11A, 6th Floor,  
Silvercord Tower Two, 30 Canton Road,  
Tsim Sha Tsui, Hong Kong

## Company Secretary

Chan Wing Hang

## Authorised Representatives

Lin Shengxiong  
Chan Wing Hang

## Audit Committee

Chong Chi Wah (*Chairman*)  
Cai Weican  
Wu Jianhua

## Remuneration Committee

Wu Jianhua (*Chairman*)  
Lin Shengxiong  
Cai Weican  
Chong Chi Wah

## Nomination Committee

Cai Weican (*Chairman*)  
Wu Jianhua  
Chong Chi Wah

## Legal Advisers

Pang & Co., in association with Loeb & Loeb LLP

## Auditors

ZHONGHUI ANDA CPA Limited

## Principal Bankers

DBS Hong Kong Limited  
Bank of China (Hong Kong) Limited

## Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716  
17/F, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## Stock Code

1863

## Corporate Website

<http://www.sjia.hk>

## Investor Relations Contact

Email: [ir@sjiacn.com](mailto:ir@sjiacn.com)  
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Fax: (852) 2477 9969

# Financial Highlights

	2014	2013
<b>Results</b>		
Revenue (RMB million)	682.9	911.6
Gross profit (RMB million)	48.1	110.1
Loss before tax (RMB million)	149.0	28.7
Loss attributable to owners of the parent (RMB million)	159.2	35.2
Basic loss per share (RMB cents)	18.68	4.13
Gross profit margin (%)	7.0	12.1
<b>Financial position</b>		
Cash and cash equivalents (RMB million)	70.0	48.2
Total assets (RMB million)	1,689.8	1,908.7
Total debts (RMB million)	795.8	854.8
Total equity (RMB million)	894.1	1,053.9
Current ratio (Times)	1.0	1.1
Quick ratio (Times)	0.9	0.9
Gearing – borrowings to total assets (%)	15.6	14.0
<b>Efficiency ratios</b>		
Average trade receivables turnover (Days)	100	127
Average trade payables turnover (Days)	226	162
Average inventories turnover (Days)	69	56
Cash conversion (Days)	3	21



# Chairman's Statement



Lin Shengxiong  
Chairman

## Dear Shareholders,

On behalf of Sijia Group Company Limited (“our Company”) and its subsidiaries (“our Group” or “Sijia Group”), I hereby present the 2014 Annual Report.

Over the past year, our Group has experienced tough and challenging moments. To uphold our Group’s business, a series of measures were implemented to stabilise 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 our Group’s reputation. Our Group’s reported an audited consolidated net loss of approximately RMB159.2 million, mainly due to various reasons as discussed in the Management Discussion and Analysis Section.

Looking forward, our 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, our Group, apart from continuing its 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.

Last but not least, leveraging on our Group's continued enhancement in research and development, production scale, product quality and marketing efforts, we firmly believe that, with the joint efforts of all of our staffs, Sijia Group will grow steadily. We strive our best to create value for our Group so as to achieve returns for the shareholders and investors of our Company. I hereby give heartfelt thanks to every shareholders who gave support to Sijia Group.

Thank you!

Sincerely,

**LIN Shengxiong**

**Chairman**

31 March 2015

# Management Discussion and Analysis

## Business Review

Our 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 our 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 our Group possess independent intellectual property rights and national patents on technology.

Our 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. In addition, our Group also has downstream end products (the “End Products”) business.

Given the diverse applications of the Reinforced Materials and End Products, our 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 the sales of End Products.

For the year under review, our Group’s products can be categorised into three types : (i) Reinforced Materials; (ii) conventional materials (“Conventional Materials”); and (iii) End Products. Our Group generated most of its revenue from the sales of 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 our Group’s revenue by products for the two years ended 31 December 2013 and 2014:

	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 our Group's revenue by geographical locations for the two years ended 31 December 2013 and 2014:

	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, our Group delivered the most in inflatable materials, followed by air-tightness materials and tarpaulin materials. Other than that, our Group also delivered bag materials and membrane structure materials to serve our high-end customers. The strategy of our Group is to leverage its leading marketing position and offer products at a competitive price.

As at 31 December 2014, our 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, our Group's revenue generated from its 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 the sales and production of tarpaulin materials with the full-year operation of the production facilities in our Shanghai factory.

### Conventional Materials

For the year under review, our 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 the sales of approximately 23.0%.

### End Products

For the year under review, our 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 the sales of approximately 79.2%. As at 31 December 2014, our 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, our 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

Our 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, our Group's major sales segments, namely, (1) Reinforced Materials reported a 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 our Group's gross profit margin by products for the two years ended 31 December 2013 and 2014:

	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). Our Group believes that its on-going R&D efforts are critical in maintaining long-term competitiveness, retaining existing customers, enhancing its ability to keep its old customers, attract new customers and develop 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

Our 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 our 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 costs 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, our 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 amounting to 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 our 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, our 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 the financial statements, the Directors are of the view that our 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, our 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, our 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

Our 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). All of our Group's bank borrowings were at fixed interest rate and were RMB dollar loans fully secured by assets of our Group.

### Capital Expenditure

For the year under review, our 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 our Group's internal resources.

### Capital Commitments

As at 31 December 2014, capital commitment of our Group amounted to RMB43.3 million (2013: RMB79.8 million). The capital commitment will be funded partly by internal resources and partly by bank borrowings.

### Human Resources and Employees' Remuneration

As at 31 December 2014, our 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.

Employees are remunerated according to the nature of job, market trend and individual performance. Remuneration packages are normally reviewed on an annual basis.

# Biography of Directors and Senior Management

## Directors

The board of directors (the “Board”) of our Company consists of six directors (the “Directors”), including three executive Directors and three independent non-executive Directors.

### Executive Directors

**Mr. Lin Shengxiong (林生雄)**, aged 53, is the Chairman and an executive Director of our Company, who is the brother of Mr. Zhang Hongwang’s father-in-law. Mr. Lin is one of the founders of our Group and a substantial shareholder of our Company. Mr. Lin was appointed as a Director on 7 October 2009. Other than holding directorship in our Company, Mr. Lin is also a director of China Grandsoo Holding Company Limited and Sijia International Holding Limited. He is responsible for all strategic planning of our Group. Mr. Lin has over 29 years of experience in the polymers and plastics industry. He has extensive experience in corporate development and strategic and production management. Mr. Lin was elected as vice chairman of the 3rd session of the Fujian branch of China Chamber of International Commerce (中國國際商會福建商會) in June 2004. During that year, he also held the post of Committee Member of the 5th session of the Sanming City Sanyuan District Committee\* (三明市三元區第五屆委員會) in January. Mr. Lin was elected as a committee member of the 4th session of the Fujian Association of Enterprises with Foreign Investment in November 2007, a committee member of the 3rd committee of the Fujian Federation of Industry & Commerce in April 2007 and the chairman of Association of Plastic Material Industry of Fuzhou City\* (福州市塑膠同業公會) in 2010. Mr. Lin was also elected as a Member of the 8th Committee of the Chinese People’s Political Consultative Conference of Jinan District of Fuzhou City\* (中國人民政治協商會議福州市晉安區第八屆委員會) in December 2011 and deputy chairman of Association of Environmental Protection of Jinan District of Fuzhou City\* (福州市晉安區環保協會) in 2011. Mr. Lin completed certificate course for graduate students in world economics in Graduate Students’ College of Xiamen University (廈門大學研究生院) in September 2001.

**Mr. Zhang Hongwang (張宏旺)**, aged 39, is an executive Director of our Company, who is the son-in-law of Mr. Lin Shengxiong’s elder brother. Mr. Zhang was appointed as a Director on 7 October 2009. Other than holding directorship in our Company, Mr. Zhang is also a director of Sijia International Holding Limited and a manager of Fujian Hausa Import and Export Co., Ltd.\* (福建浩思進出口貿易有限公司). He is responsible for the operations of our Group. Mr. Zhang has over 18 years of experience in the polymers and plastic industry. He has extensive experience in financial management and operation. Since February 2002, Mr. Zhang served as the general manager of Fujian Sijia Industrial Material Co., Ltd (“Fujian Sijia”), a subsidiary of our Company, responsible for products promotion, formulating and implementing development strategies and operation plans of our Group. Prior to joining our Group, Mr. Zhang served as the accountant and was later promoted as accounting manager of Fujian Sanming Yongfeng Plastics Co., Ltd.\* (福建三明市永豐塑膠有限公司) from September 1996 to October 2000. Subsequently, Mr. Zhang acted as general manager of Fujian Fang Ya from October 2000 to December 2002 responsible for the production, sales and operation in manufacturing rain coats. Through the above work experience with these companies, Mr. Zhang gained substantial knowledge and experience in technologies, formulae and production techniques in manufacturing of polymer products. He has also completed the certificate course for senior business management chief executive seminars (高級工商管理總裁研修班) in Qinghua University in December 2007.

\* for identification purpose only

## Biography of Directors and Senior Management

**Mr. Huang Wanneng (黃萬能)**, aged 48, is an executive Director of our Company. Mr. Huang was appointed as a Director on 7 October 2009. Other than holding directorship in our Company, Mr. Huang is also a manager of Sijia New Material (Shanghai) Co., Ltd.\* (思嘉環保材料科技有限公司). He is principally responsible for the research and development of our Group. Mr. Huang is a chief mechanical engineer and has about 26 years of experience in the polymer and plastic industry. He has extensive experience in on-site management, development of technology and equipments and improvement in production techniques. Mr. Huang joined our Group and served as deputy general manager and chief engineer of Fujian Sijia, mainly responsible for the new equipments, technology and product development, equipment management and technology reform of equipments since September 2002. Prior to joining our Group, Mr. Huang worked for Fujian Hongming Plastics Co., Ltd.\* (福建省宏明塑膠股份有限公司) where he served various positions, namely, workshop technician, workshop supervisor, equipment engineer and department chief of equipment department from July 1989 to August 2002. During this period, Mr. Huang specialised in management of production automation system used in the manufacturing of polymer products. He obtained his bachelor's degree in electric engineering from Southeast University in July 1989.

### Independent non-executive Directors

**Mr. Chong Chi Wah (莊志華)**, aged 54, is an independent non-executive Director of our Company. Mr. Chong was appointed as a Director on 14 February 2011. Mr. Chong graduated from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a Diploma in Management Studies in 1991 and graduated from University of San Francisco of the United States with a Master degree in Business Administration (MBA) in 1997. Mr. Chong is a fellow member of The Association of Chartered Certified Accountants of the United Kingdom, an associate member of Hong Kong Institute of Certified Public Accountants, associate member of The Institute of Chartered Secretaries and Administrators and associate member of The Hong Kong Institute of Chartered Secretaries. Mr. Chong has over 28 years of experience in accounting, audit and finance. He is currently an independent non-executive director of Daisho Microline Holdings Limited (stock code: 567), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Chong was an independent non-executive director of China Solar Energy Holdings Limited (stock code: 155), a company listed on the Main Board of the Stock Exchange since March 2011 till January 2012; and was an independent non-executive director of Ruifeng Petroleum Chemical Holdings Limited (瑞豐石化控股有限公司) (stock code: 8096), a company listed on the GEM Board of the Stock Exchange since December 2013 till April 2014.

**Mr. Cai Weican (蔡維燦)**, aged 56, is an independent non-executive Director of our Company. Mr. Cai was appointed as a Director on 6 January 2010. Mr. Cai joined Sanming Vocational and Technical College (三明職業技術學院) since June 2005, holding various positions ranging from senior lecturer, assistant professor, senior accountant of the Financial and Accounting Department, Second Convenor (presiding over works) of the Department of Economics and Management, party sub-committee secretary of the Department of Humanity, Economics and Management. Mr. Cai is currently the supervisor and party sub-committee secretary of the Department of Economics and Management at Sanming Vocational and Technical College (三明職業技術學院). Mr. Cai has been the vice president of the Sanming Institute of Auditors (三明市審計學會) and a member of the Expert Team of Budget Audit and Oversight of People's Congress Standing Committee of Sanming City (三明市人大常委會預算審查監督專家組). Mr. Cai obtained a number of honorary titles such as Outstanding Teacher Award by the Finance Department of Fujian Province (福建省財政廳) and Outstanding Teacher of Fujian Province. He obtained a bachelor's degree in Hunan University specialising in accounting in 2004.

\* for identification purpose only



**Mr. Wu Jianhua (吳建華)**, aged 71, is an independent non-executive Director of our Company. Mr. Wu was appointed as a Director on 14 January 2011. Mr. Wu is currently the chairman of the Agricultural Society of Fujian, the PRC. Mr. Wu was a postgraduate of Fujian Agriculture and Forestry University (福建農林大學) specialized in Agriculture Economy Management and graduated from University of North Virginia of the United States with a Master degree in Business Administration (MBA) in 2003. Mr. Wu had been a Representative of the 9th National People's Congress, a member of the 7th Provincial Party Committee and a member of 7th and 9th Provincial Political Consultative Conference. During the period from 1969 to 1988, he had worked for Fuzhou Car Manufactory and Repair Plant (福州汽車修造廠), Provincial Traffic Department (省交通廳), industry and traffic division of Executive Office of the Provincial Government (省政府辦公廳工交處), Putian City Planning Commission (莆田市計委), Bureau of Legislative Affairs of the Provincial Government (省政府法制局), served as Deputy Commissioner, Deputy Head, Head of the Planning Commission, Legal Secretary respectively. Between 1988 and 2005, Mr. Wu served as Deputy Secretary General of the Provincial Government, Putian City Mayor, Director of Provincial Agriculture Office engaging in the agricultural economic management works. Since August 2005, Mr. Wu had served as Deputy Director of the Provincial Committee of Economy, Science and Technology and continued to lead in agricultural economic management works. During this period, Mr. Wu had also chaired the formulation of "Shi•Wu (十•五)", "Shiyi•Wu (十一•五)" agricultural development planning and characteristic agricultural industry of Fujian province, and had participated in research and implementation of projects involving comprehensive law enforcement in agriculture, deepening Taiwan and Fujian agricultural cooperation, establishing 969155 agricultural information hotline.

None of the Directors is interested in any business apart from our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business.

### Senior Management

**Mr. Chan Wing Hang (陳永恒)**, aged 37, is our Company secretary and chief financial officer of our Company and is responsible for the overall financial control, company secretarial, compliance and investor relation functions of our Company. Mr. Chan graduated from The University of Hull in January 2012 with a degree of Master of Business Administration (MBA) and from City University of Hong Kong (香港城市大學) in November 1999 with a degree of Bachelor of Business Administration (Honours) in Accountancy. He is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining our Company in October 2009, Mr. Chan was the financial controller, qualified accountant and company secretary of China National Materials Company Limited (中國中材股份有限公司) (stock code: 1893), the shares of which are listed on the Main Board of the Stock Exchange. He has also served as the assistant financial controller, qualified accountant and company secretary of Western Mining Company Limited (西部礦業股份有限公司) (stock code: 601168), the shares of which are listed on the Shanghai Stock Exchange. Prior to that, Mr. Chan was also the qualified accountant and company secretary of Shinhint Acoustic Link Holdings Limited (成謙聲匯控股有限公司) (stock code: 2728), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chan has 16 years of experience in accounting, corporate finance, compliance, company secretarial, investor relations and initial public offerings.

**Mr. Wu Yonggui (伍永貴)**, aged 35, is the division head of finance of our Group, mainly responsible for accounting and audit of our Group. Mr. Wu is also an accountant and assistant economist. Before joining our Group in January 2006, Mr. Wu held various posts with Xiamen Huier-Kang Food Co., Ltd.\* (廈門惠爾康食品有限公司), namely, costs analyst, production planning officer and costs accountant for the period from July 2003 to December 2004. From January 2005 to December 2005, he worked as sales accountant for Fujian Huier-Kang Dairy Co., Ltd.\* (福建惠爾康乳業有限公司). Mr. Wu graduated from Jimei University (集美大學) majoring financial management (with human resource management).

## Biography of Directors and Senior Management

**Mr. Lai Derong (賴德榮)**, aged 42, is the vice president of our Group and is primarily responsible for overseeing the production management of our Group. Mr. Lai joined our Group in June 2008. Prior to joining our Group, he worked for Intex Group from July 1994 to July 2005 and served various positions as technician, team leader and division head of production and management department. From August 2005 to May 2008, he served as manager of Polytree Group, mainly responsible for the technology, production and management of the factory.

**Ms. Zheng Lijuan (鄭麗娟)**, aged 35, is the deputy general manager and division head of the procurement department of our Group and is responsible for the procurement of our Group, cost control and the 7S management of our Group's. Ms. Zheng joined our Group in October 2005. During the period from October 2005 to June 2010, Ms. Zheng was the division head of finance of our Group and in March 2010, the division head of the procurement department of our Group. In June 2010, she was promoted as the deputy general manager. Ms. Zheng graduated from Xiamen University (廈門大學) in 1999, majoring in financial accounting and completed the MBA course of Fuzhou University (福州大學) in 2010.

**Mr. Huang Daohuo (黃道火)**, aged 42, is the product technology manager and the division head of sales support of our Group, primarily responsible for overseeing the marketing of new products and the after-sale technical support service of our Group. Mr. Huang joined our Group in July 2003 and has 17 years of experience in polymer materials industry.

**Mr. Jiang Shisheng (蔣石生)**, aged 45, is the division head of technology of our Group, primarily responsible for technological development of our Group. Mr. Jiang was approved as an engineer by Fujian Provincial Bureau of Personnel in December 1998. Prior to joining our Group in August 2006, Mr. Jiang served various positions as crafts technician, supervisor of technological development department and supervisor of technical center of Fujian Hongming Plastics Co., Ltd\* (福建宏明塑膠股份有限公司) from July 1992 to August 2003, crafts engineer of Sanming Mingxin Plastics Co., Ltd\* (三明明鑫塑膠有限公司) from August 1993 to July 1999, and supervisor of technical department of Zhejiang Longyue Technology Co., Ltd. (浙江龍躍科技有限公司) from August 2003 to April 2006. Mr. Jiang obtained a bachelors degree in engineering from Tianjin University of Light Industry\* (天津輕工業學院).

### Company Secretary

**Mr. Chan Wing Hang (陳永恒)**, for further details, please see the sub-section headed "Senior Management" above.

# Corporate Governance Report

Our Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board will strive to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all of its shareholders.

Our Company has applied the principles and complied with the code provisions set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 of the Listing Rules for the year ended 31 December 2014.

## (A) The Board of Directors

The overall management of our Company’s operation is vested in the Board.

The Board takes responsibility to oversee all major matters of our Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring of the performance of the senior management. The Directors make decisions objectively in the interests of our Company. As at 31 December 2014, the Board comprised six Directors, including three executive Directors and three independent non-executive Directors. Their names, biographical details and relationships (some of the Directors are related to each other) are set out in the section entitled “Biography of Directors and Senior Management” in the annual report.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of our Group’s businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

### **Compliance with the Model Code for Directors’ Securities Transactions**

Our 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. Our 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.

### **Chairman and Chief Executive Officer**

Under provision A.2.1 of the Code, the roles of the Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual. During the financial year ended 31 December 2014, the role of the Chairman is performed by Mr. Lin Shengxiong and the role of Chief Executive Officer of our Company are performed by our General Manager, Mr. Zhang Hongwang, who is the son-in-law of Mr. Lin’s brother. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals. The Board currently comprises three executive Directors and three independent non-executive Directors and therefore has a strong independence element in its composition.

### Appointments, Re-election and Removal of Directors

Each of the executive Directors and independent non-executive Directors has entered into a service contract with our Company for a specific term. Such term is subject to his re-appointment by our Company at an annual general meeting (the “AGM”) upon retirement. The articles of association of our Company provide that any Director appointed by the Board, (i) to fill a casual vacancy in the Board, shall hold office only until the next following general meeting of our Company and shall be subject to re-election at such meeting and (ii) as an addition to the Board shall hold office until the next AGM of our Company and shall then be eligible for re-election.

### Independent Non-Executive Directors

Independent non-executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board’s decision. In particular, they bring an impartial view to bear on issues of our Company’s strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The Board also considers that independent non-executive Directors can provide independent advice on our Company’s business strategy, results and management so that all interests of shareholders can be taken into account, and the interests of our Company and its shareholders can be protected.

All of the independent non-executive Directors are appointed for a term of 2 years and are subject to retirement by rotation and re-election in accordance with the articles of association of our Company.

Our Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Our Company considers that all the independent non-executive Directors are independent in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### Directors’ Training and Professional Development

Every Director keeps abreast of responsibilities as a director of our Company and of the conduct, business activities and development of our Company. Our Company seeks to provide all members of the Board with regular updates on our Group’s performance and financial position.

Directors also review the regular business and financial updates and other reading materials provided to them concerning latest developments in corporate governance practices and relevant legal and regulatory developments.

#### *Executive directors*

Mr. Lin Shengxiong	B,C
Mr. Zhang Hongwang	B,C
Mr. Huang Wanneng	B,C

#### *Independent non-executive directors*

Mr. Cai Weican	B,C
Mr. Wu Jianhua	B,C
Mr. Chong Chi Wah	A,B,C

- A: attending seminars/meetings/forums/conferences/courses/workshops organized by professional bodies or regulatory bodies
- B: reading journals/newsletters/seminar materials/publications/magazines
- C: reading memoranda issued or materials provided by our Company

### Corporate Governance Function

The Board is responsible for determining the policy for the corporate governance of our Company and performing its corporate governance duties as set out below:

- (i) Develop and review our Company's policies and practices on corporate governance;
- (ii) Review and monitor the training and continuous professional development of Directors and senior management;
- (iii) Review and monitor our Company's policies and practices on compliance with all legal and regulatory requirements;
- (iv) Develop, review and monitor the code of conduct and compliance manual applicable to the employees and directors; and
- (v) Review our Company's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

During the year, the Board continued to adopt its Corporate Governance Handbook which is comprised of, inter alia, continuous disclosure policies, securities dealings policies, whistle-blowing policies, shareholders communication policies as well as terms of reference of the board committees and the charter for internal audit.

### Board Committees

The Board has established Audit Committee, Remuneration Committee and Nomination Committee (collectively "Board Committees") with defined terms of reference. The terms of reference of the Board Committees are available upon request. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at our Company's expenses.

#### Audit Committee

The Audit Committee is responsible for the review and supervision of our Group's financial reporting process, internal controls and review of the consolidated financial statements. The Audit Committee meets regularly with our Company's external auditors to discuss the audit process and accounting issues (and in the absence of management if appropriate). Their written terms of reference are in line with the Code provisions. Members of the Audit Committee comprise Mr. Chong Chi Wah (Chairman), Mr. Cai Weican and Mr. Wu Jianhua, all of whom are independent non-executive Directors.



The Audit Committee has specific written terms of reference, including amongst other duties the following key responsibilities:

- Make recommendations to the Board on the appointment and, if necessary, the replacement/resignation of the external auditors and assess their independence, performance and fee levels;
- Review the completeness, accuracy and fairness of our Company's interim and annual financial statements and reports;
- Ensure compliance with the applicable accounting standards and legal and regulatory requirements on financial reporting and disclosures;
- Review the arrangements for our Company's employees to raise concerns about financial reporting and any other improprieties;
- Oversee the effectiveness of financial reporting systems; and
- Ensure ongoing assessments of our Group's internal control systems over financial, operational, compliance and broad risk management processes.

The Audit Committee met 2 times during the financial year. The audit committee has reviewed with management the accounting principles and practices adopted by our Group and discussed auditing, internal control and financial reporting matters. Our Group's audited consolidated financial statements for the year ended 31 December 2014 have been reviewed by the Audit Committee, who is of the opinion that such accounts have complied with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

### Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits. The remuneration of all Directors is subject to regular review by the Remuneration Committee to ensure that their remuneration and compensation are reasonable. Their written terms of reference are in line with the Code provisions. Members of the Remuneration Committee comprise Mr. Wu Jianhua (Chairman), Mr. Lin Shengxiong, Mr. Chong Chi Wah and Mr. Cai Weican.

The Committee has specific written terms of reference and its primary duties include:

- Ongoing review of our Group's overall remuneration policies and structure;
- Making recommendations to the Board on the administration of fair and transparent procedures for setting policies on the remuneration of directors and senior management;
- Reviewing and approving management's remuneration proposals with reference to the Board's corporate goals and objectives; and
- Reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office.

During the financial year, one meeting was held by the Remuneration Committee.

For the year ended 31 December 2014, the remuneration of members of senior management by band is set out below:

Band of remuneration	Number of individuals
Nil to RMB1,000,000	6

### Nomination Committee

The Nomination Committee is primarily responsible to consider and recommend to the Board suitably qualified persons to become the member of the Board and is also responsible for reviewing the structure, size and composition of the Board on a regular basis and as required. Members of the Nomination Committee comprise Mr. Cai Weican (Chairman), Mr. Chong Chi Wah and Mr. Wu Jianhua.

The Committee has specific written terms of reference and its primary duties include:

- Review the structure, size and composition and diversity (including the skills, knowledge, gender, age, cultural and educational background & professional experience) of the Board annually and make recommendations on any proposed changes to the Board to complement our Company's corporate strategy;
- Identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- Assess the independence of independent non-executive directors and review the independent non-executive directors' annual confirmation on their independence;
- Make recommendations to the Board on the appointment and re-appointment of directors and the succession planning for directors and, in particular, the chairman and the chief executive;
- Review the contribution required from a director to perform his/her responsibilities, and whether he/she is spending sufficient time performing them;
- Review the training and continuous professional development of the Directors.

During the financial year, no meeting was held by the Nomination Committee.

### Meetings

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of our Group. Directors may participate either in person or through electronic means of communications. The attendance of each individual Director at Board meetings and the attendance of each committee member at the committee meetings are set out below:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
No. of meetings held for the year ended 31 December 2014	4	2	1	0
<i>Executive Directors</i>				
Mr. Lin Shengxiong	4	N/A	N/A	N/A
Mr. Zhang Hongwang	4	N/A	N/A	N/A
Mr. Huang Wanneng	4	N/A	N/A	N/A
<i>Independent non-executive Directors</i>				
Mr. Chong Chi Wah	4	2	1	0
Mr. Cai Weican	4	2	1	0
Mr. Wu Jianhua	4	2	1	0

All Directors are provided with notice and agenda of meeting at least 14 days in advance, while relevant materials relating to the matters brought before the meetings at least three days in advance. All Directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have access to the advice and services of our Company Secretary, who is responsible for providing Directors with Board papers and related materials and ensuring that Board procedures are followed. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Reasonable notices of Board meetings are given to the Directors and Board procedures complied with the articles of association of our Company, as well as relevant rules and regulations.

### Conflict of Interest

If a Director has a conflict of interest in relation to a transaction or proposal to be considered by the Board, such Director is required to declare his interest and to abstain from voting. The matter is considered at a Board meeting attended by Directors who have no material interest in the transaction.

## (B) Financial Reporting and Internal Control

### Financial Reporting

The Board, supported by the finance department, is responsible for the preparation of the financial statements of our Group and our Company. In the preparation of financial statements, the Hong Kong Financial Reporting Standards and the Companies Ordinance (Cap 32) prior to its repeal and replacement on 3 March 2014 have been adopted, the appropriate accounting policies have been consistently used and applied, and reasonable judgements and estimates are properly made. The Board aims to present a clear and balanced assessment of our Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner. All Directors also acknowledge their responsibility for preparing the financial statements of our Group for the year ended 31 December 2014.

The work scope and responsibilities of ZHONGHUI ANDA CPA Limited, our Company's external auditor, are stated in the section entitled "Independent Auditor's Report" in this annual report.

### External Auditor's Remuneration

During the year ended 31 December 2014, the fee paid or payable to ZHONGHUI ANDA CPA Limited and their network firms is set out below:

Services rendered	Fee paid/payable HK\$'000
Audit of financial statements	2,800
Interim review	700
Other non-audit services	30
	3,530

## Internal Control

The Board is responsible for the internal control of our Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. Our Group conducted general review and monitor of our Group's internal management and operation during the financial year.

## (C) Company Secretary

Chan Wing Hang, our Company secretary appointed by the Board and an employee of our Company, in the opinion of the Board, possesses the necessary qualification and experience, and is capable of performance of the functions of our Company secretary. For the year ended 31 December 2014, Mr. Chan has taken 15 hours of professional training. Our Company will provide fund for Mr. Chan to take not less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

## (D) Communications with Shareholders and Investor Relations

The management believes that effective communication with the investment community in a timely manner through various media is essential. We held regular briefings and attended investor conferences to keep them abreast of our Company's business and development.

AGM proceedings are reviewed from time to time to ensure that our Company follows best corporate governance practices. The notice of AGM is distributed to all shareholders at least 21 days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the AGM exercises his power under the articles of association of our Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the beginning of the meeting. Voting results are posted on our Group's website on the day of the AGM.

Our Company will invite representatives of the external auditors to attend the AGM to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

## (E) Shareholders' Rights

### 1. Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to Article 58 of the articles of association of our Company extraordinary general meetings shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of our Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or our Company secretary of our Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by our Company.

## 2. Procedures for Raising Enquiries

Shareholders may direct their queries about their shareholdings, share transfer, registration and payment of dividend to our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited.

## 3. Procedures for Putting Forward Proposals at Shareholders' Meetings

### (i) Proposal for Election of a Person Other than a Director as a Director:

According to Article 85 of the articles of association of our Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder of our Company (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office of our Company in Hong Kong or at our Company's branch share registrar in Hong Kong provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

### (ii) Other Proposals:

If a shareholder wishes to make other proposals (the "Proposal(s)") at a general meeting, he/she may lodge a written request, duly signed, at the head office of our Company in Hong Kong marked for the attention of our Company secretary of our Company.

The identity of such shareholder and his/her request will be verified with our Company's branch share registrar in Hong Kong and upon confirmation by the share registrar that the request is proper and in order, and is made by a shareholder of our Company, the Board will in its sole discretion decide whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

- (1) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting of our Company.
- (2) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting of our Company;
- (3) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of an ordinary resolution in an extraordinary general meeting of our Company.

## (F) Constitutional Documents

During the year ended 31 December 2014, there was no change in the memorandum and articles of association of our Company.

The amended and restated memorandum and articles of association of our Company are available on the website of the Stock Exchange and the website of our Company.



# Report of the Directors

The Directors present this report and the audited financial statements of our Group for the year ended 31 December 2014.

## Principal Activities

Our Company is an investment holding company. The principal activities of its subsidiaries are set out in note 39 to the financial statements. Our Group 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.

## Financial Results and Dividends

The results of our Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 31 of this annual report.

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

A summary of the results and of the assets and liabilities of our Group for the last five financial years is set out on page 74 of this annual report.

## Share Capital and Share Options

Details of movements of our Company's share capital and share options are set out in notes 32 and 33 to the financial statements, respectively.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under our Company's articles of association which would oblige our Company to offer new shares on a pro rata basis to existing shareholders.

## Purchase, Sale or Redemption of Listed Shares of our Company

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

## Reserves

The distributable reserves of our Company, calculated in accordance with our Companies Laws (Revised) Chapter 22 of the Cayman Islands, as at 31 December 2014 amounted to approximately RMB876.7 million.

The share premium of our Company is available for distribution or paying dividends to the shareholders provided that immediately following the distribution or the payment of dividends, our Company is able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Movements in the reserves of our Group during the year are set out in note 34 to the financial statements of this annual report.

## Major Customers and Major Suppliers

During the year, the five largest customers and suppliers of our Group accounted for less than 30% of the total turnover and costs of sales of our Group, respectively.

## Directors

The Directors of our Company during the year and up to the date of this report were as follows:

### Executive Directors

Mr. Lin Shengxiong (*Chairman*)

Mr. Zhang Hongwang

Mr. Huang Wanneng

### Independent non-executive Directors

Mr. Chong Chi Wah

Mr. Wu Jianhua

Mr. Cai Weican

In accordance with Articles 84 of our Company's articles of association, Mr. Zhang Hongwang and Mr. Cai Weican will retire at the forthcoming annual general meeting to be held on 6 June 2015 and, being eligible, offer themselves for re-election. The terms of directorship of all the executive Directors and all the independent non-executive Directors are three-year and two-year, respectively unless terminated by either party giving not less than three months' notice to the other party.

All the independent non-executive Directors have confirmed their independence pursuant to Rule 3.13 of the Listing Rules and based on such confirmation, our Company is of the opinion that the independence status of the independent non-executive Directors remains intact as at 31 December 2014.

## Directors' and the Five Highest Paid Individuals' Remuneration

The Directors' remuneration is determined with reference to their performance, market rates, time commitment and the prevailing market conditions.

Details of Directors' remuneration and those of the five highest paid individuals in our Group are set out in notes 13 and 14 to the financial statements, respectively.

## Directors' Service Contracts

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

## Directors' Interests in Contracts

Save as disclosed in note 38 to the financial statements, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of our Company to which our Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

## Directors' and Chief Executives' Interests in Shares and Underlying Shares of our Company

As at 31 December 2014, the interests of each Director and chief executive in the shares and underlying shares of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code were as follows:

### Interest in Shares of our Company

Name of Director	Capacity/Nature of interest	Long/Short position	Number of shares held	Approximate percentage of shareholding in our Company
Mr. Lin Shengxiong	Interests in controlled corporation (Note)	Long position	511,886,000 <sup>(note)</sup>	60.04%
Mr. Zhang Hongwang	Beneficial owner	Long position	60,000	0.007%
Mr. Huang Wanneng	Beneficial owner	Long position	60,000	0.007%

Note: These shares are held by Hopeland International Holdings Company Limited, which is wholly-owned by Mr. Lin Shengxiong. Therefore, Mr. Lin Shengxiong is deemed to be interested in these shares under the SFO.

### Interest in Shares of Associated Corporation of Our Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Long/Short position	Number of shares held	Approximate percentage of shareholding in the associated corporation
Mr. Lin Shengxiong	Hopeland International Holdings Company Limited	Beneficial owner	Long position	1	100.00%

## Directors' Rights to Acquire Shares or Debentures of our Company

Save as disclosed above and the section "Share Option Scheme", as at 31 December 2014, none of the Directors or chief executive of our Company had any interests in or short positions in the shares, underlying shares and debentures of our Company or any associated corporation or had been granted, or exercised, any rights to subscribe for shares of our Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the year was our Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executives of our Company (including their spouses and children under 18 years of age) to hold any interests or short positions in shares or underlying shares in, or debentures of, our Company or its associated corporations.

## Share Option Scheme

Our Company has adopted its share option scheme (the “Share Option Scheme”) on 8 April 2010 to provide incentives to the employees, including any executive and non-executive Directors and officers of our Company and its subsidiaries, to contribute to our Group and to enable us to recruit high-calibre employees and attract and retain human resources that are valuable to our Group. Pursuant to the Share Option Scheme, the Directors may, at their discretion, invite eligible participants including employees, executive and non-executive Directors, officers, agents or consultants of our Group to take up options to subscribe for our Company’s shares subject to the terms and conditions stipulated therein. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for ten years.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares of our Company in issue on 29 April 2010, the date of completion of the global offering and capitalisation issue. No options may be granted under the Share Option Scheme if this will result in such limit exceeded unless another shareholders’ approval is obtained. As at 31 December 2014, the number of shares available for issue under the Share Option Scheme is 80,000,000, representing 9.38% of the total number of shares of our Company in issue. The total number of shares of our Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of our Company in issue.

The exercise price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

The following share options were granted on 22 July 2010 and exercisable from 22 July 2010 to 21 July 2015 at an exercise price of HK\$3.30 per share:

### Executive Directors

Mr. Zhang Hongwang	8,000,000
Mr. Huang Wanneng	6,000,000

The following share options were granted on 30 September 2010 and exercisable from 30 September 2010 to 29 September 2015 at an exercise price of HK\$3.50 per share:

### Other participants

Employees	36,000,000
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As at 31 December 2014, all options granted had not been exercised.

## Substantial Shareholders' Interests in Shares and Underlying Shares of our Company

The register of substantial shareholders required to be kept under Section 336 of the SFO shows that as at 31 December 2014, our Company had been notified of the following substantial shareholders' interests, being 5% or more of our Company's issued share capital. These interests are in addition to those disclosed under the section "Directors' and Chief Executives' Interests in Shares and Underlying Shares of our Company".

Name of shareholder	Long/Short position	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in our Company
Hopeland International Holdings Company Limited (Note 1)	Long position	Beneficial owner	511,886,000	60.04%
Ms. Lin Hongting (Note 2)	Long position	Interests of spouse	519,886,000	60.04%
Glory Bright Investments Enterprise Limited (Note 3)	Long position	Beneficial owner	59,011,000	6.92%
Mr. Lin Wanpeng (Note 3)	Long position	Interests in controlled corporation	59,011,000	6.92%
Ms. Wang Huiqing (Note 4)	Long position	Interests of spouse	59,011,000	6.92%

### Notes:

- The entire issued share capital of Hopeland International Holdings Company Limited is beneficially owned by Mr. Lin Shengxiong who is deemed to be interested in the shares of our Company held by Hopeland International Holdings Company Limited pursuant to the SFO.
- Ms. Lin Hongting is the spouse of Mr. Lin Shengxiong. Therefore, Ms. Lin Hongting is deemed to be interested in the shares of our Company in which Mr. Lin Shengxiong is interested and the share options granted to Mr. Lin for the purposes of the SFO.
- The entire issued share capital of Glory Bright Investments Enterprise Limited is beneficially owned by Mr. Lin Wanpeng who is deemed to be interested in the shares of our Company held by Glory Bright Investments Enterprise Limited pursuant to the SFO.
- Ms. Wang Huiqing is the spouse of Mr. Lin Wanpeng. Therefore, Ms. Wang Huiqing is deemed to be interested in the shares of our Company in which Mr. Lin Wanpeng is interested for the purposes of the SFO.

Save as disclosed above, no other interest or short position in the shares and underlying shares of our Company was recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2014.

## Connected Transactions

During the year ended 31 December 2014, our Company did not conduct any connected transactions or continuing connected transactions required to be reported, announced or approved by independent shareholders of our Company under Chapter 14A of the Listing Rules. Please refer to note 38 to the financial statements for details of related party transactions as defined in the Hong Kong Financial Reporting Standards.



## Corporate Governance

Our Group is committed to maintaining a high level of corporate governance practices. A detailed Corporate Governance Report is set out on pages 15 to 22 in the annual report.

## Sufficiency of Public Float

Based on information that is publicly available to our Company and within the knowledge of its directors, the directors confirmed that our Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of the annual report.

## Auditors

ZHONGHUI ANDA CPA Limited will retire and a resolution for their reappointment as auditors of our Company will be proposed at the annual general meeting to be held on 6 June 2015.

## Continued Suspension in Trading

Trading in the Shares of our Company was suspended with effect from 14 February 2013 and will remain suspended until further notice.

On Behalf of the Board

**Lin Shengxiong**

*Director*

Hong Kong

31 March 2015

# Independent Auditor's Report



## To the Shareholders of Sijia Group Company Limited

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

We have audited the consolidated financial statements of Sijia Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 73, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## 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.

### **ZHONGHUI ANDA CPA Limited**

*Certified Public Accountants*

### **Sze Lin Tang**

Practising Certificate Number P03614

Hong Kong, 31 March 2015

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
<b>TURNOVER</b>	8	682,858	911,550
Cost of sales		(634,746)	(801,430)
<b>GROSS PROFIT</b>		48,112	110,120
Other income and gains	9	7,769	6,673
Selling and distribution costs		(21,423)	(20,242)
Administrative expenses		(84,126)	(68,160)
Other expenses		(7,995)	(6,334)
<b>(LOSS)/PROFIT FROM OPERATIONS</b>		(57,663)	22,057
Impairments of various assets		(74,822)	(32,613)
Finance costs	10	(16,543)	(18,094)
<b>LOSS BEFORE TAX</b>	11	(149,028)	(28,650)
Income tax expense	12	(10,545)	(6,976)
<b>LOSS FOR THE YEAR</b>		(159,573)	(35,626)
<b>Other comprehensive (expenses)/income after tax:</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		(263)	1,829
<b>TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR</b>		(159,836)	(33,797)
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO:</b>			
Owners of the Company	15	(159,227)	(35,222)
Non-controlling interests		(346)	(404)
		(159,573)	(35,626)
<b>TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR ATTRIBUTABLE TO:</b>			
Owners of the Company		(159,490)	(33,393)
Non-controlling interests		(346)	(404)
		(159,836)	(33,797)
<b>LOSS PER SHARE (RMB cents)</b>			
– Basic	17	(18.68)	(4.13)
– Diluted		(18.68)	(4.13)

# Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	18	875,797	987,224
Prepaid land lease payments	19	28,063	33,527
Intangible assets	20	2,742	3,332
Deposits paid for acquisition of property, plant and equipment		26,488	50,075
Available-for-sale investment	21	4,140	4,140
Deferred tax assets	22	24,810	28,562
<b>Total non-current assets</b>		<b>962,040</b>	<b>1,106,860</b>
<b>Current assets</b>			
Inventories	23	112,758	128,765
Trade and bills receivables	24	268,221	330,012
Prepayments, deposits and other receivables	25	98,603	194,327
Pledged deposits	26	70,075	100,569
Cash and cash equivalents	26	69,940	48,152
		619,597	801,825
<b>Non-current assets classified as held for sale</b>	27	<b>108,212</b>	<b>–</b>
<b>Total current assets</b>		<b>727,809</b>	<b>801,825</b>
<b>Current liabilities</b>			
Trade and bills payables	28	328,101	457,962
Other payables and accruals	29	129,629	98,322
Interest-bearing bank borrowings	30	203,000	186,786
Deferred income	31	360	360
Tax payable		15,957	14,923
		677,047	758,353
<b>Liabilities associated with assets classified as held for sale</b>	27	<b>42,666</b>	<b>–</b>
<b>Total current liabilities</b>		<b>719,713</b>	<b>758,353</b>
<b>Net current assets</b>		<b>8,096</b>	<b>43,472</b>
<b>Total assets less current liabilities</b>		<b>970,136</b>	<b>1,150,332</b>
<b>Non-current liabilities</b>			
Interest-bearing bank borrowings	30	60,000	80,000
Deferred income	31	1,770	2,130
Deferred tax liabilities	22	14,293	14,293
<b>Total non-current liabilities</b>		<b>76,063</b>	<b>96,423</b>
<b>NET ASSETS</b>		<b>894,073</b>	<b>1,053,909</b>
<b>Capital and reserves</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	32	747	747
Reserves	34	876,733	1,036,223
		877,480	1,036,970
<b>Non-controlling interests</b>		<b>16,593</b>	<b>16,939</b>
<b>TOTAL EQUITY</b>		<b>894,073</b>	<b>1,053,909</b>

The consolidated financial statements on pages 31 to 73 were approved and authorised for issue by the board of directors on 31 March 2015 and are signed on its behalf by:

Approved by:

Lin Shengxiong  
Director

Zhang Hengwang  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company										
									Non-		Total
	Capital	Share	Statutory	Exchange	Total		interests	equity			
	surplus/ Issued capital RMB'000	premium* Share reserve* RMB'000	Capital reserve* RMB'000	option reserve* RMB'000	Warrant reserve* RMB'000	surplus funds* RMB'000			fluctuation reserve* RMB'000	Retained profits* RMB'000	RMB'000
At 1 January 2013	747	566,403	28,994	13,101	161	112,150	(9,117)	357,924	1,070,363	4,340	1,074,703
Total comprehensive expenses for the year	-	-	-	-	-	-	1,829	(35,222)	(33,393)	(404)	(33,797)
Capital contribution by a non-controlling shareholder	-	-	-	-	-	-	-	-	-	13,003	13,003
Transfer from retained profits	-	-	-	-	-	3,246	-	(3,246)	-	-	-
Subscription rights expired	-	-	-	-	(161)	-	-	161	-	-	-
At 31 December 2013	747	566,403	28,994	13,101	-	115,396	(7,288)	319,617	1,036,970	16,939	1,053,909
At 1 January 2014	747	566,403	28,994	13,101	-	115,396	(7,288)	319,617	1,036,970	16,939	1,053,909
Total comprehensive expenses for the year	-	-	-	-	-	-	(263)	(159,227)	(159,490)	(346)	(159,836)
At 31 December 2014	747	566,403	28,994	13,101	-	115,396	(7,551)	160,390	877,480	16,593	894,073

\* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.



# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	(149,028)	(28,650)
Adjustments for:		
Finance costs	16,543	18,094
Interest income	(1,106)	(1,463)
Depreciation	71,623	64,650
Loss on disposals of property, plant and equipment	6,455	1,769
Amortisation of prepaid land lease payments	941	982
Amortisation of intangible assets	1,140	1,218
Release of deferred income	(360)	(360)
Impairment of property, plant and equipment	40,251	4,106
Impairment of deposits paid for acquisition of for property, plant and equipment	1,110	–
Impairment of trade receivables	5,680	7,948
Impairment of inventories	27,781	20,559
Dividend income from available-for-sale investment	(232)	(123)
Operating profit before working capital changes	20,798	88,730
Change in inventories	(19,315)	(31,873)
Change in trade and bills receivables	52,863	(32,193)
Change in prepayments, deposits and other receivables	56,734	(67,760)
Change in trade and bills payables	(64,973)	207,231
Change in other payables and accruals	(28,338)	30,153
Change in amount due to a related party	–	(125)
Cash generated from operations	17,769	194,163
Income tax paid	(5,759)	(10,071)
<b>Net cash generated from operating activities</b>	<b>12,010</b>	<b>184,092</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(38,038)	(124,867)
Proceeds from disposals of property, plant and equipment	3,352	5,706
Increase in pledged deposits	26,954	(30,067)
Payment of deposits for acquisition of property, plant and equipment	(5,040)	–
Refund of deposits for acquisition of property, plant and equipment	39,819	–
Interest received	1,106	1,463
Dividend received	232	123
<b>Net cash flows generated from/(used in) investing activities</b>	<b>28,385</b>	<b>(147,642)</b>

## Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank borrowings	301,344	207,227
Repayment of bank borrowings	(295,130)	(264,917)
Contribution by a non-controlling shareholder	–	13,003
Interest paid	(23,179)	(25,556)
<b>Net cash flows used in financing activities</b>	<b>(16,965)</b>	<b>(70,243)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>23,430</b>	<b>(33,793)</b>
Cash and cash equivalents at beginning of year	48,152	80,116
Effect on exchange rate changes, net	(263)	1,829
Cash and cash equivalents at end of year	71,319	48,152
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	69,940	48,152
Cash and bank balances classified as non-current assets held for sale	1,379	–
	<b>71,319</b>	<b>48,152</b>

# Notes to the Financial Statements

For the year ended 31 December 2014

## 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. Significant Accounting Policies

These consolidated financial statements have been prepared under the historical cost convention. They are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires the Directors to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5 to these consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity’s returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company’s share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated exchange fluctuation reserve.

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

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders’ proportionate share of the net fair value of the subsidiary’s identifiable assets and liabilities at the acquisition date.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

## 4. Significant Accounting Policies *(continued)*

### 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"). The consolidated financial statements are presented in Renminbi, which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

#### (b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### (c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses 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 exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange fluctuation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

#### 4. Significant Accounting Policies *(continued)*

##### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	4.5%
Plant and machinery	9% to 18%
Leasehold improvements	30%
Office equipment	18%
Motor vehicles	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. The residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

##### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.



#### 4. Significant Accounting Policies *(continued)*

##### **Intangible assets (other than goodwill)** *(continued)*

###### Software

Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of five years.

###### Patent and trademark

Purchased patent is stated at cost less any impairment loss and amortised on the straight-line basis over its estimated useful life of five years.

Trademark with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the trademark has suffered an impairment loss.

###### Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's new product development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

##### **Operating leases**

###### The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

###### The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

##### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

#### 4. Significant Accounting Policies *(continued)*

##### **Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

##### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment losses on unquoted equity instruments that are not carried at fair value because their fair values cannot be reliably measured, or on derivative assets that are linked to and must be settled by delivery of such unquoted equity instruments are not reversed.

## 4. Significant Accounting Policies *(continued)*

### Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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.

### Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 4. Significant Accounting Policies *(continued)*

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal group classified as held for sale are measured at the lower of the assets' or disposal group's previous carrying amount and fair value less costs to sell.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.
- (b) Rental income is recognised on a straight-line basis over the lease term.
- (c) Interest income is recognised on a time-proportion basis using the effective interest method.
- (d) Dividend income is recognised when the shareholders' right to receive payment has been established.

### Share-based payments transactions

The Group issues equity-settled share-based payments to eligible participants who contribute to the success of the Group's operations. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

### Employee benefits

#### Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China (the "PRC") are required to participate in a central pension scheme operated by the local municipal governments. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

## 4. Significant Accounting Policies *(continued)*

### Borrowing costs

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

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 4. Significant Accounting Policies *(continued)*

### Related parties

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (B) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except investments, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.



## 4. Significant Accounting Policies *(continued)*

### **Impairment of assets *(continued)***

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

### **Dividends**

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### **Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 5. CRITICAL JUDGMENT AND KEY ESTIMATES

### **Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

(a) Going concern basis

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. Details are explained in note 2 to financial statements.

(b) Loan covenants

Subsequent to the end of the reporting period, the Group has breached certain financial covenants in respect of secured bank loans with an outstanding balance of RMB47,000,000 and matured within one year. The directors are of opinion that the breach of covenants will not have significant effect on the financial position of the Group.

## 5. CRITICAL JUDGMENT AND KEY ESTIMATES *(continued)*

### Key sources of estimation uncertainty

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

(a) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(b) Impairment of inventories

The Group determines the impairment for obsolescence of inventories with reference to aged inventory analyses and projections of expected future saleability of goods. Based on this review, impairment of inventories will be made when the carrying amounts of inventories are higher than their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(c) Useful lives of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Legal titles of certain land and buildings

As stated in notes 18 to the consolidated financial statements, the titles of certain buildings were not issued to the Group as at 31 December 2014. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings as property, plant and equipment on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those buildings.

(e) Non-current assets held for sale

During the year ended 31 December 2014, the Group reclassified its investment in a subsidiary to non-current assets held for sale in accordance with HKFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Details are disclosed in note 27.

## 6. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise interest-bearing bank loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise funding for the Group's operations. The Group has various other financial assets and liabilities, such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

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

### Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. The Group's business are mainly located in the Mainland China and are mainly transacted and settled in Renminbi, so the Group has minimal exposure to foreign currency risk.

### Interest rate risk

Interest rate risk means the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group did not have any long-term bank loans with a floating interest rate during the years ended 31 December 2014 and 2013, so the Group was not exposed to the risk of changes in market interest rates.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the Group's credit risk is primarily attributable to the trade and other receivables and deposits with financial institutions. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

#### (i) Trade and other receivables

The Group has established a credit policy under which credit evaluations are performed on all customers requiring credit. Trade receivables are due within 3 months from the date of billing. Debtors with balances that are more than 3 months are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At 31 December 2014, the Group has certain concentration of credit risk of approximately RMB57,747,000 (2013: approximately RMB91,147,000) and approximately RMB86,736,000 (2013: approximately RMB114,660,000) out of the total trade receivables of approximately RMB268,221,000 (2013: approximately RMB329,992,000) as at 31 December 2014, which was arising from the Group's largest debtor and the two largest debtors respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 24.

#### (ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2014, the Group has no concentration of credit risk (2013: Nil) of total cash and cash equivalents.

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payment, was as follows:

At 31 December 2014

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Beyond five years RMB'000	Total RMB'000
Trade and bills payables	338,196	–	–	–	338,196
Other payables and accruals	152,189	–	–	–	152,189
Principal portion of bank borrowings	213,000	20,000	40,000	–	273,000
Interest portion of bank borrowings	12,099	3,590	1,740	–	17,429
	715,484	23,590	41,740	–	780,814

At 31 December 2013

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Beyond five years RMB'000	Total RMB'000
Trade and bills payables	457,962	–	–	–	457,962
Other payables and accruals	98,322	–	–	–	98,322
Principal portion of bank borrowings	186,786	20,000	60,000	–	266,786
Interest portion of bank borrowings	11,538	5,058	5,391	–	21,987
	754,608	25,058	65,391	–	845,057

6. FINANCIAL RISK MANAGEMENT *(continued)*

## Categories of financial instruments

	2014 RMB'000	2013 RMB'000
<b>Financial assets:</b>		
Available-for-sale financial assets	4,140	4,140
Loans and receivables:		
Trade and bills receivables	271,469	330,012
Financial assets included in prepayments, deposits and other receivables	91,569	176,028
Pledged deposits	73,615	100,569
Cash and cash equivalents	71,319	48,152
	512,112	658,901
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost:		
Trade and bills payables	338,196	457,962
Financial liabilities included in other payables and accruals	152,189	98,322
Borrowings	273,000	266,786
	763,385	823,070

## Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. 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

## 7. SEGMENT INFORMATION *(continued)*

### Geographical information *(continued)*

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).

## 8. TURNOVER

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

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

## 9. OTHER INCOME AND GAINS

	2014 RMB'000	2013 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.

## 10. FINANCE COSTS

	2014 RMB'000	2013 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



## 11. LOSS BEFORE TAX

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

	2014 RMB'000	2013 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 (note 13)):		
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.

## 12. INCOME TAX EXPENSE

	2014 RMB'000	2013 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 (note 22)	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.

## 12. INCOME TAX EXPENSE *(continued)*

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. <sup>#</sup> (福建思嘉環保材料科技有限公司) ("Fujian Sijia")	(a)	15%	15%

<sup>#</sup> 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%).

The reconciliation between the income tax expense and the loss before tax is as follows:

	2014 RMB'000	2013 RMB'000
Loss before tax	(149,028)	(28,650)
Tax at the applicable tax rate of 25% (2013: 25%)	(37,257)	(7,163)
Lower tax rate for specific province or enacted by local authority	11,937	(2,471)
Effect of income not taxable and expenses not deductible	861	10,244
Under/(Over)-provision in prior years	3,358	(876)
Tax effect of temporary differences not recognised	362	309
Tax effect of tax losses not recognised	31,284	6,933
	10,545	6,976

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The emoluments of each Director and senior management were as follows:

	For the year ended 31 December 2014				
	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Share- based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
<b>Executive directors</b>					
Mr. Lin	475	19	–	3	497
Mr. Zhang Hongwang	380	64	–	3	447
Mr. Huang Wanneng	285	93	–	3	381
	1,140	176	–	9	1,325
<b>Independent non-executive directors</b>					
Mr. Chong Chi Wah	345	–	–	–	345
Mr. Wu Jianhua	131	–	–	–	131
Mr. Cai Weican	61	–	–	–	61
	537	–	–	–	537
<b>Subtotal for Directors' emoluments</b>	1,677	176	–	9	1,862
<b>Senior management</b>	–	1,290	–	74	1,364
<b>Total</b>	1,677	1,466	–	83	3,226

  

	For the year ended 31 December 2013				
	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Share- based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
<b>Executive directors</b>					
Mr. Lin	483	247	–	11	741
Mr. Zhang Hongwang	387	207	–	11	605
Mr. Huang Wanneng	290	217	–	11	518
	1,160	671	–	33	1,864
<b>Independent non-executive directors</b>					
Mr. Chong Chi Wah	282	–	–	–	282
Mr. Wu Jianhua	–	61	–	–	61
Mr. Cai Weican	–	131	–	–	131
	282	192	–	–	474
<b>Subtotal for Directors' emoluments</b>	1,442	863	–	33	2,338
<b>Senior management</b>	–	1,259	–	51	1,310
<b>Total</b>	1,442	2,122	–	84	3,648

## 14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included 4 (2013: 4) directors, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2013: 1) highest paid individual are set out as below:

	2014 RMB'000	2013 RMB'000
Basic salaries and allowances	665	676
Share-based payments	–	–
Retirement benefit scheme contributions	11	11
	676	687

The emoluments of the 1 individual (2013: 1) fall within the following band:

	Number of individuals	
	2014	2013
RMB0 – RMB1,000,000	1	1

During the years ended 31 December 2014 and 2013, no emoluments were paid or payable to the five highest paid individuals (including Directors and other employees) as an inducement to join the Group or as a compensation for loss of office.

## 15. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss for the year attributable to owners of the Company includes a loss of approximately RMB9,945,000 (2013: approximately RMB9,279,000) which has been dealt with in the financial statements of the Company.

## 16. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

## 17. 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.

## 18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>							
At 1 January 2013	322,886	548,433	3,748	5,076	6,332	323,022	1,209,497
Additions	200	41,186	761	1,567	487	131,669	175,870
Disposals	(533)	(13,893)	-	(111)	(52)	-	(14,589)
Transfers	102,813	110,361	-	219	37	(213,430)	-
At 31 December 2013 and 1 January 2014	425,366	686,087	4,509	6,751	6,804	241,261	1,370,778
Additions	-	3,928	-	137	1,201	83,393	88,659
Disposals	(4,595)	(9,453)	(568)	(153)	(1,235)	(3)	(16,007)
Transfers	137,876	46,755	-	16	-	(184,647)	-
Transfer to non-current assets held for sale	-	(2,479)	-	(117)	(95)	(77,284)	(79,975)
At 31 December 2014	558,647	724,838	3,941	6,634	6,675	62,720	1,363,455
<b>Accumulated depreciation and impairment</b>							
At 1 January 2013	16,652	264,096	2,792	2,044	3,249	33,079	321,912
Charge for the year	17,401	44,439	1,008	1,014	788	-	64,650
Disposals	(219)	(6,812)	-	(44)	(39)	-	(7,114)
Impairment	-	4,070	-	29	7	-	4,106
Transfers	-	33,079	-	-	-	(33,079)	-
At 31 December 2013 and 1 January 2014	33,834	338,872	3,800	3,043	4,005	-	383,554
Charge for the year	18,943	50,527	-	1,421	732	-	71,623
Disposals	(503)	(4,346)	(568)	(132)	(651)	-	(6,200)
Impairment	-	39,510	-	-	-	741	40,251
Transfers	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	(1,429)	-	(71)	(70)	-	(1,570)
At 31 December 2014	52,274	423,134	3,232	4,261	4,016	741	487,658
<b>Carrying amounts</b>							
At 31 December 2014	506,373	301,704	709	2,373	2,659	61,979	875,797
At 31 December 2013	391,532	347,215	709	3,708	2,799	241,261	987,224

## 18. Property, Plant and Equipment *(continued)*

At 31 December 2014, certain buildings and plant and machinery of the Group with an aggregate net carrying amount of approximately RMB226,584,000 (2013: RMB339,408,000), were pledged to secure bank loan facilities granted to the Group (note 30).

At 31 December 2014, certificates of ownership in respect of certain buildings of the Group in the PRC with an aggregate net carrying amount of approximately RMB6,513,000 (2013: RMB341,880,000), had not been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates of ownership.

The Group carried out reviews of the recoverable amount of its plant and machinery in 2014 as a result of the deterioration of the markets of the Group's products. Certain plant and equipment has been set aside and did not involve in the production at 31 December 2014. The reviews led to the recognition of an impairment loss of approximately RMB40,251,000, that has been recognised in profit or loss. In the opinion of the directors, the recoverable amount of the relevant assets has been determined on the basis of their fair value measured by reference to market evidence of recent transactions for similar plant and machinery (level 2 fair value measurements).

The Group carried out reviews of the recoverable amount of its plant and machinery in 2013, having regard to its ongoing growth, the change of product mix and the market conditions of the Group's products. The reviews led to the recognition of an impairment loss of approximately RMB4,106,000, that has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their fair value measured by reference to market evidence of recent transactions for similar plant and machinery (level 2 fair value measurement) by Ascent Partners Valuation Service Limited ("Acent Partners"), an independent firm of chartered surveyors.

## 19. PREPAID LAND LEASE PAYMENTS

	2014 RMB'000	2013 RMB'000
Carrying amount at 1 January	34,290	35,272
Amortisation during the year	(941)	(982)
Transfer to non-current assets held for sale	(4,512)	–
Carrying amount at 31 December	28,837	34,290
Current portion included in prepayments, deposits and other receivables	(774)	(763)
Non-current portion	28,063	33,527

The Group's leasehold lands are held under long term leases and are situated in the PRC.

At 31 December 2014, certain of the Group's leasehold lands with an aggregate carrying amount of approximately RMB20,328,000 (2013: RMB17,309,000) were pledged to secure bank loan facilities granted to the Group (note 30).



## 20. INTANGIBLE ASSETS

	Software RMB'000	Patent RMB'000	Trademark RMB'000	Total RMB'000
<b>Cost</b>				
At 1 January 2013, 31 December 2013 and 1 January 2014	7,437	50	–	7,487
Addition	–	–	550	550
At 31 December 2014	7,437	50	550	8,037
<b>Accumulated amortisation</b>				
At 1 January 2013	2,895	42	–	2,937
Charge for the year	1,210	8	–	1,218
At 31 December 2013 and 1 January 2014	4,105	50	–	4,155
Charge for the year	1,140	–	–	1,140
At 31 December 2014	5,245	50	–	5,295
<b>Carrying amounts</b>				
At 31 December 2014	2,192	–	550	2,742
At 31 December 2013	3,332	–	–	3,332

## 21. AVAILABLE-FOR-SALE INVESTMENT

	2014 RMB'000	2013 RMB'000
Unlisted equity investment, at cost – the PRC	4,140	4,140

At 31 December 2014, the unlisted equity investment with a carrying amount of RMB4,140,000 (2013: RMB4,140,000) was stated at cost less impairment because it does not have a quoted market price in an active market and their fair values cannot be measured reliably. The Group does not intend to dispose of it in the near future.

## 22. DEFERRED TAX

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

Deferred tax assets	Unrealised profit attributable to intra-group transactions RMB'000	Deferred income RMB'000	Accrued social fund RMB'000	Accrued sales rebate RMB'000	Unapproved accelerated depreciation and amortisation and impairment RMB'000	Total RMB'000
At 1 January 2013	451	426	775	1,500	31,179	34,331
Deferred tax charged to the consolidated profit or loss during the year (note 12)	(210)	(54)	-	-	(5,505)	(5,769)
At 31 December 2013 and 1 January 2014	241	372	775	1,500	25,674	28,562
Deferred tax charged to the consolidated profit or loss during the year (note 12)	(356)	(54)	-	-	(3,342)	(3,752)
At 31 December 2014	(115)	318	775	1,500	22,332	24,810

Deferred tax liabilities	2014 RMB'000	2013 RMB'000
Group Withholding tax on subsidiaries' distributable profits	14,293	14,293

Deferred tax assets have not been recognised in respect of the following items:

	2014 RMB'000	2013 RMB'000
Tax losses	62,691	35,676

The Group also has tax losses arising in Mainland China of approximately RMB62,691,000 (2013: approximately RMB35,676,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

**22. DEFERRED TAX** *(continued)*

Pursuant to the corporate income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% so long as HK Sijia is the beneficial owner. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. The Group recognised deferred tax liabilities in respect of accumulated distributable earnings from its subsidiaries established in the PRC since 1 January 2008 to the extent of the earnings expected to be distributed as of 31 December 2011. However, deferred taxation has not been recognised in respect of the temporary differences attributable to the undistributable retained profits earned by the subsidiaries in the PRC amounting to approximately RMB177,900,000 (2013: RMB185,759,000) starting from 1 January 2012 as the Directors are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

**23. INVENTORIES**

	2014 RMB'000	2013 RMB'000
Raw materials	42,902	54,471
Work in progress	7,535	7,505
Finished goods	62,321	66,789
	112,758	128,765

**24. TRADE AND BILLS RECEIVABLES**

	2014 RMB'000	2013 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.

24. TRADE AND BILLS RECEIVABLES *(continued)*

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 RMB'000	2013 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

For the year ended 31 December 2014, an impairment of trade receivables was made of approximately RMB5,680,000 (2013: approximately RMB7,948,000).

The aging analysis of trade receivables as at the end of the reporting period that are past due but neither individually nor collectively considered to be impaired are as follows:

	2014 RMB'000	2013 RMB'000
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
	218,137	145,031

Receivables that were past due but not impaired relate to a number of independent customers for whom there was no recent history of default.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2014 RMB'000	2013 RMB'000
RMB	226,130	304,361
US dollars	41,717	25,651
EUR	374	-
	268,221	330,012

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000
Advances to suppliers (note)	83,908	140,476
Prepaid sales tax and government surcharges	8,983	23,961
Prepaid expense	1,384	2,138
Other receivables	4,328	27,752
	98,603	194,327

Note: The advance is paid to suppliers to secure the supply of raw materials at the end of the reporting period.

## 26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2014 RMB'000	2013 RMB'000
Cash and bank balances	140,015	148,721
Less: Pledged deposits	(70,075)	(100,569)
Cash and cash equivalents	69,940	48,152

Cash and cash equivalents and pledged deposits are denominated in:

	2014 RMB'000	2013 RMB'000
RMB	137,305	131,879
HK dollars	693	1,248
US dollars	2,015	15,594
Singapore dollars	2	–
	140,015	148,721

At the end of the reporting period, the Group's cash and bank balances denominated in RMB were approximately RMB137,305,000 (2013: approximately RMB131,879,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interests at floating rates based on daily bank deposit rates. Certain deposits are pledged for bills payables which is due within six months. Therefore, pledged deposits are classified as current assets. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

As at 31 December 2014, deposits of RMB70,075,000 (2013: RMB100,569,000) were pledged to secure the banking facilities granted to the Group.

## 27. NON-CURRENT ASSETS HELD FOR SALE

On 4 December 2014, the directors resolved to dispose of the 51% equity interest in a subsidiary at a consideration of RMB18,000,000. Negotiations with several interested parties have subsequently taken place. The assets and liabilities attributable to the subsidiary, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale at 31 December 2014 are as follows:

	2014 RMB'000
Property, plant and equipment	78,405
Prepaid land lease payment	4,729
Deposits paid for acquisition of property, plant and equipment	2,821
Inventories	7,541
Trade receivables	3,248
Other receivables	6,549
Cash and cash equivalents	1,379
Pledged deposits	3,540
<b>Total assets classified as held for sale</b>	<b>108,212</b>
Trade payables	10,095
Other payables	22,560
Interest-bearing bank borrowings	10,000
Tax payable	11
<b>Total liabilities associated with assets classified as held for sale</b>	<b>42,666</b>
Net assets of disposal group after elimination of intra-group current accounts	65,546
Amount due to group companies	(32,222)
<b>Net assets of disposal group before elimination of intra-group current accounts</b>	<b>33,324</b>



## 28. TRADE AND BILLS PAYABLES

	2014 RMB'000	2013 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 RMB'000	2013 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

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2014 RMB'000	2013 RMB'000
RMB	325,013	424,152
US dollars	3,088	33,810
	328,101	457,962

## 29. OTHER PAYABLES AND ACCRUALS

	2014 RMB'000	2013 RMB'000
Advances from customers	21,934	46,028
Accrued liabilities	29,042	29,881
Payroll payables	9,414	12,401
Payable for the acquisition of property, plant and equipment	53,216	10,012
Others	16,023	–
	129,629	98,322

## 30. INTEREST-BEARING BANK BORROWINGS

	2014			2013		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Bank loans – Unsecured	6.60%	2015	50,000	5.25%-8.3%	2014	84,786
Bank loans – Secured	6.44%-7.80%	2015-2017	213,000	7.2%-7.36%	2014-2017	182,000
			263,000			266,786
Repayable:						
Within one year or on demand			203,000			186,786
In the second year			20,000			20,000
In the third to fifth years, inclusive			40,000			60,000
			263,000			266,786

## Notes:

- (i) The Group's bank borrowings are secured by:
- mortgages over the Group's buildings and plant and machinery situated in the PRC, which had an aggregate carrying value at the end of the reporting period of approximately RMB226,584,000 (2013: approximately RMB339,408,000); and
  - mortgages over the Group's leasehold land situated in Mainland China, which has an aggregate carrying value at the end of the reporting period of approximately RMB20,328,000 (2013: approximately RMB17,309,000).
- (ii) Subsequent to the end of the reporting period, the Group has breached certain financial covenants in respect of secured bank loans with an outstanding balance of RMB47,000,000 with maturity of less than one year. The Group is in the process of negotiation with the bank on reversals of those bank loans.

## 31. DEFERRED INCOME

	2014 RMB'000	2013 RMB'000
<b>Government grants</b>		
As at 1 January	2,490	2,850
Released during the year	(360)	(360)
As at 31 December	2,130	2,490
Current	360	360
Non-current	1,770	2,130
	2,130	2,490

Government grants received are for the technical development of machinery and equipment. The government grants received are accounted for as deferred income and are released to profit or loss over the expected useful lives of the underlying items of machinery and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

## 32. SHARE CAPITAL

	2014 RMB'000	2013 RMB'000
<b>Authorized:</b>		
2,000,000,000 ordinary shares of HK\$0.001 each	1,760	1,760
<b>Issued and fully paid:</b>		
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.

**(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.

### 33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include executive directors, non-executive directors, including independent non-executive directors, employees, consultants, advisers, customers and any shareholder of any member of the Group. The Scheme became effective on 8 April 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Group is an amount equivalent, upon their exercise, to 10% of the shares in issue at the time dealings in the shares first commenced on the Stock Exchange. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January 2013, 31 December 2013 and 31 December 2014	3.44	50,000

No share options were exercised during the year (2013: Nil).

### 33. SHARE OPTION SCHEME *(continued)*

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

Number of options '000	Exercise price HK\$ per share *	Exercise period
14,000	3.3	22 July 2010 to 21 July 2015
36,000	3.5	30 September 2010 to 29 September 2015
50,000		

\* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period, the Company had 50,000,000 (2013: 50,000,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 50,000,000 additional ordinary shares of the Company and additional share capital of HK\$50,000 and share premium of HK\$172,150,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 50,000,000 share options outstanding under the Scheme, which represented approximately 5.86% of the Company's shares in issue as at that date.

### 34. RESERVES

#### a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

Nature and purpose of reserves of the Group

#### **Statutory surplus reserve**

As stipulated by the relevant law and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax expenses as shown in the statutory financial statements of the relevant PRC subsidiaries and after making up prior year cumulative losses. The amounts and allocation basis are decided by the board of directors of the respective subsidiaries annually. The statutory surplus reserve can be applied in conversion into issued capital by means of capitalisation issue.

#### **Exchange fluctuation reserve**

The exchange fluctuation reserve comprise all foreign exchange differences arising from the translation of the financial statement of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4.

## 34. RESERVES (continued)

## b) Company

	Share premium RMB'000	Share option reserve RMB'000	Warrant reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2013	877,157	13,101	161	(42,432)	(41,964)	-	806,023
Total comprehensive expenses for the year	-	-	-	(15,146)	(9,279)	-	(24,425)
Subscription rights expired	-	-	(161)	-	161	-	-
At 31 December 2013	877,157	13,101	-	(57,578)	(51,082)	-	781,598
Total comprehensive income/(expenses) for the year	-	-	-	1,543	(9,945)	-	(8,402)
At 31 December 2014	877,157	13,101	-	(56,035)	(61,027)	-	773,196

## 35. COMMITMENTS

## (a) Commitments under operating leases

As lessee

The Group leases certain of its office properties and staff accommodations under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had the total future minimum lease payments under noncancellable operating leases in respect of land and buildings as follows:

	2014 RMB'000	2013 RMB'000
Within one year	534	399
In the second to fifth years, inclusive	415	-
	949	399

## (b) Capital commitments

In addition to the operating lease commitments, the Group had the following capital commitments at the end of the reporting period:

	2014 RMB'000	2013 RMB'000
<b>Property, plant and equipment</b>		
Contracted, but not provided for	43,314	79,792
Authorised, but not contracted for	-	-
	43,314	79,792



### 36. CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities (2013: Nil).

### 37. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank borrowings and bills payable which are secured by the assets of the Group are included in notes 18, 19 and 26 to these financial statements.

### 38. RELATED PARTY TRANSACTIONS

#### (a) Related party transactions

The ultimate shareholder, a family member of the ultimate shareholder and a director has guaranteed bank loans made to the Group totally approximately RMB163,000,000 at 31 December 2014 (2013: A director has guaranteed bank loans made to the Group totally approximately RMB49,777,000).

#### (b) Key management compensation

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 14 and all of the highest paid employees as disclosed in note 13, is as follows:

	2014 RMB'000	2013 RMB'000
Short-term employee benefits	3,143	3,564
Post-employment benefits	83	84
	3,226	3,648

## 39. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2014 were as follows:

Company name	Place of incorporation/ registration	Issued and paid-up share capital/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
<b>Directly held:</b>				
China Grandsoo Holdings Company Limited	British Virgin Islands	US\$3	100%	Investment holding
<b>Indirectly held:</b>				
Sijia International Holding Limited	Hong Kong	HK\$10,000	100%	Investment holding
Xiamen Grandsoo Industrial & Trade Company Limited (Note i)	PRC	HK\$300,000,000	100%	Manufacturing and selling end products
Fujian Sijia Industrial Material Co., Ltd. # (福建思嘉環保材料科技有限公司) (Note ii)	PRC	HK\$390,000,000	100%	Manufacturing and selling materials and end products
Hubei Sijia Industrial Material Co., Ltd. # (湖北思嘉環保材料科技有限公司) (Note ii)	PRC	HK\$50,000,000	100%	Manufacturing and selling special functional composites
Sijia New Material (Shanghai) Co., Ltd. # (思嘉環保材料科技(上海)有限公司) (Note i)	PRC	HK\$100,000,000/ HK\$177,500,000	100%	Manufacturing and selling special functional composites
Fujian Hausa Import and Export Co., Ltd. # (福建浩思進出口貿易有限公司) (Note iii)	PRC	RMB50,000,000	100%	Exporting products and trade agent
Hubei Sijia Outdoor Products Co., Ltd. # ("Hubei Sijia Outdoor") (湖北思嘉戶外用品有限公司) (Note ii)	PRC	HK\$60,000,000	51%	Manufacturing and selling outdoor leisure, recreation and sports products
Xiamen Grandsoo Electronic Trading Co., Ltd. # (廈門浩源電子商貿有限公司) (Note iii)	PRC	RMB5,000,000	100%	Selling outdoor leisure, recreation and sports products
Shanghai Gangji International Chemical Co., Ltd. # (上海港際化學有限公司) (Note ii)	PRC	RMB10,000,000	100%	Manufacturing and selling special functional composites

# The English names are for identification only

Notes:

- (i) The subsidiary is a wholly foreign-owned enterprise incorporated in the PRC.
- (ii) The subsidiary is a non-wholly foreign-owned enterprise incorporated in the PRC.
- (iii) The subsidiary is a wholly owned domestic limited company incorporated in the PRC.

The following table shows information of subsidiary that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

39. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY *(continued)*

Name	Hubei Sijia Outdoor	
	2014	2013
Principal place of business and country of incorporation	PRC	PRC
% of ownership interests and voting rights held by NCI	49%	49%
	<b>RMB'000</b>	<b>RMB'000</b>
<b>At 31 December:</b>		
Non-current assets	85,955	77,699
Current assets	22,257	30,987
Current liabilities	(74,888)	(74,656)
Net assets	33,324	34,030
Accumulated NCI	16,593	16,939
<b>Year ended 31 December:</b>		
Revenue	38,514	58,076
Loss for the year	(705)	(824)
Total comprehensive loss	(705)	(824)
Loss allocated to NCI	(346)	(404)
Net cash generated from operating activities	12,436	16,365
Net cash used in investing activities	(3,983)	(60,357)
Net cash (used in)/generated from financing activities	(11,469)	46,850
Net (decrease)/increase in cash and cash equivalents	(3,016)	2,858

As at 31 December 2014, the bank and cash balances of this subsidiary in the PRC denominated in RMB amounted to approximately RMB1,379,000 (2013: approximately RMB4,395,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	2014 RMB'000	2013 RMB'000
<b>Non-current assets</b>		
Investments in subsidiaries	351,000	351,000
	351,000	351,000
<b>Current assets</b>		
Due from a subsidiary	431,753	436,623
Cash and cash equivalents	101	364
	431,854	436,987
<b>Current liabilities</b>		
Other payables and accruals	8,911	5,642
	8,911	5,642
<b>Net current assets</b>	422,943	431,345
<b>Total assets less current liabilities</b>	773,943	782,345
<b>NET ASSETS</b>	773,943	782,345
<b>Capital and reserves</b>		
Issued capital	747	747
Reserves	773,196	781,598
<b>TOTAL EQUITY</b>	773,943	782,345

## 41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 31 March 2015.

## Five-year Financial Summary

	Year ended 31 December				
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
REVENUE	682,858	911,550	1,035,130	1,197,085	965,338
Gross profit	48,112	110,120	292,197	506,121	437,246
(LOSS) PROFIT BEFORE TAX	(149,028)	(28,650)	(341,933)	403,580	264,657
(LOSS) PROFIT FOR THE YEAR	(159,573)	(35,626)	(354,661)	327,790	217,246
Attributable to:					
Owners of the Company	(159,227)	(35,222)	(354,488)	328,277	217,246
Non-controlling interests	(346)	(404)	(173)	(487)	–
	(159,573)	(35,626)	(354,661)	327,790	217,246
Basic (loss) earnings per share (RMB cents)	(18.68)	(4.13)	(42.31)	39.61	28.86

  

	As at 31 December				
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Total assets	1,689,849	1,908,685	1,759,134	1,731,731	1,316,894
<b>Equity and liabilities</b>					
Total liabilities	795,776	854,776	684,431	273,577	119,908
Total equity	894,073	1,053,909	1,074,703	1,458,154	1,196,986