



2019

Interim Report



**SHENGLONG SPLENDECOR
INTERNATIONAL LIMITED**

盛龍錦秀國際有限公司

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

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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 2019, the Group served both domestic and overseas markets and the overseas sales reached over 30 countries in Asia, North America, South America, Europe, Oceania and Africa.

FINANCIAL REVIEW

Revenue

The Group’s revenue for the six months ended 30 June 2019 (the “Period”) was approximately RMB151.3 million, representing a decrease of approximately 7.3% over the corresponding period of last year. The decrease in the Group’s revenue was mainly driven by the decrease in revenue from the PRC and Pakistan markets, in particular the sales of decorative paper and finish foil paper during the Period, as a result of the continued trade tensions between the United States and China, which have significantly impacted market confidence.

Cost of sales

The cost of sales decreased by approximately RMB13.2 million, or approximately 9.9%, from approximately RMB133.0 million for the six months ended 30 June 2018 to approximately RMB119.8 million for the six months ended 30 June 2019, was primarily due to the decrease in the Group’s revenue for the Period as a result of the reduction in orders of our products in light of the weakened market demand.

Gross profit and gross profit margin

The Group’s gross profit increased slightly by approximately RMB1.2 million, from approximately RMB30.3 million for the six months ended 30 June 2018 to approximately RMB31.5 million for the six months ended 30 June 2019, despite the Group’s revenue decreased by approximately RMB11.9 million for the Period. The increase in gross profit was principally due to (i) increase in sales to certain overseas market, especially in India, Kenya and United Arab Emirates, which the sales increased by 12.9%, 43.0% and 142.3%, respectively, on a period-to-period basis, which generally have higher gross profit margin than other markets; (ii) the decrease in business transactions with certain trading entities with generally lower profit-margin; and (iii) the decrease in average cost of chemicals used for our production as the Group utilised higher portion of self-produced printing ink for the printing of its products.

The market conditions of decorative printing materials products remain challenging. The purchase costs of the Group’s key raw materials, including base paper, PVC mould and chemicals continue keeping at high level. As a result, the Group’s gross profit margin during the Period remained tight at 20.8% (six months ended 30 June 2018: 18.5%).

MANAGEMENT DISCUSSION AND ANALYSIS

Selling expenses

Selling expenses mainly comprised of (i) transportation expenses; (ii) wages, salaries and welfare of our sales staff; (iii) travelling and entertainment expenses; (iv) marketing and exhibition expenses; (v) sales commission; and (vi) other selling expenses. The Group's selling expenses for the Period amounted to approximately RMB8.5 million (six months ended 30 June 2018: approximately RMB8.4 million) and remained relatively stable for the Period.

Administrative expenses

The administrative expenses for the Period decreased by approximately RMB2.1 million, or 11.2%, from approximately RMB18.7 million for the six months ended 30 June 2018 to approximately RMB16.6 million for the Period. The decrease was mainly attributable to the decrease in the employee benefit expenses in relation to the departure of a senior finance personnel in mid-2018 and the increase in capitalisation of costs incurred for research and development projects newly launched during the six months ended 30 June 2019.

Other income and other gains – net

The Group's other income and other gains–net decreased by approximately RMB1.7 million, or 65.4%, from approximately RMB2.6 million for the six months ended 30 June 2018 to approximately RMB0.9 million during the Period, primarily resulting from the foreign exchange loss incurred in the Period, amounted to approximately RMB46,000 (six months ended 30 June 2018: foreign exchange gain, net of approximately RMB1.9 million) due to the depreciation of US dollars against RMB, offset by the increase in swap sales and surplus materials income by approximately RMB0.4 million.

Finance expenses – net

The Group's finance expenses-net remained relatively stable, which the amount decreased slightly from approximately RMB1.2 million for the six months ended 30 June 2018 to approximately RMB1.0 million for the Period.

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 RMB5.7 million for the Period as compared to approximately RMB4.3 million for the six months ended 30 June 2018, representing an increase of approximately 32.6%.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had current assets of approximately RMB233.2 million (31 December 2018: RMB189.0 million) which comprised cash and cash equivalents of approximately RMB51.6 million (31 December 2018: RMB16.9 million). The Group had current liabilities amounted to approximately RMB249.6 million (31 December 2018: RMB247.9 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 0.93 times as at 30 June 2019 (31 December 2018: 0.76 times). The increase in current ratio was mainly due to the increase in cash and cash equivalents by approximately RMB34.7 million.

The gearing ratio of the Group, calculated based on the interest-bearing liabilities divided by the total equity, was approximately 0.87 as at 30 June 2019 (31 December 2018: 0.64). The increase in gearing ratio was mainly attributable to a new secured bank borrowings of RMB40.0 million obtained during the Period.

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 risks.

CAPITAL COMMITMENTS

As at 30 June 2019, 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 RMB8.9 million (31 December 2018: RMB6.1 million).

INFORMATION ON EMPLOYEES

As at 30 June 2019, the Group had 330 employees (31 December 2018: 316 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.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS OR DISPOSALS

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

CHARGES OF ASSETS

As at 30 June 2019, the Group's bank borrowings are secured by its assets as below:

Land use rights with a total net book value of approximately RMB41.7 million (31 December 2018: RMB42.2 million) were pledged as collateral for the Group's borrowings.

Property, plant and equipment with a total net book value of approximately RMB70.3 million (31 December 2018: RMB73.6 million) were pledged as collateral for the Group's borrowings.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2019 (31 December 2018: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress from 17 July 2017, the date of being listed in the Stock Exchange, (the "Listing Date") to 30 June 2019 (the "Review Period") is set out below:

Business strategies	Actual business progress during the Review Period
– Enhancement of production capacity	– The Group has utilised approximately RMB23.5 million for enhancing production capacity.
– Repayment of bank loans	– The Group has fully utilised approximately RMB8.6 million for repaying the bank loans.
– General working capital	– The Group has fully utilised approximately RMB4.0 million as general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds from Listing were approximately RMB44.6 million.

As at 30 June 2019, the net proceeds from the Listing have been utilised in the following manner:

	Use of proceeds as allocated in accordance with the Prospectus (Note (1)) RMB'million	Use of proceeds from Listing up to 30 June 2019 RMB'million	Unutilised proceeds as at 30 June 2019 (Note (2)) RMB'million
Enhancement of production capacity	32.0	23.5	8.5
Repayment of bank loans	8.6	8.6	–
General working capital	4.0	4.0	–

Notes:

- (1) The actual amounts allocated have been adjusted to reflect the percentage of the net proceeds actually received pursuant to the Listing.
- (2) The unutilised net proceeds of approximately RMB8.5 million have been placed in licensed banks in Hong Kong and PRC.

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

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

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

Despite the aforementioned risks and challenges, the growth of the business of the Group remains sound and healthy. The Group's product and brand are in growing popularity and we continued to receive strong purchase orders. During the Period, we have continued our pace in capacity expansion. With the new production lines in place, it not only enhances our production capacity but also provides a better production flexibility for us to cater the need of our customers with special production requirements. It provides a solid foundation for the Group to align the need of the business expansion in the future.

In the face of the rising cost of raw materials, the Group would continue to manage costs and risks. The Group will enhance the profit margins by lowering the costs and increasing the production efficiency. The Group is committed to enhancing our research and development capabilities to optimise our product mix and to improve our production efficiency. The Group would continue to improve our manufacturing technology including plate roller engraving, ink development and impregnation technology. Taking advantages of our well-recognised reputation in the market, the Directors are optimistic to capture the market share of the decorative printing materials industry. The Group would continue to explore new market and capture the emerging business opportunities.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2019

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 2019 together with the comparative figures as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Revenue	6	88,212	93,694	151,335	163,230
Cost of sales		(68,288)	(76,739)	(119,846)	(132,980)
Gross profit		19,924	16,955	31,489	30,250
Selling expenses		(5,061)	(4,431)	(8,501)	(8,366)
Administrative expenses		(9,380)	(9,760)	(16,633)	(18,715)
Other income and other gains – net	7	1,450	1,979	882	2,579
Operating profit	8	6,933	4,743	7,237	5,748
Finance income		122	220	223	335
Finance expenses		(231)	(977)	(1,178)	(1,566)
Finance expenses – net		(109)	(757)	(955)	(1,231)
Profit before income tax		6,824	3,986	6,282	4,517
Income tax expense	9	(796)	(510)	(599)	(253)
Profit for the period		6,028	3,476	5,683	4,264
Profit attributable to:					
– Owners of the Company		6,028	3,476	5,683	4,264
Earnings per share for profit attributable to owners of the Company for the period					
– Basic and diluted	10	RMB cents 1.21	RMB cents 0.70	RMB cents 1.14	RMB cents 0.85

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2019

	Three months ended 30 June		Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Profit for the period	6,028	3,476	5,683	4,264
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Currency translation differences	95	179	14	(2,350)
Other comprehensive income for the period, net of tax	95	179	14	(2,350)
Total comprehensive income for the period	6,123	3,655	5,697	1,914
Total comprehensive income for the period attributable to:				
– Owners of the Company	6,123	3,655	5,697	1,914

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Notes	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
ASSETS			
Non-current assets			
Land use rights		41,713	42,247
Prepayments for land use rights		4,900	4,900
Property, plant and equipment	11	177,460	176,950
Intangible assets		6,690	5,017
Deferred income tax assets		6,259	5,796
		237,022	234,910
Current assets			
Inventories	12	51,621	44,046
Trade and other receivables	13	94,135	95,221
Restricted bank deposits		35,750	32,800
Cash and cash equivalents		51,646	16,892
		233,152	188,959
Total assets		470,174	423,869
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	4,253	4,253
Other reserves		100,421	99,575
Retained earnings		73,559	68,708
Total equity		178,233	172,536

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Notes	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	15	39,000	–
Deferred revenue		3,325	3,418
		42,325	3,418
Current liabilities			
Trade and other payables	16	134,166	137,115
Short-term bank borrowings	17	114,450	110,800
Current portion of long-term bank borrowings	15	1,000	–
		249,616	247,915
Total liabilities		291,941	251,333
Total equity and liabilities		470,174	423,869
Net current liabilities		(16,464)	(58,956)
Total assets less current liabilities		220,558	175,954

The notes on pages 15 to 30 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 2019

	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 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
Balance at 1 January 2019	4,253	99,575	68,708	172,536
Comprehensive income				
Profit for the period	-	-	5,683	5,683
Other comprehensive income				
Currency translation differences	-	14	-	14
Total comprehensive income	-	14	5,683	5,697
Transactions with owners in their capacity as owners				
Appropriation to statutory reserves	-	832	(832)	-
Balance at 30 June 2019	4,253	100,421	73,559	178,233

The notes on pages 15 to 30 are an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Cash flows from operating activities		
Cash generated from operations	5,852	11,857
Income tax paid	(1,129)	(458)
Net cash generated from operating activities	4,723	11,399
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,840)	(13,803)
Purchase of intangible assets	(2,108)	(17)
(Increase)/decrease in restricted bank deposits	(2,950)	3,500
Interest received	223	334
Net cash used in investing activities	(10,675)	(9,986)

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Cash flows from financing activities		
Proceeds from bank borrowings	112,250	41,100
Repayments of bank borrowings	(68,600)	(47,250)
Interest paid	(2,940)	(1,112)
Net cash generated from/(used in) financing activities	40,710	(7,262)
Net increase/(decrease) in cash and cash equivalents	34,758	(5,849)
Cash and cash equivalents at beginning of the period	16,892	14,687
Exchange (losses)/gains on cash and cash equivalents	(4)	19
Cash and cash equivalents at end of the period	51,646	8,857

The notes on pages 15 to 30 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 2019 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 2018, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs").

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 Basis of presentation (Continued)

Going Concern

As at 30 June 2019, the Group's current liabilities exceeded its current assets by RMB16.5 million. As at the same date, the Group had current bank borrowings of RMB115.5 million to be repayable in the coming twelve months; and had bank acceptance notes payable amounting to RMB55.1 million which were pledged by the Group's bank deposits of RMB54.9 million. In addition, the Group had capital commitments amounting to RMB8.9 million in relation to the acquisition of property, plant and equipment as at 30 June 2019.

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 2019, and have given due consideration to the liquidity of the Group and adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

- (a) The Group has not experienced any significant difficulties in renewing its bank borrowings upon their maturities and issuing its bank acceptance notes. There is no indication that the banks will not renew the existing bank borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the consolidated financial statements, the Group has issued new bank acceptance notes of RMB7.9 million.
- (b) The directors also expect that sufficient sales orders will be secured in the coming months and the Group will continue its effort to strengthen its working capital position such that net operating cash inflows will be generated.

Based on the above, considering the continuous availability of bank facilities, and the successful renewal of bank facilities upon expiry, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2019. 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 2018, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2019.

New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period, and the Group has applied the simplified transition approach and has not restate comparative amounts as a result of adopting HKFRS 16 Leases.

HKFRS 16 results 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.

However at the reporting date, the Group has no non-cancellable operating lease commitments.

The other standards did not have any material impact on the group's accounting policies and did not require retrospective adjustments.

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 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 Annual Report as at 31 December 2018.

There have been no changes in the risk management policies since 31 December 2018.

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).

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 2019 and 31 December 2018, the Group had no other level 1, level 2 or level 3 financial instruments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
PRC	54,517	57,346	85,786	91,792
Pakistan	12,801	18,159	29,589	37,857
India	4,895	4,529	8,521	7,548
Thailand	1,976	1,802	3,031	3,570
Kenya	3,346	1,445	4,761	3,330
United Arab Emirates	1,884	991	4,034	1,665
Other countries	8,793	9,422	15,613	17,468
	88,212	93,694	151,335	163,230

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	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Income of sales of scrap and surplus materials	436	282	834	477
Rental income	24	24	40	48
Government grants income including amortisation of deferred government grants	28	91	54	116
Foreign exchange gain/(loss), net	962	1,599	(46)	1,948
Others	–	(17)	–	(10)
	1,450	1,979	882	2,579

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	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Operating items				
Impairment losses of trade and other receivables	1,319	640	1,238	640
Depreciation and amortisation	4,171	4,402	8,083	7,462
Auditor's remuneration – audit service	279	250	560	500

9 Income tax expense

	Three months ended 30 June		Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Current income tax	840	550	1,062	1,055
Deferred income tax	(44)	(40)	(463)	(802)
	796	510	599	253

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 (2018: 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 2018 would be distributed to its non-PRC registered intermediate holding company in the foreseeable future. As such, no deferred tax liability has been provided by the Group for the earnings expected to be retained by the Shenglong Decoration and Splendor Decoration in the PRC and not to be remitted out of the PRC in the foreseeable future.

NOTES TO THE 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.

	Three months ended 30 June		Six months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Profit attributable to owners of the Company (RMB'000)	6,028	3,476	5,683	4,264
Weighted average number of ordinary shares in issue ('000)	500,000	500,000	500,000	500,000
Basic and diluted earnings per share (RMB cents)	1.21	0.70	1.14	0.85

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 2019, additions to the Group's property, plant and equipment were approximately RMB7,536,000 (for the six months ended 30 June 2018: RMB20,679,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 Inventories

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Raw materials	15,857	15,478
Work in progress	3,724	4,422
Finished goods	32,040	24,146
	51,621	44,046

13 Trade and other receivables

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Trade receivables	78,834	87,792
Notes receivables	1,000	1,420
Less: allowance for impairment of trade receivables	(4,206)	(3,243)
Trade receivables, net	75,628	85,969
Advances to employees	12,309	5,744
Deposits paid to suppliers	638	170
Deposits for utilities and product quality assurance	2,194	2,790
Interests receivables	122	153
Prepayments of raw materials	2,602	400
Others	1,631	1,048
Less: allowance for impairment of other receivables	(989)	(1,053)
	18,507	9,252
	94,135	95,221

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 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Less than 3 months	57,151	68,722
More than 3 months but not exceeding 1 year	16,903	14,225
More than 1 year	4,780	4,845
	78,834	87,792

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 Share capital

	Number of ordinary shares '000	Nominal value of ordinary shares HK\$'000
Authorised		
At 31 December 2018, 1 January 2019 and 30 June 2019	10,000,000	100,000
	Number of ordinary shares '000	Nominal value of ordinary shares HK\$'000
	Number of ordinary shares '000	Equivalent nominal value of ordinary shares RMB'000
Issued		
At 31 December 2018, 1 January 2019 and 30 June 2019	500,000	4,253

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 Long-term bank borrowings

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Secured bank borrowings	40,000	–
Less: current portion of long-term borrowings	(1,000)	–
	39,000	–

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

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Within 1 year	1,000	–
Between 1 and 2 years	39,000	–
	40,000	–
Within 1 year included in current liabilities	(1,000)	–
	39,000	–

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 Trade and other payables

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Trade payables	48,392	48,699
Notes payables	55,100	57,600
Payables for purchase of property, plant and equipment	9,120	9,637
Accrued operating expenses (a)	9,286	5,477
Advances from customers	3,990	2,055
Employee benefit payable	4,018	6,306
Other taxes payable	3,181	4,944
Others	1,079	2,397
	134,166	137,115

- (a) The amount mainly represented accruals for transportation expenses and commission expenses.
- (b) As at 30 June 2019 and 31 December 2018, the ageing analysis of the trade payables and notes payables based on invoice date is as follows:

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Less than 3 months	90,626	73,643
More than 3 months but not exceeding 1 year	12,635	30,801
More than 1 year	231	248
	103,492	104,692

- (c) As at 30 June 2019 and 31 December 2018, 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 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Secured bank borrowings	104,450	103,600
Unsecured bank borrowings	10,000	7,200
	114,450	110,800

18 Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Property, plant and equipment	8,859	6,092

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 RMB1,197,000 (six months ended 30 June 2018: RMB1,116,000).

(b) *Period-end balance with related parties*

As at 30 June 2019 and 31 December 2018, the Group did not have any balances with the related parties.

21 Events occurring after the balance sheet date

There is no events occurring after the balance sheet date.

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 23 to the consolidated financial statements for the year ended 31 December 2018.

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 30 June 2019, 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 30 June 2019, 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 30 June 2019, 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 ^(Note 4)	Beneficial interest	81,300,000 shares (L)	20.26%
Ms. Lin Ying ^(Notes 3 and 4)	Interest of spouse	81,300,000 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.
- (4) As notified by Mr. Ren, on 26 July 2019, Mr. Ren disposed 22,500,000 ordinary shares to certain independent third parties and accordingly, as at the date of this report, Mr. Ren's percentage of shareholding in the Company reduced to 11.76%.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2019, 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 Period 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 30 June 2019, 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 30 June 2019, 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. No incident of non-compliance was noted by the Company during the 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 2019.

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 2019 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 2019 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, 8 August 2019

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