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SHENGLONG SPLENDECOR INTERNATIONAL LIMITED
盛龍錦秀國際有限公司

2018 Interim Report

(incorporated in the Cayman Islands with limited liability) (Stock Code: 8481)

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company and its subsidiaries (collectively the "Group") is principally engaged in the manufacturing and sales of decorative printing materials products which mainly comprise of (i) decorative paper; (ii) melamine impregnated paper; (iii) finish foil paper; (iv) polyvinyl chloride ("PVC") furniture film; and (v) PVC flooring film. For the six months ended 30 June 2018, the Group served over 400 customers in both domestic and oversea markets. The overseas sales reached over 30 countries in Asia, North America, South America, Europe, Oceania and Africa.

FINANCIAL REVIEW

The Group's revenue for the six months ended 30 June 2018 (the "Period") was approximately RMB163.2 million, representing an increase of approximately 12.3% on a period-to-period basis. The increase in the Group's revenue was mainly driven by the growth of sales from the PRC market and partially offset by the decrease in sales from Pakistan market. The following table set forth the breakdown of the revenue by products:

Revenue by products

	Six months ended 30 June			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Decorative paper	**79,563**	**48.7**	86,412	59.4
Melamine impregnated paper	**54,558**	**33.4**	35,417	24.4
Finish foil paper	**7,308**	**4.5**	9,416	6.5
PVC furniture film	**4,994**	**3.1**	3,866	2.7
PVC flooring film	**16,451**	**10.1**	9,788	6.7
Others	**356**	**0.2**	474	0.3
	163,230	**100.0**	145,373	100.0

Revenues from sales of melamine impregnated paper increased by approximately 54.0% to approximately RMB54.6 million for the Period on a period-to-period basis. The increase was driven by the increase in cooperation with certain sizable PRC-based furniture manufacturers. PVC furniture film and PVC flooring film continued to record rapid growth during the Period. The sales from these products increased by approximately 29.2% and 68.1%, respectively, on a period-to-period basis. As a results of the decrease in sales in Pakistan market, the sales of decorative paper decreased by 7.9% on a period-to-period basis.

MANAGEMENT DISCUSSION AND ANALYSIS

We experienced an increase in purchase costs of our key raw materials, in particular the base paper and PVC mould. As a result of increase in purchase costs of the raw materials, the Group's gross profit margin during the Period dropped to approximately 18.5% (six months ended 30 June 2017: 24.4%).

Other income and other gains – net

The Group's other income and other gains–net increased by approximately RMB1.6 million or 159.5%, to approximately RMB2.6 million during the Period from approximately RMB1.0 million for the six months ended 30 June 2017, primarily resulting from the increase in foreign exchange difference as a result of the depreciation of RMB against US Dollars during the Period.

Selling expenses

The Group's selling expenses increased by approximately RMB0.7 million or 8.8%, to approximately RMB8.4 million for the Period from approximately RMB7.7 million for the six months ended 30 June 2017. The increase was primarily due to the payment of licensing fee to one of its customers for using the customer's registered trademarks.

Administrative expenses

The administrative expenses decreased slightly by approximately RMB0.1 million or 0.6%, to approximately RMB18.7 million for the Period from approximately RMB18.8 million for the six months ended 30 June 2017. The decrease was mainly attributable to the decrease in one-off listing expenses of RMB4.6 million and partially offset by the increase in research and development costs of approximately RMB3.3 million and the increase in legal and professional expenses of approximately RMB1.0 million.

Finance expenses – net

The Group's finance expenses-net remained relatively stable, which the amount decreased slightly from approximately RMB1.3 million for the six months ended 30 June 2017 to approximately RMB1.2 million for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to owners of the Company

As a result of the foregoing, the Group recorded a profit attributable to owners of the Company of approximately RMB4.3 million compared to approximately RMB6.7 million for the six months ended 30 June 2017, representing a decrease of approximately 36.2%.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had current assets of approximately RMB191.1 million (31 December 2017: RMB192.4 million) which comprised cash and cash equivalents of approximately RMB8.9 million (31 December 2017: RMB14.7 million). The Group had current liabilities amounted to approximately RMB227.4 million (31 December 2017: RMB242.8 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 0.84 times as at 30 June 2018 (31 December 2017: 0.79 times). The increase in current ratio was mainly due to the decrease in current portion of long-term bank borrowings by approximately RMB47.3 million.

The gearing ratio of the Group, calculated based on the interest-bearing liabilities divided by the total equity, was approximately 0.59 as at 30 June 2018 (31 December 2017: 0.64).

FOREIGN EXCHANGE EXPOSURE

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

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

CAPITAL COMMITMENTS

As at 30 June 2018, the capital expenditure which the Group had contracted for but were not provided for in the financial information in respect of the acquisition of property, plant and equipment amounted to approximately RMB12.0 million (31 December 2017: RMB12.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

INFORMATION ON EMPLOYEES

As at 30 June 2018, the Group had 342 employees (31 December 2017: 324 employees), including the executive Directors. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

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

MATERIAL ACQUISITIONS OR DISPOSALS

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

CHARGES OF ASSETS

As at 30 June 2018, the Group's bank borrowings are secured by its assets as below:

Land use rights with a total net book value of approximately RMB43.1 million (31 December 2017: RMB43.3 million) were pledged as collateral for the Group's borrowings.

Property, plant and equipment with a total net book value of approximately RMB13.6 million (31 December 2017: RMB14.2 million) were pledged as collateral for the Group's borrowings.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2018 (31 December 2017: Nil).

USE OF PROCEEDS

The Company was listed on the Stock Exchange on 17 July 2017 and the net proceeds are estimated to be approximately HK$52.8 million. The Company intends to apply (i) approximately 71.8%, or HK$37.9 million, for enhancing production capacity; (ii) approximately 19.2%, or HK$10.1 million, for repaying the bank loans; and (iii) the balance of approximately 9.0% or HK$4.8 million, for using as general working capital of the Group.

Up to the date of this report, the Group had utilised (i) approximately RMB19.3 million for enhancing production capacity; (ii) approximately RMB8.6 million for repaying the bank loans; and (iii) approximately RMB2.2 million as general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The year 2018 has been an increasingly challenging year for the Group. Looking forward, we see uncertainties and risks clouding 2018 and years ahead. The escalating international tensions on the horizon, including global trade war triggered by the U.S. especially the U.S.-China trade tension, the potential threat of the U.S. exiting the World Trade Organisation, recent runup of oil price, mixed and uncertain market signals in Europe due to Brexit, the PRC's deteriorating debt problem and deleveraging measures, global gradual tightening fiscal stimulus led by the U.S. as well as potential war threat over Syria, have contributed to market volatilities and started damaging confidence among companies, threatening the global economic expansion and hence will further cloud the market outlook.

Against the backdrop of the increasingly challenging market landscape, the Group remains prudently optimistic of the future development of the Group's business. The growth of the overall business of the Group remains sound and healthy. The popularity of the Group's products and brand has been heightened, resulting in the strong purchase orders secured for the Group.

The Group keeps its pace in capacity expansion to improve production efficiency as its plan. New production lines have been placed with the purposes of enhancing the production capacity and providing a better production flexibility for the Group to cater the needs of customers with special production requirements. It also provides a solid foundation for the Group to align the need of possible forthcoming business expansion and propel any future developments.

Facing the rising costs of raw materials, the Group will continue to keep close eyes on the costs and strike a balance of the costs and benefits. The Group takes cost containment measures including boosting the production efficiency in order to increase the gross profit margin. On the other hand, the Group is committed to increase research and development capabilities in order to optimise the product mix and the production efficiency. The Group will continue to improve the manufacturing technologies including plate roller engraving, ink development and impregnation technology.

The market trend shifts from a fragmented one to a more concentrated one since customers tend to prefer manufacturers with strong design capacity and stable production quality. The trend also boosts the standard of decorative materials in respect of lusting for outstanding designs and colors. Leveraging on the extensive product design, increased investment in development capabilities, coupled with highly diversified products and product quality, the Group is well positioned to capture the market share of the decorative printing materials industry. The Group will continue to explore the new market and capture the emerging business opportunities.

The board of directors (the "Board") is pleased to announce the unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2018 together with the comparative figures as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2018

	Notes	Three months ended 30 June		Six months ended 30 June	
		2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	**2018 RMB'000 (unaudited)**	2017 RMB'000 (unaudited)
Revenue	6	**93,694**	83,546	**163,230**	145,373
Cost of sales		**(76,739)**	(64,100)	**(132,980)**	(109,896)
Gross profit		**16,955**	19,446	**30,250**	35,477
Selling expenses		**(4,431)**	(4,149)	**(8,366)**	(7,688)
Administrative expenses		**(9,760)**	(10,264)	**(18,715)**	(18,836)
Other income and other gains – net	7	**1,979**	472	**2,579**	994
Operating profit	8	**4,743**	5,505	**5,748**	9,947
Finance income		**220**	156	**335**	291
Finance expenses		**(977)**	(770)	**(1,566)**	(1,566)
Finance expenses – net		**(757)**	(614)	**(1,231)**	(1,275)
Profit before income tax		**3,986**	4,891	**4,517**	8,672
Income tax expense	9	**(510)**	(959)	**(253)**	(1,991)
Profit for the period		**3,476**	3,932	**4,264**	6,681
Profit attributable to:					
– Owners of the Company		**3,476**	3,932	**4,264**	6,681
Earnings per share for profit attributable to owners of the Company for the period		**RMB cents**	RMB cents	**RMB cents**	RMB cents
– Basic and diluted	10	**0.70**	1.05	**0.85**	1.78

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2018

	Three months ended 30 June		Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	**2018 RMB'000 (unaudited)**	2017 RMB'000 (unaudited)
Profit for the period	**3,476**	3,932	**4,264**	6,681
Other comprehensive income				
Items that may be reclassified to profit or loss				
Currency translation differences	**179**	(117)	**(2,350)**	216
Other comprehensive income for the period, net of tax	**179**	(117)	**(2,350)**	216
Total comprehensive income for the period	**3,655**	3,815	**1,914**	6,897
Total comprehensive income for the period attributable to:				
– Owners of the Company	**3,655**	3,815	**1,914**	6,897

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Notes	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
ASSETS			
Non-current assets			
Land use rights		**43,109**	43,316
Prepayments for land use rights		**4,900**	4,900
Property, plant and equipment	*11*	**169,303**	160,081
Intangible assets		**601**	991
Deferred income tax assets		**5,467**	4,392
		223,380	213,680
Current assets			
Inventories	*12*	**49,663**	43,723
Trade and other receivables	*13*	**99,487**	97,482
Restricted bank deposits		**33,050**	36,550
Cash and cash equivalents		**8,857**	14,688
		191,057	192,443
Total assets		**414,437**	406,123
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*14*	**4,253**	4,253
Other reserves		**96,990**	98,606
Retained earnings		**60,447**	56,920
Total equity		**161,690**	159,779

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Notes	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*15*	**22,000**	–
Deferred revenue		**3,368**	3,516
		25,368	3,516
Current liabilities			
Trade and other payables	*16*	**153,429**	140,728
Short-term bank borrowings	*17*	**69,200**	50,100
Current portion of long-term bank borrowings	*15*	**4,750**	52,000
		227,379	242,828
Total liabilities		**252,747**	246,344
Total equity and liabilities		**414,437**	406,123
Net current liabilities		**(36,322)**	(50,385)
Total assets less current liabilities		**187,058**	163,295

The notes on pages 14 to 28 are an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to equity owners of the Company			
	Share capital (Note 14) RMB'000 (unaudited)	Other reserves RMB'000 (unaudited)	Retained earnings RMB'000 (unaudited)	Total RMB'000 (unaudited)
Balance at 1 January 2017	790	37,901	51,424	90,115
Comprehensive income				
Profit for the period	–	–	6,681	6,681
Other comprehensive income				
Currency translation differences	–	216	–	216
Total comprehensive income	–	216	6,681	6,897
Balance at 30 June 2017	790	38,117	58,105	97,012
Balance at 1 January 2018	**4,253**	**98,606**	**56,920**	**159,779**
Comprehensive income				
Profit for the period	**–**	**–**	**4,264**	**4,264**
Other comprehensive income				
Currency translation differences	**–**	**(2,353)**	**–**	**(2,353)**
Total comprehensive income	**–**	**(2,353)**	**4,264**	**1,911**
Transactions with owners in their capacity as owners				
Appropriation to statutory reserves	**–**	**737**	**(737)**	**–**
Balance at 30 June 2018	**4,253**	**96,990**	**60,447**	**161,690**

The notes on pages 14 to 28 are an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from operating activities		
Cash generated from/(used in) operations	**11,857**	(827)
Income tax paid	**(458)**	(320)
Net cash generated from/(used in) operating activities	**11,399**	(1,147)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(13,803)**	(13,968)
Purchase of intangible assets	**(17)**	(4)
Proceed from disposal of intangible assets	**–**	197
Decrease in restricted bank deposits	**3,500**	6,465
Receipt of amount due from related parties	**–**	800
Interest received	**334**	291
Net cash used in investing activities	**(9,986)**	(6,219)

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from financing activities		
Proceeds from bank borrowings	**41,100**	42,400
Repayments of bank borrowings	**(47,250)**	(39,000)
Interest paid	**(1,112)**	(2,887)
Payment of amount due to related parties	**–**	(246)
Payment for listing expenses	**–**	(1,770)
Net cash used in financing activities	**(7,262)**	(1,503)
Net decrease in cash and cash equivalents	**(5,849)**	(8,869)
Cash and cash equivalents at beginning of the period	**14,687**	11,344
Exchange gains on cash and cash equivalents	**19**	2
Cash and cash equivalents at end of the period	**8,857**	2,477

The notes on pages 14 to 28 are an integral part of these interim condensed consolidated financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

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

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

The unaudited condensed consolidated financial information are presented in Renminbi (RMB), unless otherwise stated.

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

2 Basis of presentation

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the Group's consolidated financial information for the year ended 31 December 2017, which have been prepared in accordance with HKFRSs.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 Basis of presentation *(Continued)*

Going Concern

As at 30 June 2018, the Group's current liabilities exceeded its current assets by RMB36.3 million. As at the same day, the Group had current bank borrowings of RMB74.0 million to be repayable in the coming twelve months; and had bank acceptance notes payable amounting to RMB59.4 million which were pledged by the Group's bank deposits of RMB33.1 million.

In addition, the Group had capital commitments amounting to RMB12.0 million in relation to the acquisition of plant and equipment as at 30 June 2018. The directors of the Company have reviewed the Group's cash flow forecast covering a period of not less than twelve months from 30 June 2018, and have given due consideration to the liquidity of the Group and adopted a going concern basis in preparing the interim financial information based on the following assessments:

(a) The Group has not experienced any significant difficulties in renewing its bank borrowings upon their maturities and issuing its bank acceptance notes. In addition, all the Group's lending banks have advised their intention in writing, though not legally binding, to have the existing uncommitted facilities be available at the current terms for the period till 31 December 2019. There is no indication that the banks will not renew the existing bank borrowings if the Group applies for the renewal.

(b) The directors also expect that sufficient sales orders will be secured in the coming year and the Group will continue its effort to strengthen its working capital position such that net operating cash inflows will be generated.

Based on the above, the directors are of the opinion that, taking into account the Group's anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance, continuous availability of bank facilities; and the successful renewal of bank facilities upon expiry, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2018. Accordingly, the directors of the Company are of the opinion that the Group will continue as a going concern and have prepared the interim financial information on a going concern basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 Significant accounting policies

The accounting policies applied are consistent with those adopted in preparing the Group's annual audited financial statements for the year ended 31 December 2017, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below.

(a) Impact of HKFRS 9 adopted by the Group

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

All of the Group's financial assets and financial liabilities were carried at amortised cost, therefore, the new guidance would not have a significant impact on the classification and measurement of its financial assets and financial liabilities.

The Group does not have any hedging instruments. There would have no significant impact arising from the new hedging accounting rules on the accounting for its hedging relationships.

In relation to the impairment of financial assets, the Group has adopted the simplified expected credit loss ("ECL") model for its trade receivables. This model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses under HKAS 39. The adoption of ECL model hasn't resulted in additional loss allowance recognized in the opening balance sheet on 1 January 2018.

(b) Impact of HKFRS 15 adopted by the Group

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

Based on management's assessment, the adoption of the new standards has no significant impact on the Group's financial position and results of operations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 Significant accounting policies *(Continued)*

(c) Impact of standards issued but not yet applied by the Group

HKFRS 16, "Leases"

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

The accounting for lessors will not significantly change.

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

The new standard is mandatory for financial years commencing on or after 1 January 2019.

The Group does not plan to early adopt HKFRS 16. According to the preliminary assessment made by the directors of the Company, management does not anticipate any significant impact on the Group's financial position and results of operations upon adoption of the other new, amended and revised HKFRSs mentioned above.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Accountant's Report as at 31 December 2017.

There have been no changes in the risk management policies since 31 December 2017.

5.2 Fair value estimation

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 Financial risk management *(Continued)*

5.2 *Fair value estimation* *(Continued)*

The carrying amounts of long term bank borrowings approximates their fair value because the Group's borrowings bear floating interest rates which approximate to the market borrowing interest rate.

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

As at 30 June 2018 and 31 December 2017, the Group had no other level 1, level 2 or level 3 financial instruments.

6 Revenue and segment information

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

All the revenue is from sales of goods and providing shipping service. All non-current assets are located in the PRC.

Revenue from external customers by country (based on the location of the customers) is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)
PRC	**57,346**	44,280	**91,792**	67,605
Pakistan	**18,159**	20,708	**37,857**	44,145
India	**4,529**	6,020	**7,548**	9,323
Thailand	**1,802**	1,268	**3,570**	2,434
Kenya	**1,445**	1,008	**3,330**	3,090
Other countries	**10,413**	10,262	**19,133**	18,776
	93,694	83,546	**163,230**	145,373

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 Other income and other gains – net

	Three months ended 30 June		Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	**2018 RMB'000 (unaudited)**	2017 RMB'000 (unaudited)
Income of sales of scrap and surplus materials	**282**	456	**477**	773
Rental income	**24**	24	**48**	48
Government grants income including amortisation of deferred government grants	**91**	58	**116**	83
Foreign exchange gain/(loss), net	**1,599**	(74)	**1,948**	(237)
Others	**(17)**	8	**(10)**	327
	1,979	472	**2,579**	994

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 Operating profit

An analysis of the amounts presented as operating items in the financial information is given below:

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Operating items				
Listing expense	**–**	1,937	**–**	4,562
Impairment losses of trade and other receivables	**640**	76	**640**	209
Depreciation and amortisation	**4,402**	2,355	**7,462**	5,020
Auditor's remuneration-audit service	**250**	–	**500**	–

9 Income tax expense

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Current income tax	**550**	1,036	**1,055**	1,907
Deferred income tax	**(40)**	(77)	**(802)**	84
	510	959	**253**	1,991

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 Income tax expense *(Continued)*

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

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

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

(b) Overseas income tax

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

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

(c) PRC withholding tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding income tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. During the Period, the directors reassessed the dividend policy of its major subsidiaries established in the PRC, Shenglong Decoration and Hangzhou Splendor Decoration Material Co., Ltd. ("Splendor Decoration"), based on the Group's current business plan and financial position, and no retained earnings as of 31 December 2017 would be distributed to its non-PRC registered intermediate holding company in the foreseeable future. As such, no deferred tax liability has been provided by the Group for the earnings expected to be retained by the Shenglong Decoration and Splendor Decoration in the PRC and not to be remitted out of the PRC in the foreseeable future.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period. In determining the weighted average number of ordinary shares in issue during the Period, a total of 375,000,000 shares which have been taken into account the share subdivision and the capitalisation issue were deemed to have been issued since 1 January 2017.

	Three months ended 30 June		Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)	**2018 (unaudited)**	2017 (unaudited)
Profit attributable to owners of the Company (RMB'000)	**3,476**	3,932	**4,264**	6,681
Weighted average number of ordinary shares in issue ('000)	**500,000**	375,000	**500,000**	375,000
Basic and diluted earnings per share (RMB cents)	**0.70**	1.05	**0.85**	1.78

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

11 Property, plant and equipment

During the six months ended 30 June 2018, additions to the Group's property, plant and equipment were approximately RMB20,679,000 (for the six months ended 30 June 2017: RMB17,102,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 Inventories

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Raw materials	**19,283**	17,598
Work in progress	**3,508**	3,726
Finished goods	**26,872**	22,399
	49,663	43,723

13 Trade and other receivables

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Trade receivables	**87,736**	87,290
Less: allowance for impairment of trade receivables	**(3,602)**	(2,961)
Trade receivables, net	**84,134**	84,329
Notes receivables	**100**	2,247
Advances to employees	**7,321**	3,803
Deposits paid to suppliers	**1,045**	967
Deposits for utilities and product quality assurance	**2,658**	1,357
Interests receivables	**166**	178
Prepayments of raw materials	**1,980**	373
Government grants receivables	**–**	2,327
Other receivables	**2,083**	1,901
	99,487	97,482

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 Trade and other receivables *(Continued)*

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

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Less than 3 months	**69,222**	65,343
More than 3 months but not exceeding 1 year	**13,584**	17,553
More than 1 year	**4,930**	4,394
	87,736	87,290

14 Share capital

	Number of ordinary shares of HK$0.01 each '000	Nominal Value of ordinary shares HK$'000
Authorised		
At 31 December 2017, 1 January 2018 and 30 June 2018	10,000,000	100,000

	Number of ordinary shares of HK$0.01 each '000	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000
Issued			
At 31 December 2017, 1 January 2018 and 30 June 2018	500,000	5,000	4,253

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 Long-term bank borrowings

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Secured bank borrowings	**26,750**	52,000
Less: current portion of long-term borrowings	**(4,750)**	(52,000)
	22,000	–

(a) As at the end of the reporting period, the Group's long-term borrowings were repayable as follows:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Within 1 year	**4,750**	52,000
Between 1 and 2 years	**22,000**	–
	26,750	52,000
Within 1 year included in current liabilities	**(4,750)**	(52,000)
	22,000	–

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 Trade and other payables

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Trade payables	**63,304**	60,321
Notes payables	**59,400**	54,330
Payables for purchase of property, plant and equipment	**11,422**	8,747
Deposits received from customers	**670**	–
Accrued operating expenses (a)	**7,315**	7,119
Advances from customers	**3,634**	3,049
Employee benefit payable	**4,144**	5,254
Other taxes payable	**2,100**	1,047
Others	**1,440**	861
	153,429	140,728

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

(b) As at 30 June 2018 and 31 December 2017, the ageing analysis of the trade payables and notes payables based on invoice date is as follows:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Less than 3 months	**68,808**	68,541
More than 3 months but not exceeding 1 year	**53,800**	46,038
More than 1 year	**96**	72
	122,704	114,651

(c) As at 30 June 2018 and 31 December 2017, all trade and other payables of the Group were non-interest bearing.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 Short-term bank borrowings

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Secured bank borrowings	**54,800**	34,800
Unsecured bank borrowings	**14,400**	15,300
	69,200	50,100

18 Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

19 Commitments

Capital commitments

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

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Property, plant and equipment	**11,959**	11,959

20 Related party transactions

(a) Transaction with related parties

Save as disclosed elsewhere in the condensed consolidated interim financial information, the Group had the following transactions with related parties during the Period.

Key management compensation

During the Period, the emoluments of key management personnel were RMB1,116,000 (six months ended 30 June 2017: RMB1,147,000).

(b) Period-end balance with related parties

As at 30 June 2018 and 31 December 2017, the Group did not have any balances with the related parties.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company has adopted the share option scheme on 22 June 2017 (the "Share Option Scheme"). The principal terms of the Share Option Scheme was summarised in note 24 to the consolidated financial statements for the year ended 31 December 2017.

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

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

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

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

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

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

OTHER INFORMATION

Long position in ordinary shares of the Company

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

Notes:

(1) These 239,950,000 shares are held by Bright Commerce which is wholly owned by Mr. Sheng and hence, Mr. Sheng is deemed or taken to be interested in all the shares held by Bright Commerce for the purpose of SFO.

(2) These 11,250,000 shares are held by Well Power Ventures Limited ("Well Power") which is wholly owned by Mr. Yu Zemin and hence, Mr. Yu Zemin is deemed or taken to be interested in all the shares held by Well Power for the purposes of SFO.

(3) The percentage is calculated on the basis of 500,000,000 shares in issue at the date of this report.

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

OTHER INFORMATION

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

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

Name of Shareholder	Capacity/Nature of interest	Number of ordinary shares held (Note 1)	Percentage of shareholding
Bright Commerce	Beneficial interest	239,950,000 shares (L)	47.99%
Ms. Chen Deqin (Note 2)	Interest of spouse	239,950,000 shares (L)	47.99%
Mr. Ren Yunan	Beneficial interest	101,300,000 shares (L)	20.26%
Ms. Lin Ying (Note 3)	Interest of spouse	101,300,000 shares (L)	20.26%

Notes:

(1) All interests stated are long positions.

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

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

OTHER INFORMATION

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

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed "DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE" and "SHARE OPTION SCHEME" in this report, at no time during the six months ended 30 June 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

COMPETING INTERESTS

As at the date of this report, none of the Directors, the controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

COMPLIANCE ADVISER'S INTERESTS

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings (the "Required Standard of Dealings") set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings throughout the period from the listing date to the date of this report. No incident of non-compliance was noted by the Company during such period.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance its corporate value. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code in Appendix 15 to the GEM Listing Rules (the "CG Code").

The Company confirms that, other than the deviation from code provision A.2.1, the Company has complied with all the code provisions set out in the Corporate Governance Code throughout the six months ended 30 June 2018.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Sheng holds both positions. Mr. Sheng has been primarily responsible for overseeing our Group's overall management and strategic development of our Group and major decision-making of our Group since July 1993. Taking into account the continuation of management and the implementation of our business strategies, the Directors consider it is most suitable for Mr. Sheng to hold both the positions of chief executive officer and the chairman of our Board and the present arrangements are beneficial and in the interests of our Company and our Shareholders as a whole. Accordingly, the Company has not segregated the roles of the chairman and chief executive officer as required by A.2.1 of the CG Code.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rule 5.28 and Rule 5.29 of the GEM Listing Rules and paragraph C.3 of the CG code. The written terms of reference of the audit committee was adopted in compliance with the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange. The audit committee consists of three independent non-executive Directors, namely Mr. Tso Ping Cheong Brian (Chairman), Mr. Ma Lingfei and Ms. Huang Yueyuan. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process, internal control systems of the Group and to provide advice and comments thereon to the Board.

OTHER INFORMATION

The unaudited interim consolidated results of the Group for the six months ended 30 June 2018 have been reviewed by the audit committee and the audit committee is of the view that the interim report for the six months ended 30 June 2018 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

By order of the Board
Shenglong Splendecor International Limited
Sheng Yingming
Chairman and Chief Executive Officer

Hong Kong, 10 August 2018

As at the date of this report, the directors of the Company are:

Executive Directors
Mr. Sheng Yingming *(Chairman and Chief Executive Officer)*
Ms. Sheng Sainan
Mr. Fang Xu
Mr. Yu Zemin

Independent Non-executive Directors
Mr. Ma Lingfei
Mr. Tso Ping Cheong Brian
Ms. Huang Yueyuan