



SHENGLONG
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**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)

INTERIM
REPORT
2023

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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
Mr. Fang Xu
Ms. Sheng Sainan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tso Ping Cheong Brian
Mr. Ma Lingfei
Mr. Zheng Yong

AUTHORISED REPRESENTATIVES

Mr. Sheng Yingming
Mr. Chan Wai Lung

COMPLIANCE OFFICER

Mr. Fang Xu

COMPANY SECRETARY

Mr. Chan Wai Lung

AUDIT COMMITTEE

Mr. Tso Ping Cheong Brian (*Chairman*)
Mr. Ma Lingfei
Mr. Zheng Yong

REMUNERATION COMMITTEE

Mr. Zheng Yong (*Chairman*)
Mr. Ma Lingfei
Mr. Tso Ping Cheong Brian

NOMINATION COMMITTEE

Mr. Ma Lingfei (*Chairman*)
Mr. Tso Ping Cheong Brian
Mr. Zheng Yong

LEGAL ADVISER AS TO HONG KONG LAWS

Links Law Offices LLP

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 HONG KONG

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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

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STOCK CODE

8481.HK

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company and its subsidiaries (collectively the “Group”) are 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 2023 (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 RMB229.5 million, representing an increase of approximately 8.0% over the six months ended 30 June 2022 (the “Corresponding Period”). The increase in the Group’s revenue was driven by the increase in revenue from overseas markets and the People’s Republic of China (the “PRC”). The revenue from overseas markets recorded an increase of approximately 8.5% over the Corresponding Period, which was mainly derived from the increase in demand of Pakistan, India, United Arab Emirates and Indonesia. The demand from PRC customers remained strong and recorded a slight increase of approximately 7.8% over the Corresponding Period. The increase in revenue was mainly derived from the increase in sales of major products, including decorative paper, melamine impregnated paper and PVC flooring film, during the Period.

Cost of sales

The cost of sales increased by approximately RMB4.8 million or approximately 2.8%, from approximately RMB169.3 million for the Corresponding Period to approximately RMB174.1 million for the Period, which was primarily due to increase in the production volume during the Period.

Gross profit and gross profit margin

The Group’s gross profit increased by approximately RMB12.2 million, or approximately 28.3%, from approximately RMB43.1 million for the Corresponding Period to approximately RMB55.3 million for the Period, primarily due to the improvement in production efficiency. The Group’s gross profit margin for the Period increased to approximately 24.1% (the Corresponding Period: 20.3%).

MANAGEMENT DISCUSSION AND ANALYSIS

Selling expenses

The Group's selling expenses decreased by approximately RMB1.1 million or 6.8% from approximately RMB16.3 million for the Corresponding Period to approximately RMB15.2 million for the Period. The decrease was primarily attributable to the increase in marketing and exhibition expenses and set off by the decrease in licensing fee incurred due to the decrease in the sale of relevant licensed products during the Period.

Administrative expenses

The administrative expenses for the Period increased by approximately RMB6.3 million or 27.3% from approximately RMB23.1 million for the Corresponding Period to approximately RMB29.4 million for the Period. The increase was mainly attributable to (i) the increase in repair and maintenance due to the ancillary renovation work of the new factory building; and (ii) the increase in entertainment expenses in order to maintain relationship with business partners.

Other income and other gains/(losses) – net

The Group's other income and other gains/(losses) – net decreased by approximately RMB1.2 million or 32.4% from approximately RMB3.8 million of net gains for the Corresponding Period to approximately RMB2.6 million for the Period, primarily due to the decrease in government grants income.

Finance expenses – net

The Group's finance expenses – net increased by approximately RMB1.3 million or 28.4% from approximately RMB4.7 million for the Corresponding Period to approximately RMB6.0 million for the Period. This was primarily due to the increase in interest expenses attributable to the increase in the amount of bank borrowings.

Income tax expense

The income tax expense increased from approximately RMB0.1 million for the Corresponding Period to approximately RMB0.3 million for the Period, which was due to the increase in profit before income tax.

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 RMB6.9 million for the Period as compared to a profit attributable to owners of the Company of approximately RMB2.6 million for the Corresponding Period.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had current assets of approximately RMB212.9 million (31 December 2022: RMB190.3 million) which comprised cash and cash equivalents of approximately RMB28.1 million (31 December 2022: RMB10.3 million). The Group had current liabilities amounted to approximately RMB142.5 million (31 December 2022: RMB193.3 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 1.49 times as at 30 June 2023 (31 December 2022: 0.98 times). The increase in current ratio was mainly due to the increase in cash and cash equivalent and the decrease in short-term bank borrowings.

As at 30 June 2023, the Group's total bank borrowings amounted to approximately RMB239.2 million (31 December 2022: RMB216.6 million), representing an increase of approximately 10.4% as compared to that of 31 December 2022. Accordingly, the gearing ratio of the Group, calculated based on the total bank borrowings divided by the total equity, was approximately 1.01 as at 30 June 2023 (31 December 2022: 0.95). The increase in gearing ratio was mainly attributable to the increase in long-term bank borrowings during the Period.

The Group adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the Period. To manage liquidity risk, the board of Directors of the Company (the "Board") closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in 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 2023, the capital expenditure which the Group had contracted for but was not provided for in the financial information in respect of the acquisition of property, plant and equipment amounted to approximately RMB5.7 million (31 December 2022: RMB14.3 million).

MANAGEMENT DISCUSSION AND ANALYSIS

INFORMATION ON EMPLOYEES

As at 30 June 2023, the Group had 368 employees (31 December 2022: 347 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. The Group encourages the employees to persist in on-the-job training.

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

Save as disclosed in this report, there were no other significant investments held by the Company as at 30 June 2023, nor were there any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Period. The Company does not have any future plan for material investments or capital assets as at the date of this report.

CHARGES OF ASSETS

As at 30 June 2023, the Group's bank borrowings were secured by its assets as below:

Land use rights with a total net book value of approximately RMB37.4 million (31 December 2022: RMB38.0 million) were pledged as collateral for the Group's borrowings.

Property, plant and equipment with a total net book value of approximately RMB263.7 million (31 December 2022: RMB258.8 million) were pledged as collateral for the Group's borrowings.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2023 (31 December 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

In the second half of 2023, the Group will further improve its operational efficiency and achieve better quality control by adopting advanced technologies. The Group has been actively adopting and enhancing flexible strategies in its production process, supply chains, logistics and marketing to maintain its competitive position among decorative printing materials manufacturers. The Group will keep evaluating its manufacturing technique and equipment to maintain its production capacity and flexibility. Meanwhile, the Group is seeking for continuous optimisation in quality control measure and procedure to maintain its product quality and customer satisfaction. The Group is also committed to enhancing its research and development capabilities, and optimising its product mix, color pattern and specification. The Group will continue to allocate sufficient resources to R&D, enhancement of product quality and development of new products, materials, models and features, as well as to explore new markets, increase production efficiency and conduct staff training for the purpose of maintaining the safety standards and competitiveness of its products and, ultimately, enhancing its profitability. The Group will stick to its proven business strategies to maintain and strengthen its growth and performance. To sustain its well-recognised reputation in the market, the Group is exploring opportunities for expanding its business presence in the global decorative printing material market as well as developing other business partnerships that would be beneficial to the overall business development of the Group.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2023

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2023 together with the comparative figures as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Revenue	6	133,390	117,734	229,458	212,436
Cost of sales		(98,070)	(89,911)	(174,112)	(169,300)
Gross profit		35,320	27,823	55,346	43,136
Selling expenses		(8,708)	(9,291)	(15,229)	(16,346)
Administrative expenses		(17,025)	(11,616)	(29,416)	(23,109)
Other income and other gains/(losses) – net	7	1,700	2,773	2,547	3,769
Operating profit	8	11,287	9,689	13,248	7,450
Finance income		18	111	32	380
Finance expenses		(3,524)	(2,557)	(6,053)	(5,068)
Finance expenses – net		(3,506)	(2,446)	(6,021)	(4,688)
Profit before income tax		7,781	7,243	7,227	2,762
Income tax expense	9	(208)	(753)	(294)	(117)
Profit for the period		7,573	6,490	6,933	2,645
Profit attributable to:					
– Owners of the Company		7,573	6,490	6,933	2,645
Earnings per share for profit attributable to owners of the Company for the period					
– Basic and diluted	10	RMB cents 1.51	RMB cents 1.30	RMB cents 1.39	RMB cents 0.53

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2023

	Three months ended 30 June		Six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Profit for the period	7,573	6,490	6,933	2,645
Other comprehensive income/(expense) <i>Items that may be reclassified to profit or loss</i>				
Currency translation differences	2,892	(934)	1,850	(1,026)
Other comprehensive income/(expense) for the period, net of tax	2,892	(934)	1,850	(1,026)
Total comprehensive income for the period	10,465	5,556	8,783	1,619
Total comprehensive income for the period attributable to:				
– Owners of the Company	10,465	5,556	8,783	1,619

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2023

	Notes	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
ASSETS			
Non-current assets			
Land use rights		37,436	37,971
Prepayments for land use rights		4,900	4,900
Property, plant and equipment	11	327,064	322,042
Right-of-use assets		397	437
Intangible assets		3,919	5,699
Deposit for acquisition of a property		–	15,453
Deferred income tax assets		4,015	4,186
		377,731	390,688
Current assets			
Inventories	12	24,735	27,596
Trade and other receivables	13	160,035	152,391
Cash and cash equivalents		28,140	10,281
		212,910	190,268
Total assets		590,641	580,956
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	4,253	4,253
Other reserves		101,877	100,027
Retained earnings		129,808	122,875
Total equity		235,938	227,155

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2023

	Notes	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	16	206,537	154,613
Trade and other payable (non-current)		2,890	2,890
Deferred revenue		2,518	2,618
Lease liabilities		298	341
		212,243	160,462
Current liabilities			
Trade and other payables	15	109,696	131,275
Short-term bank borrowings	16	20,000	49,300
Current portion of lease liabilities		101	101
Current portion of long-term bank borrowings	16	12,663	12,663
		142,460	193,339
Total liabilities		354,703	353,801
Total equity and liabilities		590,641	580,956
Net current assets/(liabilities)		70,450	(3,071)
Total assets less current liabilities		448,181	387,617

The notes on pages 15 to 28 are an integral part of these condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	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 2022	4,253	100,319	110,817	215,389
Comprehensive income				
Profit for the period	-	-	2,645	2,645
Other comprehensive income				
Currency translation differences	-	(1,026)	-	(1,026)
Total comprehensive income	-	(1,026)	2,645	1,619
Balance at 30 June 2022	4,253	99,293	113,462	217,008
Balance at 1 January 2023	4,253	100,027	122,875	227,155
Comprehensive income				
Profit for the period	-	-	6,933	6,933
Other comprehensive income				
Currency translation differences	-	1,850	-	1,850
Total comprehensive income	-	1,850	6,933	8,783
Balance at 30 June 2023	4,253	101,877	129,808	235,938

The notes on pages 15 to 28 are an integral part of these condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Cash flows from operating activities		
Cash generated from/(used in) operations	3,409	(30,127)
Income tax refund/(paid)	300	(1,225)
Net cash generated from/(used in) operating activities	3,709	(31,352)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,920)	(14,122)
Purchase of intangible assets	(686)	(412)
Decrease in restricted bank deposits	–	33,512
Interest received	32	380
Net cash (used in)/generated from investing activities	(3,574)	19,358
Cash flows from financing activities		
Proceeds from bank borrowings	51,924	47,423
Repayments of bank borrowings	(29,300)	(30,000)
Interest paid	(5,018)	(4,690)
Net cash generated from financing activities	17,606	12,733

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Net increase in cash and cash equivalents	17,741	739
Cash and cash equivalents at beginning of the period	10,281	13,081
Exchange gains/(losses) on cash and cash equivalents	118	(143)
Cash and cash equivalents at end of the period	28,140	13,677

The notes on pages 15 to 28 are an integral part of these condensed consolidated interim 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 “Cayman Companies Law”). The address of its registered office is P.O. Box 1350, Windward 3, Regatta Office Park, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of decorative printing materials products in the 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 interim financial information are presented in Renminbi (RMB), unless otherwise stated.

2 *Basis of presentation*

This unaudited condensed consolidated interim financial information for the Period has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The unaudited condensed consolidated interim financial information should be read in conjunction with the Group’s consolidated financial information for the year ended 31 December 2022, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the “HKFRSs”).

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 2022, 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 2023.

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 the unaudited condensed consolidated 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 2022.

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 unaudited condensed consolidated interim financial information does 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 2022.

There have been no changes in the risk management policies since 31 December 2022.

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 2023 and 31 December 2022, 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 being only one operating segment for the Group as per the requirements of HKFRS 8 "Operating Segments".

During the Period, all the revenue was generated from sales of goods and provision of shipping service. All non-current assets are located in the PRC.

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

	Three months ended 30 June		Six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
PRC	91,298	82,012	152,524	141,551
Pakistan	12,363	16,224	27,108	25,294
India	8,934	6,683	14,107	11,463
United Arab Emirates	6,199	3,210	9,244	6,283
Indonesia	1,513	1,615	4,101	3,424
Other countries	13,083	7,990	22,374	24,421
	133,390	117,734	229,458	212,436

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	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Income from sales of scrap and surplus materials	12	109	52	354
Rental income	48	327	725	677
Government grants income including amortisation of deferred government grants	26	633	53	1,202
Foreign exchange gain/(loss), net	1,522	2,075	1,615	1,857
Fixed assets write-off	–	(400)	–	(400)
Others	92	29	102	79
	1,700	2,773	2,547	3,769

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	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Operating items				
Impairment losses of trade and other receivables	280	308	280	308
Depreciation and amortisation	9,100	6,546	17,703	13,756
Auditor's remuneration – audit service	198	219	411	409

9 Income tax expense

	Three months ended 30 June		Six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Current income tax	122	–	122	69
Deferred income tax	86	753	172	48
	208	753	294	117

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

The corporate income tax rate applicable to the group entities located in the PRC other than Zhejiang Shenglong Decoration Material Co., Ltd ("Shenglong Decoration") is 25% according to the PRC Corporate Income Tax Law (the "CIT Law") amended and came into effect on 29 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 *Income tax expense (Continued)*

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

Shenglong Decoration obtained the certificate 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 Cayman Companies Law 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. Under the current Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), Splendecor Hong Kong Limited is subject to profits tax at the rate of 8.25% on assessable profits up to HK\$2,000,000 and 16.5% on any part of assessable profits over HK\$2,000,000.

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 (the Corresponding Period: 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, i.e. Shenglong Decoration and Hangzhou Splendor Decoration Material Co., Ltd. ("Splendor Decoration"), based on the Group's current business plan and financial position, no retained earnings as of 30 June 2023 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 which will 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	
	2023 (unaudited)	2022 (unaudited)	2023 (unaudited)	2022 (unaudited)
Profit attributable to owners of the Company (RMB'000)	7,573	6,490	6,933	2,645
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)	1.51	1.30	1.39	0.53

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 Period, additions to the Group's property, plant and equipment were approximately RMB2,920,000 (the Corresponding Period: RMB14,122,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 Inventories

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Raw materials	12,106	13,911
Work in progress	2,845	1,836
Finished goods	9,784	11,849
	24,735	27,596

13 Trade and other receivables

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Trade receivables	137,037	138,512
Notes receivables	10,814	4,124
Less: allowance for impairment of trade receivables	(4,901)	(4,369)
Trade receivables, net	142,950	138,267
Advances to employees	4,902	5,101
Deposits paid to suppliers	–	64
Deposits for utilities and product quality assurance	1,861	1,975
Prepayments of raw materials	2,960	3,226
Others	8,556	4,952
Less: allowance for impairment of other receivables	(1,194)	(1,194)
	17,085	14,124
	160,035	152,391

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 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Less than 3 months	108,255	107,992
More than 3 months but not exceeding 1 year	23,343	26,460
More than 1 year	5,439	4,060
	137,037	138,512

14 Share capital

	Number of ordinary shares '000	Nominal value of ordinary shares HK\$'000
Authorised		
At 31 December 2022, 1 January 2023 and 30 June 2023	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 2022, 1 January 2023 and 30 June 2023	500,000	5,000	4,253

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 Trade and other payables

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Trade payables	68,355	57,871
Notes payables	12,000	33,000
Payables for purchase of property, plant and equipment	5,647	13,610
Accrued operating expenses	4,732	4,711
Employee benefit payable	15,356	16,759
Other taxes payable	4,425	1,859
Contract liabilities	780	821
Others	1,291	5,534
Less: non-current portion – long term other payables	(2,890)	(2,890)
	109,696	131,275

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 2023 and 31 December 2022, the ageing analysis of the trade payables and notes payables based on invoice date is as follows:

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Less than 3 months	68,585	66,157
More than 3 months but not exceeding 1 year	10,508	24,357
More than 1 year	1,262	357
	80,355	90,871

- (c) As at 30 June 2023 and 31 December 2022, all trade and other payables of the Group were non-interest bearing.

16 Borrowings

Long-term bank borrowings

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Secured bank borrowings	219,200	167,276
Less: current portion of long-term borrowings	(12,663)	(12,663)
	206,537	154,613

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 Borrowings (Continued)

Short-term bank borrowings

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Secured bank borrowings	20,000	19,300
Unsecured bank borrowings	–	30,000
	20,000	49,300

17 Dividends

The Board does not recommend the payment of any interim dividend for the Period (the Corresponding Period: Nil).

18 Commitments

Capital commitments

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

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Property, plant and equipment	5,683	14,312

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 *Related party transactions*

(a) *Transaction with related parties*

Save as disclosed elsewhere in the unaudited 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 personnels were RMB1,893,000 (the Corresponding Period: RMB1,450,000).

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

As at 30 June 2023 and 31 December 2022, 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 adopted a share option scheme on 22 June 2017 (the “Share Option Scheme”). The principal terms of the Share Option Scheme are summarised in note 24 to the consolidated financial statements for the year ended 31 December 2022.

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 has 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 2023, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 register 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	322,760,000 shares	64.55%

Notes:

- (1) These 322,760,000 shares comprise: (i) 82,810,000 shares directly held by Mr. Sheng; and (ii) 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 2023, 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 2023, so far as was known to the Directors and the chief executive of the Company, the following persons/entities (not being a 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	322,760,000 shares (L)	64.55%
Ms. Chen Deqin ^(Note 2)	Interest of spouse	322,760,000 shares (L)	64.55%

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.

Save as disclosed above, as at 30 June 2023, 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 a 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 2023, none of the Directors, the controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had 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 contained in Appendix 15 to the GEM Listing Rules (the "CG Code").

The Company confirms that, other than the deviation from code provision C.2.1 of Part 2 of the CG Code, the Company has complied with all the code provisions set out in the CG Code throughout the Period.

Pursuant to code provision C.2.1 of Part 2 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 the Group's overall management and strategic development of the Group and major decision-making of the Group since July 1993. Taking into account the continuation of management and the implementation of business strategies, the Directors consider that it is most suitable for Mr. Sheng to hold both the positions of chief executive officer and the chairman of the Board and the present arrangements are beneficial and in the interests of the Company and its shareholders as a whole. Accordingly, the Company has not segregated the roles of the chairman and chief executive officer as required by code provision C.2.1 of Part 2 of the CG Code.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provisions D.3 of Part 2 of the CG code. The written terms of reference of the audit committee was adopted in compliance with the code provisions of the CG Code. 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 Mr. Zheng Yong. 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 condensed consolidated interim results of the Group for the Period have been reviewed by the audit committee and the audit committee is of the view that the interim results of the Group for the Period and the interim report for the Period 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, 9 August 2023

As at the date of this report, the Directors are:

Executive Directors

Mr. Sheng Yingming (*Chairman and Chief Executive Officer*)

Mr. Fang Xu

Ms. Sheng Sainan

Independent Non-executive Directors

Mr. Tso Ping Cheong Brian

Mr. Ma Lingfei

Mr. Zheng Yong