



CHINA LONGEVITY GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1863)



2017
Interim Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Shengxiong (*Chairman*)
Mr. Huang Wanneng
Mr. Jiang Shisheng
Mr. Zhang Hongwang (*Chief Executive Officer*)
(Resigned on 7 April 2017)

Independent Non-executive Directors

Mr. Lau Chun Pong
Mr. Lu Jiayu (Appointed on 26 July 2017)
Ms. Jiang Ping (Appointed on 26 July 2017)
Mr. Cai Weican (Retired on 26 July 2017)
Mr. Wu Jianhua (Retired on 26 July 2017)

AUDIT COMMITTEE

Mr. Lau Chun Pong (*Chairman*)
Mr. Lu Jiayu (Appointed on 26 July 2017)
Ms. Jiang Ping (Appointed on 26 July 2017)
Mr. Cai Weican (Retired on 26 July 2017)
Mr. Wu Jianhua (Retired on 26 July 2017)

REMUNERATION COMMITTEE

Mr. Lu Jiayu (*Chairman*) (Appointed on 26 July 2017)
Ms. Jiang Ping (Appointed on 26 July 2017)
Mr. Lin Shengxiong
Mr. Lau Chun Pong
Mr. Cai Weican (Retired on 26 July 2017)
Mr. Wu Jianhua (Retired on 26 July 2017)

NOMINATION COMMITTEE

Ms. Jiang Ping (*Chairman*)
(Appointed on 26 July 2017)
Mr. Lu Jiayu (Appointed on 26 July 2017)
Mr. Lau Chun Pong
Mr. Cai Weican (Retired on 26 July 2017)
Mr. Wu Jianhua (Retired on 26 July 2017)

COMPANY SECRETARY

Mr. Chow Yiu Wah, Joseph

AUTHORISED REPRESENTATIVES

Mr. Lin Shengxiong
Mr. Chow Yiu Wah, Joseph

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

Room 701, 7/F.
New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
31/F., 148 Electric Road
North Point
Hong Kong

STOCK CODE

1863

CORPORATE WEBSITE

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INVESTOR RELATIONS CONTACT

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is one of the recognised industry leaders in 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 engaged 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, utilizes self-developed facilities and techniques, which has acquired national patents on innovation, to produce new materials, including drop stitch fabric, architectural membrane, waterproofing membrane, marquees materials, air tightness materials, inflatable boats materials and inflatable materials. 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 diversified applications of the Reinforced Materials and end-use products, the Group’s products can be applied in fifteen 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 RMB245.1 million, representing an increase of approximately RMB4.5 million, or 1.9%, compared to revenue of approximately RMB240.6 million for the same period last year. The increase was primarily attributable to the structural adjustment of Reinforced Materials and focus on promotion of high-end new products.

Due to the halt in manufacturing the End Products, the Group entered into two sale and purchase agreements to dispose of certain property, plant and equipment, and prepaid land lease payments of a subsidiary, Hubei Sijia Industrial Material Company Limited, to two independent third parties at a total consideration of RMB28,437,000 last year. These assets have been classified as non-current assets held for sale as detailed in the condensed consolidated financial statements. The transactions have yet to be completed at 30 June 2017, as they are pending for the approval from the relevant PRC Government authority. We expect that these disposals to be completed by end of 2017.

The Group’s products can be categorised into two types: (i) Reinforced Materials and (ii) conventional materials (“Conventional Materials”). The Group generated most of its revenue from the Reinforced Materials which accounted for approximately 96.5% (30 June 2016: approximately 86.1%) of total revenue. Local sales continued to be the Group’s major source of revenue, representing approximately 68% (30 June 2016: approximately 72%) of the total revenue while export sales only accounted for approximately 32% (30 June 2016: approximately 28%) 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			
	2017		2016	
	(RMB million)	% of Total Revenue	(RMB million)	% of Total Revenue
Reinforced Materials	236.4	96.5	207.3	86.1
Conventional Materials	8.7	3.5	33.3	13.9
	245.1	100.0	240.6	100.0

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

	For the six months ended 30 June	
	2017 (RMB million)	2016 (RMB million)
PRC	167.5	173.0
Others	77.6	67.6
	245.1	240.6

Reinforced Materials

For the period under review, in respect of the Reinforced Materials, the Group delivered the most in tarpaulin materials, inflatable materials and drop stitch fabric. Drop stitch fabric is a new material successfully developed and launched in the market after two years of research and development. 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 2017, the Group owned a total of 46 patents with 35 on innovations and 11 on new applications for Reinforced Materials.

For the period under review, the Group's revenue generated from Reinforced Materials amounted to approximately RMB236.4 million (30 June 2016: approximately RMB207.3 million) which accounted for approximately 96.5% (30 June 2016: approximately 86.1%) of the Group's total revenue, representing an increase in sales of approximately 14%. An increase in revenue generated from Reinforced Material is mainly attributable to the structural of Reinforced Materials and focus on promotion of high-end new products, especially in drop stitch fabric and inflatable boats materials. The Group achieved revenue from sale of drop stitch fabric of approximately RMB58 million (30 June 2016: approximately RMB33 million), which was launched in 2015. This revenue was accounted for 23.6% (30 June 2016: approximately 13.8%) of the Group's total revenue for the period under review with a gross profit margin of approximately 48%, representing an increase of 3% as compared with the same period in 2016.

Conventional Materials

For the period under review, the Group's revenue generated from the Conventional Materials amounted to approximately RMB8.7 million (30 June 2016: approximately RMB33.3 million) which accounted for approximately 3.5% (30 June 2016: approximately 13.9%) of total revenue, representing a decrease in sales of approximately 73.9%, which was mainly due to the structural adjustment of Conventional Materials to Reinforced Materials.

FINANCIAL REVIEW

Financial Results

Revenue

The Group's revenue for the six months ended 30 June 2017 was approximately RMB245.1 million, representing an increase of approximately RMB4.5 million, or 1.9%, compared to revenue of approximately RMB240.6 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 RMB236.4 million (30 June 2016: approximately RMB207.3 million) and (2) Conventional Materials recorded a revenue of approximately RMB8.7 million (30 June 2016: approximately RMB33.3 million). The increase in revenue was mainly attributable to the structural adjustment of Reinforced Materials and focus on promotion of high-end new products.

Gross Profit and Gross Margin

Gross profit was approximately RMB49.6 million for the period under review (30 June 2016: approximately RMB43.8 million), with the gross profit margin of approximately 20.2% (30 June 2016: approximately 18.2%). The increase in gross profit margin was mainly due to decrease in cost of sales resulting from decrease in depreciation charges on the property, plant and equipment.

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

	For the six months ended 30 June	
	2017 %	2016 %
Reinforced Materials	20.9	20.8
Conventional Materials	2.0	1.9
Overall	20.2	18.2

Selling and Distribution Costs

For the period under review, selling and distribution costs decreased by approximately RMB0.4 million or 6.3% to approximately RMB6.3 million, or 2.6% of revenue for the period under review, from approximately RMB6.8 million, or 2.8% of revenue for the same period last year. The decrease was mainly due to optimisation of sales cost structure.

Administrative Expenses

For the period under review, administrative expenses increased by approximately RMB2.8 million or 9.9% to approximately RMB31.3 million. The increase in administrative expenses was mainly due to an increase in research and development cost.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development

For the period under review, research and development (the “R&D”) costs amounted to approximately RMB16.3 million, or 6.7% of revenue (30 June 2016: approximately RMB11.1 million, or 4.6% 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 of assets

The Group’s management took a prudent approach in assessing the values of assets and collectability of trade 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:

- (i) property, plant and equipment in the amount of approximately RMB4.7 million (30 June 2016: Nil) based on the review carried out by the Directors at 30 June 2017; and
- (ii) trade receivables in the amount of approximately RMB0.9 million (30 June 2016: Nil) due to long outstanding.

Finance Costs

Finance costs for the period under review was approximately RMB4.0 million (30 June 2016: approximately RMB6.7 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 2016: approximately RMB0.1 million).

Income Tax

For the period under review, the Group had an overall income tax expense of approximately RMB2.1 million (30 June 2016: approximately RMB9,000).

Profit for the Period

For the period ended 30 June 2017, the Group recorded a profit attributable to owners of the Company approximately RMB10.2 million, or RMB1.2 cents for basic earnings per share. As at the same period last year, the Group recorded a profit attributable to owners of the Company of approximately RMB4.3 million, or RMB0.5 cents for basic earnings per share. The weighted average number of ordinary shares of 852,612,470 in issue during the period ended 30 June 2017 (30 June 2016: 852,612,470).

Dividends

The Board has resolved not to pay any interim dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

Liquidity and Financial Resources

Total Equity

As at 30 June 2017, total equity amounted to approximately RMB225.0 million, representing an increase of 4.9%, compared to approximately RMB214.4 million as at 31 December 2016.

Financial Position

As at 30 June 2017, the Group had total current asset of approximately RMB296.5 million (31 December 2016: approximately RMB258.8 million) and total current liabilities of approximately RMB552.3 million (31 December 2016: approximately RMB546.9 million), with net current liabilities of approximately RMB255.8 million. (31 December 2016: approximately RMB288.1 million)

As at 30 June 2017, the Group's net gearing (expressed as a percentage of total interest-bearing liabilities to total assets) was at 18.2%, as compared to 19.9% as at 31 December 2016.

Cash and Cash Equivalents

As at 30 June 2017, the Group had cash and cash equivalents of approximately RMB40.5 million (31 December 2016: approximately RMB15.0 million), most of which were denominated in Renminbi ("RMB").

Bank Borrowings

As at 30 June 2017, the Group had interest-bearing bank borrowings of approximately RMB142 million (31 December 2016: approximately RMB152 million).

Contingent Liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

Capital Commitments

As at 30 June 2017, capital commitment of the Group amounted to approximately RMB1.1 million (31 December 2016: approximately RMB2.8 million). The capital commitment will be funded partly by internal resources and partly by bank borrowings.

Pledge of Assets

As at 30 June 2017, the Group's buildings, plant and machinery of approximately RMB306.9 million (31 December 2016: approximately RMB343.8 million), leasehold land of approximately RMB17.9 million (31 December 2016: approximately RMB18.2 million), investment properties of approximately RMB15.0 million (31 December 2016: approximately RMB15.0 million) and bank deposits of approximately RMB52.3 million (31 December 2016: approximately RMB41.9 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 2017, the Group employed a total of 313 employees (31 December 2016: 337 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

The Group had some high-end products operated and sold on the European market. Given the reform of the Renminbi exchange rate, depreciation of US dollars and other factors, the exchange rate for Renminbi to US dollars fluctuated, resulting in exchange loss of certain trade orders to some extent. However, as the Group is principally engaged in business in Mainland China, most of the business transactions are settled in Renminbi ("RMB"). All subsidiaries of the Group do business within the RMB sphere, and their functional currency is RMB. The Group's reporting currency 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 2016.

PROSPECT

Facing the continuing downturn of general economy and the slowing down of China's economy, coupled with the stringent domestic environmental protection system ever, the new material industry is being exposed to the difficult situation between the increasingly improved upstream cost and the reluctance of downstream customers to accept the rise in price. As such, the Group will actively respond to the national policy of "adjusting economic structure; transforming traditional manufacturing industries into new manufacturing industries", and adhere to the development principles of "stay on its original business, steady development, structure optimisation and continuous innovation", while readjusting product mix in a timely manner, improving product quality, focusing on brand cultivation, precisely implementing market positioning based on quality reform and weeding out low-end products, with a series of adjustment measures put into effect:

1. to stabilise the business development of new materials, and to actively develop new products;
2. to further acquire new clients for the existing products at home and abroad, expand the market share of the sector in each region; and since 2016, by virtue of the "One Belt, One Road Initiative", the Group will commence to explore and involve in gaining market share in the countries along the "One Belt, One Road";

3. to research and develop the technology of the LVT floor material project with efforts of the research and development team, extend the industry chain of the Group, optimize the product portfolio and diversify the product category. The product is a new light floor decoration material, with polyvinyl chloride, an environment-friendly non-toxic renewable resource, as its principal raw material, it is the only renewable ground decoration material. At present, LVT floor material is widely and increasingly used in the industries such as education, commerce, sports, office, transportation and home system with a strong vitality and market popularity;
4. to establish more stable and reasonable strategic cooperation relationship with suppliers, so as to significantly decrease the procurement costs; and
5. all staff of the Group should participate in the optimisation in internal control in relation to different areas, such as procurement, production, sales, and finance, in order to enhance the operation efficiency of the Group.

The Company has engaged professional parties to prepare 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 is 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 Shanghai Plant will add an industrial weaving production line, not only for the use of Shanghai plants and Fuzhou plants to enhance the competitiveness of our products, but also for the use of external customers;
2. Fuzhou plants will continue to deepen the research and development of new functions and frontier of drop stitch fabric, expedite the technology update and domestic and overseas market development of enhanced drop stitch fabric and plain-weaved drop stitch fabric;
3. The Group will optimize the industrial structure in a deep-going way, newly add the production line of LVT floor material, explore the sectorial market for new products and create economies of scale, while expecting that the equipment of floor project newly acquired will be ready in November 2017;
4. The Group will increase efforts on protecting the new technology, new process and other intellectual properties, apply more patents for independent inventions, establish as one of the most innovative technology development enterprise in the industry, and create values for the shareholders of the Company; and
5. The Group will continue to strengthen the cooperation with technical experts in Europe and America and further expand the market share in the international market.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
REVENUE	5	245,065	240,582
Cost of sales		(195,489)	(196,767)
GROSS PROFIT		49,576	43,815
Other income and gains	6	5,343	6,307
Selling and distribution costs		(6,343)	(6,766)
Administrative expenses		(31,308)	(28,479)
Other expenses		(838)	(3,889)
PROFIT FROM OPERATIONS		16,430	10,988
Finance costs	7	(4,043)	(6,721)
PROFIT BEFORE TAX	8	12,387	4,267
Income tax expense	9	(2,147)	(9)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		10,240	4,258
Other comprehensive income after tax:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		303	1,176
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		10,543	5,434
EARNINGS PER SHARE (RMB cents)	11		
– Basic		1.20	0.50
– Diluted		1.20	0.50

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	As at 30 June 2017 (Unaudited) RMB'000	As at 31 December 2016 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	12	435,529	456,947
Prepaid land lease payments		17,371	17,694
Investment properties		15,000	15,000
Intangible assets		550	550
Deposits paid for acquisition of property, plant and equipment		6,625	6,722
Available-for-sale investment		4,140	4,140
Deferred tax assets		5,131	5,285
Total non-current assets		484,346	506,338
Current assets			
Inventories		85,323	74,007
Trade receivables	13	81,462	86,476
Prepayments, deposits and other receivables	14	8,567	12,955
Pledged deposits		52,260	41,927
Cash and cash equivalents		40,481	15,008
		268,093	230,373
Non-current assets classified as held for sale		28,437	28,437
Total current assets		296,530	258,810
Current liabilities			
Trade and bills payables	15	254,933	232,312
Other payables and accruals	16	105,597	112,281
Interest-bearing borrowings	17	142,000	152,000
Deferred income		360	360
Due to directors		19,430	21,510
Due to a related party		14,000	14,000
Current tax liabilities		15,988	14,480
Total current liabilities		552,308	546,943
Net current liabilities		(255,778)	(288,133)
Total assets less current liabilities		228,568	218,205

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	As at 30 June 2017 (Unaudited) RMB'000	As at 31 December 2016 (Audited) RMB'000
Non-current liabilities			
Deferred income		870	1,050
Deferred tax liabilities		2,711	2,711
Total non-current liabilities		3,581	3,761
NET ASSETS			
Capital and reserves			
Attributable to owners of the Company			
Issued capital		747	747
Reserves		224,240	213,697
TOTAL EQUITY		224,987	214,444



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Issued capital RMB'000	Capital surplus/ share premium* RMB'000	Capital reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Revaluation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000
At 1 January 2016 (audited)	747	566,403	28,994	115,396	(6,231)	8,133	(518,726)	194,716
Total comprehensive income for the period (unaudited)	–	–	–	–	1,176	–	4,258	5,434
At 30 June 2016 (unaudited)	747	566,403	28,994	115,396	(5,055)	8,133	(514,468)	200,150
At 1 January 2017 (audited)	747	566,403	28,994	115,396	(8,755)	8,133	(496,474)	214,444
Total comprehensive income for the period (unaudited)	–	–	–	–	303	–	10,240	10,543
At 30 June 2017 (unaudited)	747	566,403	28,994	115,396	(8,452)	8,133	(486,234)	224,987

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



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Net cash generated from operating activities	54,092	39,566
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,659)	(10,110)
Purchases of available-for-sale investment	(5,000)	—
Proceeds from disposal of available-for-sale investment	5,000	—
(Increase)/decrease in pledged deposits	(10,333)	5,247
Refund of deposits for acquisition of property, plant and equipment	97	6,286
Other investing cash flows	96	675
Net cash (used in)/generated from investing activities	(12,799)	2,098
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	92,000	92,000
Repayment of bank borrowings	(102,000)	(159,980)
Repayment to a director	(2,080)	—
Other financing cash flows	(4,043)	7,949
Net cash used in financing activities	(16,123)	(60,031)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	25,170	(18,367)
Cash and cash equivalents at beginning of period	15,008	27,583
Effect on exchange rate changes	303	1,176
Cash and cash equivalents at end of period	40,481	10,392
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	40,481	10,392

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 of the Company (the “Directors”), 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”), the Chairman and an executive director, 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 sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials, and (ii) conventional materials targeting the outdoor leisure, recreation and sports consumer market during the period under review.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements (“Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard 34 (“Interim Financial Reporting”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by 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 2016 (“2016 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 Interim 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 Interim 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, except for the investment properties which have been measured at fair value. They 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 2017

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 2017. 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 Interim Financial Statements and amounts reported for the current and prior period.

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 sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials, and (ii) conventional materials.

	Revenue from external customers	
	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Geographical information		
The People's Republic of China (the "PRC")	167,434	172,995
Others	77,631	67,587
	245,065	240,582

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 2017 (30 June 2016: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

5. REVENUE

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Sales of goods	245,065	240,582

6. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Bank interest income	94	132
Government subsidies (note)	4,279	300
Gain on disposals of property, plant and equipment	—	65
Rental income	488	539
Dividend income from available-for-sale investment	—	255
Reversal of allowance for receivables	431	1,972
Sundry income	51	2,666
Exchange gain, net	—	378
	5,343	6,307

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 are no other specific conditions attached to the subsidies. Therefore, the Group recognised the subsidies upon receipt during the six months ended 30 June 2017 and 2016.

7. FINANCE COSTS

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Interest on bank loans	4,043	6,721

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

8. PROFIT BEFORE TAX

The Group's profit before tax is stated at after charging/(crediting):

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Depreciation of property, plant and equipment	18,803	28,434
Amortisation of prepaid land lease payments	323	247
Amortisation of intangible assets	—	380
Loss/(gain) on disposals of property, plant and equipment	540	(65)
Impairment of property, plant and equipment	4,732	—
Impairment of trade receivables	899	—

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Current tax — the PRC		
Charge for the period	1,993	—
Deferred tax	154	9
	2,147	9

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 operate.

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 profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2017 and 2016.

Pursuant to the approval of the tax bureau, in accordance with the Corporate Tax Law of the PRC, Fujian Sijia Industrial Material Co., Ltd.[#] (福建思嘉環保材料科技有限公司) ("Fujian Sijia") subject to the tax rates being a high-tech enterprise, was levied at the tax rate of 15% for the period (six months ended 30 June 2016: 15%) according to the New Corporate Income Tax Law. Other subsidiaries are subject to a corporate income tax rate of 25% during the period according to the PRC Corporate Income Tax Law (six months ended 30 June 2016: 25%).

[#] The English name is for identification only

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

10. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

Earnings per share	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	10,240	4,258

Number of shares	Six months ended 30 June	
	2017	2016
Weighted average number of ordinary shares in issue during the period used in the earnings per share calculation	852,612,470	852,612,470

Diluted earnings per share for the periods ended 30 June 2017 and 2016 is the same as the basic earnings per share as the Company had no dilutive potential ordinary shares in issue during the periods.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment at a total cost of RMB2,659,000 (for the six months ended 30 June 2016: RMB28,310,000).

During the six months ended 30 June 2017, property, plant and equipment with a carrying amount of RMB542,000 (for the six months ended 30 June 2016: RMB223,000) were disposed of by the Group, resulting in a loss on disposals of RMB540,000 (for the six months ended 30 June 2016: gain on disposals of RMB65,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

13. TRADE RECEIVABLES

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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 3 months	71,697	65,212
More than 3 months but within 6 months	3,831	14,417
More than 6 months but within 1 year	5,913	4,818
More than 1 year	21	2,029
	81,462	86,476

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Advances to suppliers (note)	3,712	5,451
Prepaid sales tax and government surcharges	2,343	3,880
Prepaid expenses	693	700
Other receivables	1,819	2,924
	8,567	12,955

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

15. TRADE AND BILLS PAYABLES

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Trade payables	80,807	101,066
Bills payables	174,126	131,246
	254,933	232,312

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 3 months	148,846	137,545
More than 3 months but within 6 months	90,971	86,585
More than 6 months but within 1 year	15,000	6,895
More than 1 year	116	1,287
	254,933	232,312

16. OTHER PAYABLES AND ACCRUALS

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Advances from customers	15,977	12,971
Accrued liabilities	19,407	24,279
Payroll payables	5,913	6,212
Payable for the acquisition of property, plant and equipment	40,666	48,166
Deposit received for non-current asset held for sale	11,950	11,950
Others	11,684	8,703
	105,597	112,281

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

17. INTEREST-BEARING BORROWINGS

During the period under review, the Group obtained new bank loans amounting to RMB92,000,000 (six months ended 30 June 2016: RMB92,000,000) as additional working capital and made repayments of bank loans of RMB102,000,000 (six months ended 30 June 2016: RMB159,980,000).

18. CAPITAL COMMITMENTS

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Property, plant and equipment		
Contracted, but not provided for	1,074	2,800

19. CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil)

20. RELATED PARTY TRANSACTIONS

(a) Related party transactions

At 30 June 2017, the ultimate shareholder and a family member of the ultimate shareholder guaranteed bank loans made to the Group of approximately RMB112,000,000 (31 December 2016: RMB112,000,000).

(b) Outstanding balances with related parties

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Due to directors		
Mr. Lin	13,430	21,510
Mr. Huang Wanneng	6,000	—
	19,430	21,510
Due to a related party		
Ms. Lin Hongting, spouse of Mr. Lin	14,000	14,000

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

20. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

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

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Short-term employee benefits	1,709	2,267
Post-employment benefits	93	92
	1,802	2,359

21. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.

22. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the board of directors on 30 August 2017.



OTHER INFORMATION

RESULTS AND APPROPRIATIONS

The results of the Group for the six months ended 30 June 2017 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 2017 (2016: 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 2017, the Company has complied with the code provisions under the CG Code.

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 2017.

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 2017.

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 2017 or at any time during the six months ended 30 June 2017.

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

As at 30 June 2017, 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 2017, 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 2017 and 31 December 2016.

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 2017, 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.

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 2017.

OTHER INFORMATION

MATERIAL ACQUISITION OR DISPOSALS

There was no material acquisition or disposal of subsidiaries by the Group during the six months ended 30 June 2017.

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 2017 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 2017

