



CHINA LONGEVITY GROUP COMPANY LIMITED

(formerly known as Sijia Group Company Limited)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1863)

Interim Report 2016



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Shengxiong (*Chairman*)
Mr. Zhang Hongwang (*Chief Executive Officer*)
Mr. Huang Wanneng
Mr. Jiang Shisheng (Appointed on 30 June 2016)

Independent Non-executive Directors

Mr. Cai Weican
Mr. Wu Jianhua
Mr. Lau Chun Pong (Appointed on 30 June 2016)
Mr. Chong Chi Wah (Resigned on 30 June 2016)

AUDIT COMMITTEE

Mr. Lau Chun Pong (*Chairman*)
(Appointed on 30 June 2016)
Mr. Cai Weican
Mr. Wu Jianhua
Mr. Chong Chi Wah (Resigned on 30 June 2016)

REMUNERATION COMMITTEE

Mr. Wu Jianhua (*Chairman*)
Mr. Lin Shengxiong
Mr. Cai Weican
Mr. Lau Chun Pong (Appointed on 30 June 2016)
Mr. Chong Chi Wah (Resigned on 30 June 2016)

NOMINATION COMMITTEE

Mr. Cai Weican (*Chairman*)
Mr. Wu Jianhua
Mr. Lau Chun Pong (Appointed on 30 June 2016)
Mr. Chong Chi Wah (Resigned on 30 June 2016)

COMPANY SECRETARY

Mr. Chow Yiu Wah, Joseph
(Appointed on 16 May 2016)
Ms. Chiu Fung Chi, Dores (Resigned on 16 May 2016)

AUTHORISED REPRESENTATIVES

Mr. Lin Shengxiong
Mr. Chow Yiu Wah, Joseph
(Appointed on 16 May 2016)

INDEPENDENT AUDITORS

ZHONGHUI ANDA CPA Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Minsheng Banking Corp., Ltd.,
Hong Kong Branch

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
PO Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

1863

CORPORATE WEBSITE

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INVESTOR RELATIONS CONTACT

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BUSINESS REVIEW

The Group is a recognised industry leader in the People's Republic of China (the "PRC") in providing reinforced new materials for a wide spectrum of industries, such as modern transportation, construction, renewable energy, agriculture, healthcare, sports, outdoor leisure and daily supplies. The management team of the Group has vast experience in proprietary technology, product innovation and marketing. With the experienced management team, the Group implemented a market-focused strategy. The Group also engages in the manufacturing and sales of novel products developed by the research and development ("R&D") team and academic institutions. Various novel products and production techniques of the Group possess independent intellectual property rights and national patents on technology.

The Group's reinforced materials (the "Reinforced Materials") business, located in Fuzhou and Shanghai, utilises self-developed facilities and techniques, which has acquired national patents on innovation, to produce new materials, including architectural membrane, waterproofing membrane, thermoplastic polyurethane materials, air tightness materials, inflatable materials, biogas tank materials, tarpaulin materials, wader and protective garment materials, etc. Such materials exhibit nine characteristics, including high tensile strength, anti-tearing, anti-stripping, flame retardancy, anti-bacteria, anti-corrosive, durable, low temperature resistance and sunlight resistance. Given the diverse applications of the Reinforced Materials, the Group's products can be applied in eleven major markets including outdoor, sports, renewable energy, protection, construction, logistic, packaging, medical use, safety, advertising and daily supplies.

Revenue for the period under review was approximately RMB240.6 million, representing a decrease of approximately RMB39.3 million, or 14.0%, compared to revenue of approximately RMB279.9 million for the same period last year. The decrease was primarily attributable to the intensifying market condition and a withdrawal from the End Products market.

In September 2015 and February 2016, the Group entered into two sale and purchase agreements to dispose of certain property, plant and equipment and prepaid lease payments of its subsidiary, Hubei Sijia Industrial Material Company Limited, to two independent parties at a total consideration of approximately RMB28.4 million, and that transactions will be completed by 2016. These assets were classified as non-current asset held for sale and separately presented in the condensed consolidated statement of financial position as at 30 June 2016.

The Group's products can be categorised into three types: (i) Reinforced Materials; (ii) conventional materials ("Conventional Materials") and (iii) End Products. The Group generated most of its revenue from the Reinforced Materials which accounted for approximately 86.1% (30 June 2015: approximately 82.1%) of total revenue. Local sales continued to be the Group's major source of revenue, representing approximately 72% (30 June 2015: approximately 66.1%) of the total revenue while export sales only accounted for approximately 28% (30 June 2015: approximately 33.9%) of the total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the Group's revenue by products:

	For the six months ended 30 June			
	2016		2015	
	(RMB million)	% of Total Revenue	(RMB million)	% of Total Revenue
Reinforced Materials	207.3	86.1	229.8	82.1
Conventional Materials	33.3	13.9	24.5	8.8
End Products	—	—	25.6	9.1
	240.6	100.0	279.9	100.0

The table below sets forth the Group's revenue by geographical locations:

	For the six months ended 30 June	
	2016 (RMB million)	2015 (RMB million)
PRC	173.0	184.9
Others	67.6	95.0
	240.6	279.9

Reinforced Materials

For the period under review, in respect of the Reinforced Materials, the Group delivered the most in inflatable, air tightness and tarpaulin materials. The strategy of the Group is to innovate more new products and to leverage its leading marketing position and offer products at a competitive price.

As at 30 June 2016, the Group owned a total of 68 patents with 31 on innovations, 33 on new applications and 4 on exterior designs for Reinforced Materials.

For the period under review, the Group's revenue generated from Reinforced Materials amounted to approximately RMB207.3 million (30 June 2015: approximately RMB229.8 million) which accounted for approximately 86.1% (30 June 2015: approximately 82.1%) of the Group's total revenue, representing a decrease in sales of approximately 9.8%. A decrease in revenue generated from Reinforced Material is mainly attributable to the keen market competition, especially in inflatable materials and inflatable boats materials. However, the Group achieved revenue from sale of drop stitch fabric of approximately RMB33 million (30 June 2015: approximately RMB13 million), which was launched in 2015. This revenue was accounted for 13.8% (30 June 2015: approximately 4.7%) of the Group's total revenue for the period under review with a gross profit margin of approximately 43%, representing an increase of 154% as compared with the same period in 2015.

Conventional Materials

For the period under review, the Group's revenue generated from the Conventional Materials amounted to approximately RMB33.3 million (30 June 2015: approximately RMB24.5 million) which accounted for approximately 13.9% (30 June 2015: approximately 8.8%) of total revenue, representing an increase in sales of approximately 35.9%.

End Products

As the Group had closed down all its local sales offices of the promotion of the End Products and stopped the manufacturing of End Products since 31 December 2015, there was no revenue generated from the End Products for the period under review (30 June 2015: approximately RMB25.6 million).

FINANCIAL REVIEW

Financial Results

Revenue

The Group's revenue for the six months ended 30 June 2016 was approximately RMB240.6 million, representing a decrease of approximately RMB39.3 million, or 14.0%, compared to revenue of approximately RMB279.9 million for the same period last year. For the period under review, the Group's major sales segments, namely, (1) Reinforced Materials reported revenue of approximately RMB207.3 million (30 June 2015: approximately RMB229.8 million); (2) Conventional Materials recorded a revenue of approximately RMB33.3 million (30 June 2015: approximately RMB24.5 million); and (3) End Products recorded a revenue of approximately RMBNil (30 June 2015: approximately RMB25.6 million). The decrease in revenue was mainly attributable to the keen market competition and withdrawal from the End Products market.

Gross Profit and Gross Margin

Gross profit was approximately RMB43.8 million for the period under review (30 June 2015: approximately RMB44.2 million), with the gross profit margin of approximately 18.2% (30 June 2015: approximately 15.8%). The increase in gross profit margin was mainly due to decrease in cost of raw materials.

The table below sets forth the Group's gross profit margin by products:

	For the six months ended 30 June	
	2016 %	2015 %
Reinforced Materials	20.8	16.8
Conventional Materials	1.9	0.2
End Products	—	(1.2)
Overall	18.2	15.8

Selling and Distribution Costs

For the period under review, selling and distribution costs decreased by approximately RMB1.2 million or 14.6% to approximately RMB6.8 million, or 2.8% of revenue for the period under review, from approximately RMB7.9 million, or 2.8% of revenue for the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

For the period under review, administrative expenses decreased by approximately RMB6.8 million or 19% to approximately RMB28.5 million. The decrease in administrative expenses was mainly due to a decrease in research and development cost.

Research and Development

For the period under review, R&D costs amounted to approximately RMB11.1 million, or 4.6% of revenue (30 June 2015: approximately RMB19 million, or 6.8% of revenue). The Group believes that its on-going R&D efforts are critical in maintaining long-term competitiveness, retaining existing customers, enhancing its ability to attract new customers and developing new markets. The Group continues to dedicate resources to the R&D activities in its Fuzhou and Shanghai plants aiming to lower the cost of raw materials, streamline manufacturing processes, increase production capacities, and develop high value-added new materials.

Impairments and Write-Offs

The Group's management took a prudent approach in assessing the values of assets and collectability of accounts receivable. This includes taking into consideration the credit history of the Group's customers and the prevailing market condition.

For the period under review, impairments have been recognised in respect of trade receivables in the amount of approximately RMB Nil (30 June 2015: RMB19.9 million).

Finance Costs

Finance costs for the period under review was approximately RMB6.7 million (30 June 2015: approximately RMB8.8 million). The decrease was mainly due to decrease in interest-bearing bank borrowings.

Interest Income

Interest income amounted to approximately RMB0.1 million for the period under review (30 June 2015: approximately RMB0.5 million).

Income Tax

For the period under review, the Group had an overall income tax expense of approximately RMB9,000 (30 June 2015: approximately RMB54,000).

Profit for the Period

For the period ended 30 June 2016, the Group recorded a profit attributable to owners of the Company approximately RMB4.3 million, or RMB0.5 cents for basic earnings per share. As at the same period last year, the Group recorded a loss attributable to owners of the Company of approximately RMB24.3 million, or RMB2.85 cents for basic loss per share. The weighted average number of ordinary shares of 852,612,470 in issue during the period ended 30 June 2016 (30 June 2015: 852,612,470).

Dividends

The Board has resolved not to pay any interim dividend for the six months ended 30 June 2016 (30 June 2015: Nil).

Liquidity and Financial Resources

Total Equity

As at 30 June 2016, total equity amounted to approximately RMB200.2 million, representing an increase of 2.8%, compared to approximately RMB194.7 million as at 31 December 2015.

Financial Position

As at 30 June 2016, the Group had total current asset of approximately RMB270.5 million and total current liabilities of approximately RMB549.6 million, with net current liabilities of approximately RMB279.2 million.

As at 30 June 2016, the Group's net gearing (expressed as a percentage of total interest-bearing liabilities to total assets) was at 23.2%, as compared to 31.2% as at 31 December 2015.

Cash and Cash Equivalents

As at 30 June 2016, the Group had cash and cash equivalents of approximately RMB10.4 million (31 December 2015: approximately RMB27.6 million), most of which were denominated in Renminbi ("RMB").

Bank Borrowings

As at 30 June 2016, the Group had interest-bearing bank borrowings of approximately RMB182 million (31 December 2015: approximately RMB250 million).

Contingent Liabilities

As at 30 June 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

Capital Commitments

As at 30 June 2016, capital commitment of the Group amounted to approximately RMB9.7 million (31 December 2015: approximately RMB12.0 million). The capital commitment will be funded partly by internal resources and partly by bank borrowings.

Pledge of Assets

As at 30 June 2016, the Group's buildings, plant and machinery of approximately RMB401.8 million (31 December 2015: approximately RMB236.8 million), leasehold land of approximately RMB18.5 million (31 December 2015: approximately RMB18.7 million), investment properties of approximately RMB17.1 million (31 December 2015: approximately RMB17.1 million) and bank deposits of approximately RMB37.5 million (31 December 2015: approximately RMB42.8 million) were pledged to banks to secure bank loans and general banking facilities granted.

Events After The Reporting Period

There were no significant events after the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As at 30 June 2016, the Group employed a total of 350 employees (31 December 2015: 355 employees). The reduction of staff headcount was mainly due to the Group's strategy to withdraw from the End Products business during the period under review.

The Group regards human capital as vital for its continuous growth and profitability and remains committed to improving the quality, competence and skills of all employees. The Group provided job related training throughout the organisation. The Group will continue to offer competitive remuneration packages and bonuses to eligible staffs, based on the performance of the individual employee.

Exposure to fluctuations in exchange rates and related hedge

Most business transactions of the Group are settled in RMB since the operations of the Group are mainly carried out in the PRC, and the major subsidiaries of the Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB. The reporting currency of the Group is RMB.

The Group's cash and bank deposits are predominantly in RMB. Based on the aforesaid, the Group does not enter into any agreement to hedge against any foreign exchange risk. The Company will pay dividends in Hong Kong Dollars if dividends are declared and it will continue to monitor the fluctuation of RMB closely and will introduce suitable measures as and when appropriate.

Save as disclosed above, there has been no material change in the development or future development of the Group's business and financial position, and no important event affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2015.

PROSPECTS

Facing the continuing downturn of Eurozone economy and the slowing down of China's economy, the Group will actively adapt to the national policy of "adjusting economic structure; transforming traditional manufacturing industries into new manufacturing industries". It will adhere to the development principles of "stay on its original business, steady development, structure optimisation and continuous innovation", and have implemented a series of adjustment measures:

1. to stabilise the business development of new materials, and to actively develop new products;
2. to further explore new business relationship with domestic and foreign customers, and to expand the Group's market share;
3. to establish more stable and reasonable strategic cooperation relationship with suppliers, so as to significantly decrease the procurement costs;
4. to close all of the labour intensive subsidiary companies, so as to avoid loss arising from the continuous increase of labour cost; and
5. all staff of the Group should participate in the internal control of the optimisation process in relation to different areas of procurement, production, sales, and finance in order to enhance the operation efficiency of the Group.

The Company has engaged professional parties to plan its application for the resumption of trading in the shares of the Company on the Stock Exchange (the “Resumption”). Further announcement will be published to shareholders to the Company to update the latest development of the Resumption in due course.

Looking forward, once the Group has been successful in applying for the resumption of trading of its shares on the Stock Exchange, the Group will upgrade its business and operation by capitalising on its innovative technologies and its professional technical team, which is well-recognised both in domestic and foreign industries:

1. the second and third production lines will be added to the Shanghai plants to engage in the research, development, production and sales of materials for high-end broaden automotives’ windows, double membrane gas holders materials, architectural membrane structure materials, marquees materials, inflatable materials, drop stitch fabric, and materials for auto-rolling curtains, in order to create economies of scale;
2. Fuzhou plants will adjust its production and service business, and be engaged in the production and sales of inflatable materials, inflatable boats materials, water pools materials, air tightness materials for water sports and leisure, swimsuit materials and packaging materials, so as to create scale operation;
3. to continue the R&D of new products, apply for invention patents for projects, increase products’ additional values, establish as one of the most innovative technology enterprise in the industry, and create values for the shareholders of the Company; and
4. to continue to strengthen the cooperation with the technical experts in Europe and the United States of America, and to further increase its sales share in the international market.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
REVENUE	5	240,582	279,999
Cost of sales		(196,767)	(235,836)
GROSS PROFIT		43,815	44,163
Other income and gains	5	6,307	4,213
Selling and distribution costs		(6,766)	(7,920)
Administrative expenses		(28,479)	(35,260)
Other expenses		(3,889)	(878)
PROFIT FROM OPERATIONS		10,988	4,318
Impairment of trade receivables		—	(19,898)
Finance costs	6	(6,721)	(8,836)
PROFIT/(LOSS) BEFORE TAX	7	4,267	(24,416)
Income tax expense	8	(9)	(54)
PROFIT/(LOSS) FOR THE PERIOD		4,258	(24,470)
Other comprehensive income/(expenses) after tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of non-PRC operations		1,176	(973)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD		5,434	(25,443)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		4,258	(24,278)
Non-controlling interests		—	(192)
		4,258	(24,470)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		5,434	(25,251)
Non-controlling interests		—	(192)
		5,434	(25,443)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (RMB cents)	9		
— Basic		0.50	(2.85)
— Diluted		0.50	(2.85)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	458,889	459,236
Prepaid land lease payments		18,017	18,264
Investment properties		17,100	17,100
Intangible assets		1,518	1,898
Deposits paid for acquisition of property, plant and equipment		7,851	14,137
Available-for-sale investment		4,140	4,140
Deferred tax assets		5,747	5,756
Total non-current assets		513,262	520,531
Current assets			
Inventories		68,266	60,938
Trade receivables	12	98,659	89,699
Prepayments, deposits and other receivables	13	27,215	31,868
Pledged deposits		37,503	42,750
Cash and cash equivalents		10,392	27,583
		242,035	252,838
Non-current assets classified as held for sale		28,437	28,437
Total current assets		270,472	281,275
Current liabilities			
Trade and bills payables	14	242,985	239,244
Other payables and accruals	15	116,226	90,012
Interest-bearing bank borrowings	16	152,000	209,980
Deferred income		360	360
Due to a director		11,670	5,000
Due to a related party		8,000	—
Tax payable		18,402	18,373
Total current liabilities		549,643	562,969
Net current liabilities		(279,171)	(281,694)
Total assets less current liabilities		234,091	238,837

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Non-current liabilities			
Interest-bearing bank borrowings	16	30,000	40,000
Deferred income		1,230	1,410
Deferred tax liabilities		2,711	2,711
Total non-current liabilities		33,941	44,121
NET ASSETS		200,150	194,716
Capital and reserves			
Equity attributable to owners of the Company			
Issued capital		747	747
Reserves		199,403	193,969
TOTAL EQUITY		200,150	194,716

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company										
	Issued capital	Capital surplus/ Share premium*	Capital reserve*	Share option reserve*	Statutory surplus funds*	Exchange fluctuation reserve*	Revaluation reserve*	Retained profits/ (Accumulated losses)*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015 (audited)	747	566,403	28,994	13,101	115,396	(7,551)	–	160,390	877,480	16,593	894,073
Total comprehensive expenses for the period (Unaudited)	–	–	–	–	–	(973)	–	(24,278)	(25,251)	(192)	(25,443)
Disposal of subsidiary (unaudited)	–	–	–	–	–	–	–	–	–	(16,401)	(16,401)
At 30 June 2015 (unaudited)	747	566,403	28,994	13,101	115,396	(8,524)	–	136,112	852,229	–	852,229
At 1 January 2016 (audited)	747	566,403	28,994	–	115,396	(6,231)	8,133	(518,726)	194,716	–	194,716
Total comprehensive income for the period (Unaudited)	–	–	–	–	–	1,176	–	4,258	5,434	–	5,434
At 30 June 2016 (unaudited)	747	566,403	28,994	–	115,396	(5,055)	8,133	(514,468)	200,150	–	200,150

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Net cash generated from/(used in) operating activities	39,566	(46,969)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(10,110)	(7,915)
Proceeds from disposals of property, plant and equipment	288	4,867
Proceeds from disposal of a subsidiary	—	16,756
Decrease/(increase) in pledged deposits	5,247	(9,802)
Refund of deposits for acquisition of property, plant and equipment	6,286	12,014
Other investing cash flows	387	480
Net cash flows generated from investing activities	2,098	16,400
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	92,000	103,325
Repayment of bank borrowings	(159,980)	(102,000)
Other financing cash flows	7,949	(8,836)
Net cash flows used in financing activities	(60,031)	(7,511)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,367)	(38,080)
Cash and cash equivalents at beginning of period	27,583	71,319
Effect on exchange rate changes	1,176	(876)
Cash and cash equivalents at end of period	10,392	32,363
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	10,392	32,363

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

China Longevity Group Company Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 7 October 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company acts as an investment holding company.

In the opinion of the directors (the “Directors”) of the Company, as at the date of issue of these condensed consolidated financial statements, Hopeland International Holdings Company Limited (“Hopeland International”) is the ultimate holding company and Mr. Lin Shengxiong (“Mr. Lin”) is the ultimate controlling party. Hopeland International does not produce financial statements available for public use.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and have been suspended for trading since 14 February 2013.

The Group was principally engaged in the design, development, manufacture and sales of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials; and (ii) conventional materials during the period under review.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements (“Interim Financial Statements”) have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Interim Financial Statements do not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2015 (“2015 Annual Report”).

These Interim Financial Statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the controlling shareholder, at a level sufficient to finance the working capital requirements of the Group. The controlling shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. SEGMENT INFORMATION

There is only one operating segment which is principally engaged in the design, development, manufacture and sales of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials; (ii) conventional materials; and (iii) downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market, which however were closed since 31 December 2015.

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Geographical information		
PRC	172,995	185,047
Others	67,587	94,952
	240,582	279,999

Information about major customers

No revenue from transactions with a single customer amounted to 10% or more of the Group's total sales for the six months ended 30 June 2016 (30 June 2015: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Revenue		
Sales of goods	240,582	279,999
Other income and gains		
Bank interest income	132	480
Government subsidies (Note)	300	1,632
Gain on disposals of property, plant and equipment	65	—
Gross rental income	539	27
Gain on disposals of a subsidiary	—	1,471
Dividend income from available-for-sale investment	255	—
Bad debts recovery	1,972	—
Sundry income	2,666	175
Exchange gain, net	378	428
	6,307	4,213

Note: Government subsidies are received and used for development of new products and implementation of environmental protection development programmes. These government subsidies are not attributable to any non-current assets and there were no specific conditions attached to the subsidies. Therefore, the Group recognised the subsidies upon receipt during the periods ended 30 June 2016 and 2015.

6. FINANCE COSTS

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Interest on bank loans wholly repayable within 5 years	6,721	8,836

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Depreciation of property, plant and equipment	28,434	30,247
Amortisation of prepaid land lease payments	247	374
Amortisation of intangible assets	380	566
Impairment of trade receivables		
— Allowance	—	17,915
— Bad debts	—	1,983
Loss on disposals of property, plant and equipment	—	114

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Current tax — the PRC		
Charge for the period	—	—
Under-provision in prior year	—	54
Deferred tax	9	—
	9	54

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which the group entities are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region ("Hong Kong"), Hong Kong profits tax is subject to a rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. No provision for income tax has been made as the Group had no assessable profits arising in Hong Kong.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

8. INCOME TAX EXPENSE *(continued)*

In accordance with the Corporate Income Tax Law of the People's Republic of China ("PRC"), the profits of the following PRC subsidiaries are subject to the following tax rates:

	Notes	Six months ended 30 June	
		2016	2015
Fujian Sijia Industrial Material Co., Ltd. ("Fujian Sijia") [#]	(a)	15%	15%

[#] The English name is for identification only

Notes:

- (a) Pursuant to the approval of the tax bureau, Fujian Sijia, being a high-tech enterprise, was levied at the tax rate of 15% for the six months ended 30 June 2016 and 2015 according to the Corporate Income Tax Law.
- (b) Other subsidiaries are subject to a corporate income tax rate of 25% for the six months ended 30 June 2016 and 2015.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted earnings/(loss) per share is based on the following:

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Earnings/(Loss)		
Profit/(Loss) attributable to owners of the Company, used in the basic and diluted earnings/(loss) per share calculation	4,258	(24,278)
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	852,612,470	852,612,470

Diluted earnings/(loss) per share for the periods ended 30 June 2016 and 2015 is the same as the basic earnings/(loss) per share as the Company had no potentially dilutive ordinary shares in issue during the periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

10. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property, plant and equipment at a total cost of RMB28,310,000 (six months ended 30 June 2015: RMB7,915,000).

Property, plant and equipment with a carrying amount of RMB223,000 were disposed of during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB4,981,000), resulting in a gain on disposal of RMB65,000 (six months ended 30 June 2015: loss of RMB114,000).

12. TRADE RECEIVABLES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Trade receivables	98,659	89,699

The Group's trading terms with customers mainly comprise credit and cash on delivery. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

The aging analysis of trade receivables at the end of the reporting period, based on the date the Group is entitled to receive, and net of allowance, is as follows:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 3 months	72,054	67,973
More than 3 months but within 6 months	16,560	12,935
More than 6 months but within 1 year	5,986	7,288
More than 1 year	4,059	1,503
	98,659	89,699

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Advances to suppliers (note)	7,339	15,432
Prepaid sales tax and government surcharges	6,960	6,884
Prepaid expense	729	766
Consideration receivables	1,800	1,800
Other receivables	10,387	6,986
	27,215	31,868

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

14. TRADE AND BILLS PAYABLES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Trade payables	118,117	96,886
Bills payables	124,868	142,358
	242,985	239,244

The aging analysis of trade and bills payables at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 3 months	148,372	122,390
More than 3 months but within 6 months	78,385	95,449
More than 6 months but within 1 year	7,074	12,647
More than 1 year	9,154	8,758
	242,985	239,244

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

15. OTHER PAYABLES AND ACCRUALS

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Advances from customers	17,816	9,146
Accrued liabilities	27,213	26,661
Payroll payables	10,155	10,230
Payable for the acquisition of property, plant and equipment	43,992	25,066
Others	17,050	18,909
	116,226	90,012

16. INTEREST-BEARING BANK BORROWINGS

During the period under review, the Group obtained new bank loans amounting to RMB92,000,000 (six months ended 30 June 2015: RMB103,325,000) as additional working capital and made repayments of bank loans of RMB159,980,000 (six months ended 30 June 2015: RMB102,000,000).

17. COMMITMENTS

Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Property, plant and equipment		
Contracted, but not provided for	9,738	12,013
Authorised, but not contracted for	—	—
	9,738	12,013

18. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2016 (At 31 December 2015: Nil).

19. RELATED PARTY TRANSACTIONS

(a) Related party transactions

Bank loans totalling RMB132,000,000 at 30 June 2016 (At 31 December 2015: RMB168,680,000) were guaranteed by the ultimate controlling party, a family member of the ultimate controlling party and a director of the Company.

(b) Key management compensation

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Short-term employee benefits	2,267	1,585
Post-employment benefits	92	55
	2,359	1,640

(c) Outstanding balances with related party:

	30 June	31 December
	2016 (Unaudited) RMB'000	2015 (Audited) RMB'000
Due to a director		
Mr. Lin	11,670	5,000
Due to a related party		
Ms. Lin Hongting, spouse of Mr. Lin	8,000	—

The amounts due to a director and related party are unsecured, interest free and have no fixed terms of repayment.

20. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements was approved and authorised for issue by the board of directors on 30 August 2016.

OTHER INFORMATION

RESULTS AND APPROPRIATIONS

The results of the Group for the six months ended 30 June 2016 are set out in the condensed consolidated statement of profit or loss and other comprehensive income on page 10.

The board of directors (the “Directors”) of the Company (the “Board”) does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (2015: Nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board has established procedures on corporate governance that comply with the requirements of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules. The Board has reviewed and taken measures to adopt the CG Code as the Company’s code of corporate governance practices. During the six-month period ended 30 June 2016, the Company has complied with the code provisions under the CG Code, save and except for the following:

Code provision A.6.3 stipulates that executive directors, independent non-executive directors and other non-executive directors should attend general meeting and develop a balanced understanding of the views of shareholders. Two executive directors and three independent non-executive directors of the Company were unable to attend the annual general meeting (“AGM”) of the Company held on 11 June 2016 due to their other business engagements. Each director of the Company (“Director(s)”) has been reminded of his duty and each of them has indicated that he will use his best endeavors to attend the general meetings to be held in the future.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the standard for securities transactions by Directors. The Company has made specific enquiries to all the Directors and all the Directors have confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares during the six months ended 30 June 2016.

DIRECTORS’ INTERESTS IN CONTRACTS

No director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party at the end of 30 June 2016 or at any time during the six months ended 30 June 2016.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2016, the interests of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in shares of the Company

Name of Director	Capacity/Nature of interest	Long/Short position	Number of shares held	Approximate percentage of total issued ordinary shares
Mr Lin Shengxiong	Interests in controlled corporation (Note)	Long position	410,886,000 (Note)	48.19%
Mr Zhang Hongwang	Beneficial owner	Long position	5,060,000	0.59%
Mr Huang Wanneng	Beneficial owner	Long position	5,060,000	0.59%

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

Interest in shares of associated corporation of the Company

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY

Save as disclosed above and the section "Share Option Scheme", as at 30 June 2016, none of the Directors or chief executive of the Company had any interests in or short positions in the shares, underlying shares and debentures of the Company or any associated corporation or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

SHARE OPTION SCHEME

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

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

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

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

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

There was no share option outstanding at 30 June 2016 and 31 December 2015.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of the SFO shows that as at 30 June 2016, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed under the section "Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company".

Name of shareholder	Long/Short position	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in the Company
Hopeland International Holdings Company Limited (Note 1)	Long position	Beneficial owner	410,886,000	48.19%
Lin Hongting (Note 2)	Long position	Interests of spouse	410,886,000	48.19%
Glory Bright Investments Enterprise Limited (Note 3)	Long position	Beneficial owner	59,011,000	6.92%
Lin Wanpeng (Note 3)	Long position	Interests in controlled corporation	59,011,000	6.92%
Wang Huiqing (Note 4)	Long position	Interests of spouse	59,011,000	6.92%

Notes:

1. The entire issued share capital of Hopeland International Holdings Company Limited is beneficially owned by Lin Shengxiong who is deemed to be interested in the shares of the Company held by Hopeland International Holdings Company Limited pursuant to the SFO.
2. Lin Hongting is the spouse of Lin Shengxiong. Therefore, Lin Hongting is deemed to be interested in the shares of the Company in which Lin Shengxiong is interested for the purposes of the SFO.
3. The entire issued share capital of Glory Bright Investments Enterprise Limited is beneficially owned by Lin Wanpeng who is deemed to be interested in the shares of the Company held by Glory Bright Investments Enterprise Limited pursuant to the SFO.
4. Wang Huiqing is the spouse of Lin Wanpeng. Therefore, Wang Huiqing is deemed to be interested in the shares of the Company in which Lin Wanpeng is interested for the purposes of the SFO.

OTHER INFORMATION

Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company was recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2016.

MATERIAL ACQUISITION OR DISPOSALS

There was no material acquisition or disposal of subsidiaries by the Group during the six months ended 30 June 2016.

AUDIT COMMITTEE

The Audit Committee, comprises three independent non-executive Directors, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2016 have been reviewed by the audit committee, who is of the opinion that such accounts have complied with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended since 14 February 2013 and will remain suspended until further notice.

By Order of the Board

Lin Shengxiong

Chairman

Hong Kong, 30 August 2016