



**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)

2020

INTERIM REPORT



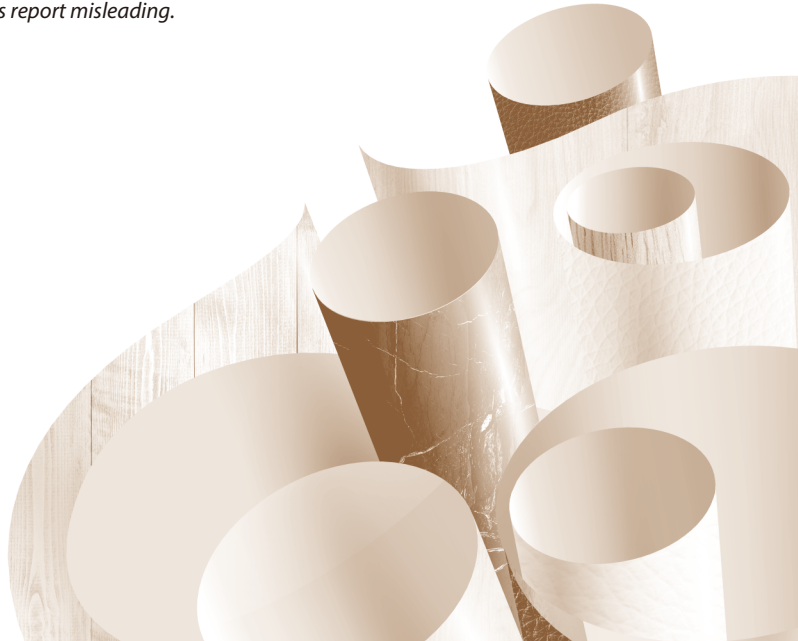
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GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks 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.

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



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Sheng Yingming
Ms. Sheng Sainan
Mr. Fang Xu
Mr. Tan Chee Kiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUTHORISED REPRESENTATIVES

Mr. Sheng Yingming
Mr. Chan Wai Lung

COMPLIANCE OFFICER

Mr. Tan Chee Kiang

COMPANY SECRETARY

Mr. Chan Wai Lung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

LEGAL ADVISER AS TO HONG KONG LAWS

Dennis Fong & Co.
in association with Llinks Law Offices

AUDITOR

Confucius International CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

China Construction Bank Corporation
Shanghai Pudong Development Bank Corporation

REGISTERED OFFICE

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

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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WEBSITE

www.splendecor.com

STOCK CODE

8481.HK



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. The Group served over 500 customers in both domestic and overseas markets for the six months ended 30 June 2020 (the “Period”). The overseas sales reached over 40 countries in Asia, North America, South America, Europe, Oceania and Africa.

FINANCIAL REVIEW

Revenue

The Group’s revenue for the Period was approximately RMB140.1 million, representing a decrease of approximately 7.4% over the corresponding period of last year. The decrease in the Group’s revenue was mainly driven by the decrease in revenue from the Pakistan and other overseas markets, in particular the sales of decorative paper and finish foil paper during the Period, as a result of the outbreak of COVID-19, affecting the Group’s sales activities, particularly in Asia.

Cost of sales

The cost of sales decreased by approximately RMB10.5 million, or approximately 8.8%, from approximately RMB119.8 million for the six months ended 30 June 2019 to approximately RMB109.3 million for the Period, 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 slightly decreased by approximately RMB0.8 million, or approximately 2.5%, from approximately RMB31.5 million for the six months ended 30 June 2019 to approximately RMB30.7 million for the Period. The gross profits keep relatively stable despite the Group’s revenue decreased by approximately RMB11.2 million for the Period which was primarily due to the decrease in production costs, of which mainly consisting of printing material costs and chemical costs. As a result of the decrease in production costs, the Group’s gross profit margin slightly increased to 21.9% during the Period (six months ended 30 June 2019: 20.8%).

MANAGEMENT DISCUSSION AND ANALYSIS

Selling expenses

The Group's selling expenses decreased by approximately RMB0.5 million or 5.9% from approximately RMB8.5 million for the six months ended 30 June 2019 to approximately RMB8.0 million for the Period. The decrease was primarily attributable to the decrease in travelling and entertainment expenses, and sales commission.

Administrative expenses

The administrative expenses for the Period increased by approximately RMB1.2 million, or 7.2%, from approximately RMB16.6 million for the six months ended 30 June 2019 to approximately RMB17.8 million for the Period. The increase was mainly attributable to the increase in the staff costs and legal and professional expenses.

Other income and other gains – net

The Group's other income and other gains – net decreased by approximately RMB0.1 million, or 11.1%, from approximately RMB0.9 million for the six months ended 30 June 2019 to approximately RMB0.8 million during the Period, primarily resulting from the decrease in income from sales of scrap and surplus materials .

Finance expenses – net

The Group's finance expenses – net increased by approximately RMB0.6 million or 66.7% from approximately RMB0.9 million for the six months ended 30 June 2019 to approximately RMB1.5 million for the Period. This was primarily due to the increase in interest expenses as the amount of bank borrowings increased and the slight decrease in bank interest income during the Period.

Profit attributable to owners of the Company

As a result of the foregoings, the Group recorded a profit attributable to owners of the Company of approximately RMB3.4 million for the Period as compared to approximately RMB5.7 million for the six months ended 30 June 2019, representing a decrease of approximately 40.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had current assets of approximately RMB182.8 million (31 December 2019: RMB191.5 million) which comprised cash and cash equivalents of approximately RMB24.6 million (31 December 2019: RMB15.9 million). The Group had current liabilities amounted to approximately RMB254.3 million (31 December 2019: RMB248.0 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 0.72 times as at 30 June 2020 (31 December 2019: 0.77 times). The decrease in current ratio was mainly due to the decrease in inventories and trade and other receivables.

The gearing ratio of the Group, calculated based on the interest-bearing liabilities divided by the total equity, was approximately 0.71 as at 30 June 2020 (31 December 2019: 0.62). The increase in gearing ratio was mainly attributable to the increase in secured bank borrowings 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 fluctuation 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 2020, 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 RMB39.0 million (31 December 2019: RMB51.9 million).

INFORMATION ON EMPLOYEES

As at 30 June 2020, the Group had 361 employees (31 December 2019: 360 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 the 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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 12 September 2019, an indirect wholly-owned subsidiary of the Company, entered into the site formation contract (the "Site Formation Contract") in relation to the site formation and retaining wall works at the total consideration of RMB6,503,345 (equivalent to approximately HK\$7,238,223). The site formation and retaining wall works under the Site Formation Contract was fully completed.

On 20 December 2019, an indirect wholly-owned subsidiary of the Company, entered into the construction contract (the "Construction Contract") in relation to the construction of the new factory premises, office building and staff quarters at the aggregate consideration of RMB54,000,000 (equivalent to approximately HK\$60,102,000), subject to adjustments in connection with changes (if any) in the relevant construction works.

Further details of the Site Formation Contract and the Construction Contract are set out in the circular of the Company dated 14 February 2020.

Save as disclosed above, there was no other significant investments held by the Company as at 30 June 2020, nor were there any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Period.

CHARGES OF ASSETS

As at 30 June 2020, the Group's bank borrowings are secured by its assets as below:

Land use rights with a total net book value of approximately RMB40.7 million (31 December 2019: RMB40.7 million) were pledged as collateral for the Group's borrowings.

Property, plant and equipment with a total net book value of approximately RMB53.9 million (31 December 2019: RMB55.7 million) were pledged as collateral for the Group's borrowings.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

As at 30 June 2020, the net proceeds from the listing of the shares of the Company on 17 July 2017 on GEM at the Stock Exchange (the “Listing”) have been utilised in the following manner:

	Use of proceeds as allocated in accordance with the prospectus of the Company dated 30 June 2017 <small>(Note 1)</small>	Use of proceeds from the Listing Date up to 30 June 2020	Unutilised proceeds as at 30 June 2020 <small>(Note 2)</small>
	RMB'million	RMB'million	RMB'million
Enhancement of production capacity	32.0	26.9	5.1
Repayment of bank loans	8.6	8.6	-
General working capital	4.0	4.0	-
Total	44.6	39.5	5.1

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 proceeds of approximately RMB5.1 million have been placed in licensed banks in Hong Kong and PRC. The unutilised proceeds are intended to be used as follows: (i) approximately RMB0.4 million is to be used for the final payment of the solvent recovery equipment and (ii) approximately RMB4.7 million is to be used for building a new production line for lamination of PVC furniture film. It is currently expected that the final payment of the solvent recovery equipment in the sum of approximately RMB0.4 million will be made by no later than 31 December 2020. For the period ended 30 June 2020, the Company delayed the building of a new production line for lamination of PVC furniture film, due to the unexpectedly slow development and growth in the sales of PVC decorative film products. In view of the current market conditions, it is expected that the Company will build a new production line for lamination of PVC furniture film by no later than 31 December 2020, and the unutilised proceeds of approximately RMB4.7 million will be used up by then.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The global economy remained uncertain as the COVID-19 pandemic and China-US tension pose more challenges and risks clouding around to the global economy. Although our business was affected by the COVID-19 pandemic during the first half year of 2020, our revenue for the Period only recorded a slightly drop of 7.4% over the corresponding period of last year. While it remains difficult to predict how the COVID-19 pandemic may evolve, we are optimistic about the ongoing recovery of our business in the industry.

The Group keeps and maintains our products and brand to be competitive and we receive purchase orders continuously. Besides retaining the existing customers in PRC and Asia, and we are trying hard to enlarge the sales locations overseas. During the Period, we have continued our pace in capacity expansion and with the construction of a new factory premises including the main office building block and furnished staff quarters, which are expected to be completed by end of 2020, apart from enhancing our production capacity and provision of a better production flexibility to cater for the need of special production requirements, the relocation would also enable the Group to centralise the management and production process at one site, which will allow us to save the costs and time in relation to management, transportation, and maintenance and repairs accordingly. It will improve production efficiency and provide a solid foundation for the Group in alignment with the need of the business expansion in the future.

In the face of the competitive pricing of products, the Group would continue to manage pricing and costs. 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 optimising our product mix, and to improving our production efficiency. During the Period, we started to invest more resources in developing the High-Definition series products and 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 about capturing more the market share in the decorative printing materials industry. The Group would continue to explore new markets and capture the emerging business opportunities.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2020

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 2020 together with the comparative figures as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue	6	79,224	88,212	140,084	151,335
Cost of sales		(60,656)	(68,288)	(109,354)	(119,846)
Gross profit		18,568	19,924	30,730	31,489
Selling expenses		(4,342)	(5,061)	(7,998)	(8,501)
Administrative expenses		(10,212)	(9,380)	(17,867)	(16,633)
Other income and other gains/(losses) – net	7	(128)	1,450	772	882
Operating profit	8	3,886	6,933	5,637	7,237
Finance income		33	122	121	223
Finance expenses		(852)	(231)	(1,641)	(1,178)
Finance expenses – net		(819)	(109)	(1,520)	(955)
Profit before income tax		3,067	6,824	4,117	6,282
Income tax expense	9	(496)	(796)	(755)	(599)
Profit for the period		2,571	6,028	3,362	5,683
Profit attributable to:					
– Owners of the Company		2,571	6,028	3,362	5,683
Earnings per share for profit attributable to owners of the Company for the period					
– Basic and diluted	10	RMB cents 0.51	RMB cents 1.21	RMB cents 0.67	RMB cents 1.14

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2020

	Three months ended 30 June		Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Profit for the period	2,571	6,028	3,362	5,683
Other comprehensive income <i>Items that may be reclassified to profit or loss</i>				
Currency translation differences	(973)	95	(819)	14
Other comprehensive income for the period, net of tax	(973)	95	(819)	14
Total comprehensive income for the period	1,598	6,123	2,543	5,697
Total comprehensive income for the period attributable to:				
– Owners of the Company	1,598	6,123	2,543	5,697

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
ASSETS			
Non-current assets			
Land use rights		40,676	41,178
Prepayments for land use rights		4,900	4,900
Property, plant and equipment	11	210,167	202,636
Intangible assets		9,358	9,329
Deferred income tax assets		5,152	5,124
		270,253	263,167
Current assets			
Inventories	12	39,554	47,094
Trade and other receivables	13	89,875	105,485
Restricted bank deposits		28,750	23,001
Cash and cash equivalents		24,613	15,890
		182,792	191,470
Total assets		453,045	454,637
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	4,253	4,253
Other reserves		98,870	99,689
Retained earnings		91,311	87,949
Total equity		194,434	191,891

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	16	–	10,000
Trade and other payable (non-current)		1,177	1,546
Deferred revenue		3,123	3,224
		4,300	14,770
Current liabilities			
Trade and other payables	15	116,311	139,726
Short-term bank borrowings	16	138,000	68,250
Current portion of long-term bank borrowings	16	–	40,000
		254,311	247,976
Total liabilities		258,611	262,746
Total equity and liabilities		453,045	454,637
Net current liabilities		(71,519)	(56,506)
Total assets less current liabilities		198,734	206,661

The notes on pages 16 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 2020

	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 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
Balance at 30 June 2019	4,253	99,589	74,391	178,233
Balance at 1 January 2020	4,253	99,689	87,949	191,891
Comprehensive income				
Profit for the period	-	-	3,362	3,362
Other comprehensive income				
Currency translation differences	-	(819)	-	(819)
Total comprehensive income	-	(819)	3,362	2,543
Balance at 30 June 2020	4,253	98,870	91,311	194,434

The notes on pages 16 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 2020

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Cash flows from operating activities		
Cash generated from operations	12,396	5,852
Income tax paid	(1,220)	(1,129)
Net cash generated from operating activities	11,176	4,723
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,970)	(5,840)
Purchase of intangible assets	(2,705)	(2,108)
Increase in restricted bank deposits	(5,749)	(2,950)
Interest received	121	223
Net cash used in investing activities	(18,303)	(10,675)
Cash flows from financing activities		
Proceeds from bank borrowings	84,500	112,250
Repayments of bank borrowings	(64,750)	(68,600)
Interest paid	(3,785)	(2,940)
Net cash generated from financing activities	15,965	40,710

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net increase in cash and cash equivalents	8,838	34,758
Cash and cash equivalents at beginning of the period	15,890	16,892
Exchange losses on cash and cash equivalents	(115)	(4)
Cash and cash equivalents at end of the period	24,613	51,646

The notes on pages 16 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 2020 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 2019, 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 2020, the Group's current liabilities exceeded its current assets by RMB71.5 million. As at the same date, the Group had current bank borrowings of RMB138.0 million to be repayable in the coming twelve months; and had bank acceptance notes payable amounting to RMB43.5 million which were pledged by the Group's bank deposits of RMB28.8 million. In addition, the Group had capital commitments amounting to RMB39.0 million in relation to the acquisition of property, plant and equipment as at 30 June 2020.

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 2020, 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 RMB8.0 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 2020. 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 2019, 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 2020.

New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period. The new or amended 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 2019.

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 2019.

There have been no changes in the risk management policies since 31 December 2019.

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 2020 and 31 December 2019, 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	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
PRC	54,718	54,517	85,065	85,786
Pakistan	5,933	12,801	20,442	29,589
India	1,502	4,895	5,775	8,521
Thailand	772	1,976	1,551	3,031
Kenya	1,674	3,346	1,674	4,761
United Arab Emirates	1,897	1,884	5,312	4,034
Other countries	12,728	8,793	20,265	15,613
	79,224	88,212	140,084	151,335

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 Other income and other gains/(losses) – net

	Three months ended 30 June		Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Income from sales of scrap and surplus materials	328	436	508	834
Rental income	32	24	48	40
Government grants income including amortisation of deferred government grants	28	28	54	54
Foreign exchange gain/(loss), net	(31)	962	629	(46)
Fixed assets write-off	(542)	–	(542)	–
Others	57	–	75	–
	(128)	1,450	772	882

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	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Operating items				
Impairment losses of trade and other receivables	588	1,319	588	1,238
Depreciation and amortisation	4,539	4,171	7,926	8,083
Auditor's remuneration – audit service	333	279	633	560

9 Income tax expense

	Three months ended 30 June		Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Current income tax	558	840	783	1,062
Deferred income tax	(62)	(44)	(28)	(463)
	496	796	755	599

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 (2019: 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 2019 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	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Profit attributable to owners of the Company (RMB'000)	2,571	6,028	3,362	5,683
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)	0.51	1.21	0.67	1.14

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 2020, additions to the Group's property, plant and equipment were approximately RMB11,923,000 (for the six months ended 30 June 2019: RMB7,536,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 Inventories

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Raw materials	14,548	16,305
Work in progress	3,528	3,277
Finished goods	21,478	27,512
	39,554	47,094

13 Trade and other receivables

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade receivables	82,582	97,067
Notes receivables	706	1,351
Less: allowance for impairment of trade receivables	(5,724)	(5,136)
Trade receivables, net	77,564	93,282
Advances to employees	7,983	7,091
Deposits paid to suppliers	3,045	2,158
Deposits for utilities and product quality assurance	1,541	2,606
Interests receivables	48	153
Prepayments of raw materials	376	692
Others	365	550
Less: allowance for impairment of other receivables	(1,047)	(1,047)
	12,311	12,203
	89,875	105,485

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 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Less than 3 months	58,550	61,297
More than 3 months but not exceeding 1 year	17,820	29,995
More than 1 year	6,212	5,775
	82,582	97,067

14 Share capital

	Number of ordinary shares '000	Nominal value of ordinary shares HK\$'000
Authorised		
At 31 December 2019, 1 January 2020 and 30 June 2020	10,000,000	100,000
	Number of ordinary shares '000	Nominal value of ordinary shares HK\$'000
		Equivalent nominal value of ordinary shares RMB'000
Issued		
At 31 December 2019, 1 January 2020 and 30 June 2020	500,000	5,000
		4,253

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 Trade and other payables

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade payables	40,864	59,798
Notes payables	43,500	46,000
Payables for purchase of property, plant and equipment	12,490	12,566
Accrued operating expenses (a)	6,518	5,385
Advances from customers	3,525	3,654
Employee benefit payable	5,954	7,878
Other taxes payable	3,530	3,271
Others	1,107	2,720
Less: non-current portion – long term other payables	(1,177)	(1,546)
	116,311	139,726

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 Trade and other payables (Continued)

- (a) The amount mainly represented accruals for transportation expenses and commission expenses.
- (b) As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade payables and notes payables based on invoice date is as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Less than 3 months	58,987	82,933
More than 3 months but not exceeding 1 year	24,010	22,477
More than 1 year	1,367	388
	84,364	105,798

- (c) As at 30 June 2020 and 31 December 2019, all trade and other payables of the Group were non-interest bearing.

16 Borrowings

Long-term bank borrowings

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Secured bank borrowings	–	50,000
Less: current portion of long-term borrowings	–	(40,000)
	–	10,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 Borrowings (Continued)

Short-term bank borrowings

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Secured bank borrowings	118,000	48,250
Unsecured bank borrowings	20,000	20,000
	138,000	68,250

17 Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

18 Commitments

Capital commitments

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

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Property, plant and equipment	38,991	51,864

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 *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 RMB1,290,000 (six months ended 30 June 2019: RMB1,197,000).

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

As at 30 June 2020 and 31 December 2019, the Group did not have any balances with the related parties.

20 *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 2019.

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 2020, 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 2)
Mr. Sheng Yingming ("Mr. Sheng") ^(Note 1)	Beneficial owner and interest in controlled corporation	249,940,000 shares	49.99%
Mr. Tan Chee Kiang	Beneficial owner	15,000,000 shares	3.00%

Notes:

- (1) There are 239,950,000 shares 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) 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 2020, 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 2020, so far as was known to the Directors and the chief executives of the Company, the following persons/entities (not being the Director or chief executive of the Company) had, or deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of ordinary shares held ^(Note 1)	Percentage of shareholding
Bright Commerce	Beneficial interest	239,950,000 shares (L)	47.99%
Mr. Sheng	Beneficial owner and interest in controlled corporation	249,940,000 shares (L)	49.99%
Ms. Chen Deqin ^(Note 2)	Interest of spouse	249,940,000 shares (L)	49.99%
Mr. Ren Yunan	Beneficial interest	58,800,000 shares (L)	11.76%
Ms. Lin Ying ^(Note 3)	Interest of spouse	58,800,000 shares (L)	11.76%

OTHER INFORMATION

Notes:

- (1) All interests stated are long positions.
- (2) Ms. Chen Deqin is the spouse of Mr. Sheng. She is deemed, or taken to be, interested in all shares in which Mr. Sheng is interested for the purposes of SFO.
- (3) Ms. Lin Ying is the spouse of Mr. Ren Yunan. She is deemed, or taken to be, interested in all shares in which Mr. Ren Yunan is interested for the purposes of SFO.

Save as disclosed above, as at 30 June 2020, 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 2020, 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.

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 2020.

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 2020 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 2020 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, Chief Executive Officer and Executive Director

Hong Kong, 10 August 2020

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. Tan Chee Kiang

Independent Non-executive Directors

Mr. Ma Lingfei

Ms. Huang Yueyuan

Mr. Tso Ping Cheong Brian