



CHINA LONGEVITY GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1863



Annual Report **2017**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chow Yiu Wah, Joseph

AUTHORISED REPRESENTATIVES

Mr. Chow Yiu Wah, Joseph
Mr. Lin Shengxiong

INDEPENDENT AUDITORS

ZHONGHUI ANDA CPA Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

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,
Tsimshatsui East,
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
2103B, 21/F, 148 Electric Road,
North Point,
Hong Kong

STOCK CODE

1863

CORPORATE WEBSITE

<http://www.chinalongevity.hk>

INVESTOR RELATIONS CONTACT

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FINANCIAL HIGHLIGHTS

	2017	2016
Results		
Revenue (RMB million)	523.8	472.7
Gross profit (RMB million)	118.8	94.3
Profit before tax (RMB million)	31.5	18.8
Profit for the year attributable to Owners of the Company (RMB million)	28.4	22.3
Basic earning per share (RMB cents)	3.33	2.61
Gross profit margin (%)	22.7	19.9
Financial position		
Cash and cash equivalents (RMB million)	31.9	15.0
Total assets (RMB million)	783.3	765.1
Total debts (RMB million)	540.5	550.7
Total equity (RMB million)	242.8	214.4
Current ratio (Times)	0.6	0.5
Quick ratio (Times)	0.4	0.3
Gearing – borrowings to total assets (%)	17.1	19.9
Efficiency ratios		
Average trade receivables turnover (Days)	61	68
Average trade payables turnover (Days)	80	92
Average inventories turnover (Days)	70	65
Cash conversion (Days)	51	41

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of China Longevity Group Company Limited (the "Company") and its subsidiaries (together referred to as the "Group"), I am pleased to present the 2017 annual report to the shareholders of the Company (the "Shareholders").

BUSINESS REVIEW AND PROSPECTS

A review of the Group's business and the analysis using the financial key performance indicators are set out on page 3 of this report under the section headed Financial Highlights and the section headed Management Discussion and Analysis that set out on page 6 to 13 of this report.

This year, the Group recorded a growth of turnover by 10.8% from approximately RMB472.7 million last year to approximately RMB523.8 million. The profit attributable to shareholders for the year was approximately RMB28.4 million as compared to the profit approximately of RMB22.3 million for the previous year. The reason for the increase is mainly due to increase in gross profit for the year arising from the increase in sales.

During the year ended 31 December 2017, the Group continued to focus on the core business of Reinforced Materials. Besides maintaining the business relationship with our loyal customers, we put our best efforts on finding new customers to increase our market shares. Because of last year's scaling down of Conventional Materials, our revenue and gross profit margin for the year under review have increased.

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 in 2015. These assets have been classified as non-current assets held for sale as detailed in note 28 to the consolidated financial statements. The transactions have yet to be completed at 31 December 2017, as they are pending for the approval from the relevant PRC Government authority. We expect that these disposals to be completed in mid of 2018.

Contrary to the uncertainty and volatility of the global political and economic environments of 2016, 2017 was relatively stable with an uptick in the market and the economy in general. However, factors contributing to unstable market competition persisted. The Group envisages 2018 to be a year of perseverance amidst challenging market conditions.

Committed to the research and development of new materials, the Group has set out to input more resources to development of new material business and new products, and to increase the production of PVC elastic flooring products in 2018. The management believes that the Group will have successful achievements in developing new materials, upgrading new technologies in the foreseeable future to consolidate the development momentum of reinforced materials and flooring products.

CHAIRMAN'S STATEMENT

The management team and staff of the Group are committed to continue to work hard and to strictly comply with the Group's cost-controlling measures designed to increase effectiveness and optimize capacity continuously. At the same time, the management would cooperate with the technical experts in Europe and US in research and development of the new materials and new products. The management expects that the Group would further expand its market segment in the international market.

On 26 July 2017, the Board of the Group smoothly completed the handover of sessions. With the support of the Group's shareholders and the leadership of new session of Board, the Group would continue its product technology innovation strategy, reinforce its position on the markets of old products, and develop new drop stitch fabric products and eco-friendly flooring options as its core business in the future. Furthermore, the Company will persistently uphold its market development philosophies of adopting a customer-centric approach, continuing to create real value and reciprocating its shareholders and community.

As the trading of the shares of the Company on the Stock Exchange has been suspended since 14 February 2013, the management will fully cooperate with the engaged professional parties to plan its application for the resumption of trading in the shares of the Company on the Stock Exchange (the "Resumption"). The Company would update the Shareholders on the progress of the Resumption through further announcement in due course.

APPRECIATION

On behalf of the Board, I would like to extend our sincere gratitude to the Shareholders, customers and business partners of the Group for their persistent support throughout the year. Lastly, I would like to take this opportunity to thank all colleagues and staff for their persistent contribution to the Group.

On behalf of the Board

LIN Shengxiong

Chairman

Hong Kong, 29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As one of the renowned industry-leading new reinforced material providers in the PRC, the Group provides new materials for professional use along with eco-friendly and renewable PVC elastic flooring products for a broad spectrum of industries including 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.

The operations of the Group’s PVC elastic flooring product (“PVC material”) business are based in Fuzhou. The product is the world’s only renewable new type of lightweight decorative material for flooring. It has become the first choice for floor decorative materials throughout countries in Europe, America, as well as Japan and Korea due to its outstanding features and eco-friendly properties. PVC flooring material is eco-friendly, remarkably abrasion resistant, highly elastic and shock resistant, fire-resistant and flame retardant, low maintenance, waterproof and moisture-proof, providing extremely high quality-to-price ratio, and may be broadly used in a wide variety of fields including education, medicine, commerce, sports, office environments, industrial use, transport, and everyday household items.

Due to our great effort, the Group achieved a total revenue of approximately RMB523.8 million for the year ended 31 December 2017 (2016: RMB472.7 million), representing an increase of approximately RMB51.1 million, or 10.8% over the last corresponding year. The overall increase in revenue was mainly attributable to the increase in demand for Reinforced Materials.

The Group’s products can be categorised into two types: (i) Reinforced Materials; and (ii) Conventional Materials. The Group generated most of its revenue from the Reinforced Materials which accounted for approximately 96.5% (2016: 90.6%) of total revenue. Local sales continued to be the Group’s major source of revenue, representing approximately 67.7% (2016: 75.1%) of the total revenue while export sales accounted for approximately 32.3% (2016: 24.9%) of the total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the year ended 31 December			
	2017		2016	
	(RMB million)	%	(RMB million)	%
Reinforced Materials	505.4	96.5	428.2	90.6
Conventional Materials	18.4	3.5	44.5	9.4
	523.8	100.0	472.7	100.0

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

	For the year ended 31 December			
	2017		2016	
	(RMB million)	%	(RMB million)	%
PRC	354.7	67.7	355.1	75.1
Others	169.1	32.3	117.6	24.9
	523.8	100.0	472.7	100.0

Reinforced Materials

In 2017, in respect of the Reinforced Materials, the Group's drop stitch fabric recorded the highest sales, followed by inflatable materials and inflatable boat materials. Drop stitch fabric is another new material successfully developed and launched on the market by the Group after three years of research and development. In particular, reinforced drop stitch fabric can improve downstream processing factories' efficiency in processing surfboards by nearly 20%, allowing processing factories to reduce a number of procedures, such as attaching reinforced tape and brush-applied coating, which create an undesirable operating environment filled with strong solvent smell within the workshops. It can also reduce negative environmental impacts from the emission of solvents. Moreover, TPU drop stitch fabric weights 10% lighter than comparable lightweight chemical-based fabric products offered by other industry players around the world. At present, the indexes of all physical properties of TPU drop stitch fabric products outperform products provided by other domestic manufacturers, with detachability, lightweightness and airtightness ranking among the top against their counterparts worldwide. This not only caters to the needs of worldwide customers but also delivers significant economic benefits. The Group is hitherto the world's sole supplier that produces both wrap-knitted and plain-weave drop stitch fabric, and at the same time a designated supplier of materials for the world's top five brands of stand up paddle (SUP) boards. The Group is set out to develop strategies to further invent new products as well as capitalising on its leading position in the market to offer competitively-priced products.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2017, the Group owned a total of 53 patents with respect to Reinforced Materials, 35 of which were on inventions, 13 on practical new models, and 5 on software copyrights. Among these, Fujian Sijia owned 29 patents (25 patents on inventions, 4 patents on practical new models) whereas Shanghai Sijia owned 24 patents (10 patents on inventions, 9 patents on practical new models and 5 patents on software copyrights). The “Sijia” brand was endorsed as a “Well-Known Trademark” in the PRC. The Group has been proactive in patent application each year, thereby ensuring continued protection for the brand’s intellectual property rights.

During 2017, the Group’s revenue generated from Reinforced Materials amounted to approximately RMB505.4 million (2016: RMB428.2 million) which accounted for approximately 96.5% (2016: 90.6%) of the Group’s total revenue, representing an increase in sales of approximately 18.0%. The increase in revenue from Reinforced Materials is mainly due to increase in demand for drop stitch fabric. This contributed to approximately RMB131.8 million (2016: RMB64 million) of revenue for the year, which accounted for 26.1% (2016: 15.1%) of the total revenue of Reinforced Materials for the year under review.

A multitude of challenges rose in the current year’s market environment where a horde of competitors sprang to imitate the Group’s products on the market with competitive pricing in order to increase their market shares. The Group is bound to encounter more and newer difficulties and challenges, yet a challenging market will also give rise to new developments and opportunities. Crisis and opportunities can work in tandem, whereas pressure and motive are the two sides of the same coin. The Group will continue to step up the structural adjustment of reinforced materials, promote inflatable boat materials, airtight materials, and inflatable materials to high-end customers with a particular focus on promoting the new product – drop stitch fabric so as to maintain the Group’s competitiveness. In the meantime, efforts to develop PVC flooring materials are in full swing.

Conventional Materials

During 2017, the Group’s revenue generated from the Conventional Materials amounted to approximately RMB18.4 million (2016: RMB44.5 million) which accounted for approximately 3.5% (2016: 9.4%) of total revenue, representing a decrease of approximately 58.7%.

End Products

The Group commenced the trial manufacture of PVC flooring materials at the end of 2017, with the business scheduled to operate at full capacity in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

Revenue

The Group's revenue for the year ended 31 December 2017 was approximately RMB523.8 million, representing an increase of approximately RMB51.1 million, or 10.8%, compared to revenue of approximately RMB472.7 million for last year. For the year under review, the Group's major sales segments, namely, (1) Reinforced Materials reported revenue of approximately RMB505.4 million (2016: RMB428.2 million); and (2) Conventional Materials recorded a revenue of approximately RMB18.4 million (2016: RMB44.5 million). The increase in revenue was mainly due to the increase of demand for Reinforced Materials.

Gross Profit and Gross Profit Margin

Gross profit was approximately RMB118.8 million for the year under review (2016: RMB94.3 million), with the gross profit margin of approximately 22.7% (2016: 19.9%). The increase in gross profit margin was mainly due to increase in sales of new products with higher profit margin.

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

	For the year ended	
	31 December	
	2017	2016
	%	%
Reinforced Materials	23.4	21.7
Conventional Materials	3.0	2.9
Overall	22.7	19.9

Profit for the Year

The Group recorded a profit attributable to equity holders of approximately RMB28.4 million, or RMB3.3 cents for basic earning per share for the year ended 31 December 2017 (2016: RMB22.3 million or RMB2.6 cents for basic earning per share).

Dividends

The Board did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Costs

Selling and distribution costs were approximately RMB14.4 million (2016: RMB15.4 million). A decrease in selling and distribution costs was mainly due to reduction of some export expenses.

Administrative Expenses

Administrative expenses were approximately RMB60.6 million (2016: RMB53.3 million). The increase in administrative expenses was mainly due to increase in research and development cost for new PVC Flooring project.

Research and Development

Research and development (the "R&D") costs were approximately RMB44.5 million (2016: RMB31.9 million). The Group believes that its on-going R&D efforts are critical in maintaining long-term competitiveness and retaining existing customers. To explore new technologies and new products in order 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.

Impairment of various assets

Impairment of deposits paid for acquisition of property, plant and equipment

For the year ended 31 December 2017, the impairment of deposits paid for the acquisition of property, plant and equipment amounted to approximately RMB0.6 million (2016: Nil).

Impairment of trade and other receivables

The management of the Group took a prudent approach in assessing the collectability of trade and other receivables and would review the status of the receivables. This includes taking into consideration, the credit history of the customers of the Group and the prevailing market condition.

During 2017, impairments have been recognized in respect of trade and other receivables in the amount of approximately RMB1.8 million (2016: RMB2.8 million).

Impairment of advances to suppliers

The Group would sign the cooperation contracts for an innovation of new materials with suppliers in order to innovate new materials and new market segments. However, a change of the marketing strategies of the Group caused some innovate projects to be abandoned.

During 2017, the management of the Group took a prudent approach in assessing the collectability of the advances to suppliers and recognized RMB Nil (2016: RMB1.5 million) on impairment of advances to suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment of inventories

Impairment of inventories of approximately RMB4.9 million for the year ended 31 December 2017 (2016: RMB3.1 million) was recognized by the Group. It was mainly attributable to write down the slow moving and obsolete stocks.

Finance Costs

Finance costs were approximately RMB7.9 million (2016: RMB11.0 million). The decrease of the finance cost was mainly due to decrease in bank loans.

Interest Income

Interest income from bank were approximately RMB0.2 million for the year ended 31 December 2017 (2016: approximately RMB0.1 million).

Liquidity and Financial Resources

Total Equity

As at 31 December 2017, total equity were approximately of RMB242.8 million, representing an increase of 13.2%, as compared to approximately RMB214.4 million as at 31 December 2016.

Financial Position

As at 31 December 2017, the Group had total current assets of approximately RMB300.4 million (2016: RMB258.8 million) and total current liabilities of approximately RMB536.6 million (2016: RMB546.9 million), with net current liabilities of approximately RMB236.2 million (2016: net current liabilities of RMB288.1 million).

As at 31 December 2017, the Group's net gearing ratio (expressed as a percentage of total interest-bearing liabilities to total assets) was at 17.1%, compared to 19.9% as at 31 December 2016.

Cash and Cash Equivalents

As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB31.9 million (2016: RMB15.0 million), most of which were denominated in Renminbi.

Bank Borrowings

The Group had interest-bearing bank borrowings of approximately RMB130.0 million (2016: RMB152.0 million) while total banking facilities amounted to approximately RMB283.0 million (2016: RMB285.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

As at 31 December 2017, the Group had no material contingent liabilities (2016: Nil).

Capital Commitments

As at 31 December 2017, capital commitments of the Group were approximately RMB0.7 million (2016: RMB2.8 million). The capital commitments will be funded partly by internal resources and partly by bank borrowings.

Pledge of Assets

As at 31 December 2017, the Group mortgaged its buildings, plant and machinery of approximately RMB320.3 million (2016: RMB343.8 million), leasehold land of approximately RMB17.5 million (2016: RMB18.2 million), investment properties of approximately RMB14.8 million (2016: RMB15.0 million) in PRC and bank deposits of approximately RMB56.0 million (2016: RMB41.9 million) were pledged to banks to secure bank loans and general banking facilities granted.

Human Resources

As at 31 December 2017, the Group employed a total of 307 employees (2016: 337 employees). The reduction of staff headcount was mainly due to the Group completely withdrawn from the End Products business during the year.

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 and the individual employee.

Exposure to fluctuations in exchange rates and related hedge

Most business transactions of the Group are settled in Renminbi ("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 the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

Facing the continuing downturn of Eurozone economy and the slowing down of PRC 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. 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 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 development of drop stitch fabric, accelerate the research and market development of reinforced drop stitch fabric and plain-weaved drop stitch fabric, expand the LVT flooring materials production line and create economies of scale;
3. to step up the protection for the intellectual property rights of our new technology and new technique and apply for more patents on technology, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The board of directors (the “Board”) of the Company consists of six directors (the “Directors”), including three executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Lin Shengxiong (林生雄先生), aged 55, is the Chairman and an executive Director of the Company, who is the brother of Mr. Zhang Hongwang’s father-in-law. Mr. Lin is one of the founders of the Group and a substantial shareholder of the Company. Mr. Lin was appointed as a Director on 7 October 2009. Other than holding directorship in the Company, Mr. Lin is also a director of China Grandsoo Holding Company Limited and Sijia International Holding Limited. He is responsible for all strategic planning of the Group. Mr. Lin has over 32 years of experience in the polymers and plastics industry. He has extensive experience in corporate development and strategic and production management. Mr. Lin was elected as vice chairman of the 3rd session of the Fujian branch of China Chamber of International Commerce (中國國際商會福建商會) in June 2004. During that year, he also held the post of Committee Member of the 5th session of the Sanming City Sanyuan District Committee* (三明市三元區第五屆委員會) in January. Mr. Lin was elected as a committee member of the 4th session of the Fujian Association of Enterprises with Foreign Investment in November 2007, a committee member of the 3rd committee of the Fujian Federation of Industry & Commerce in April 2007 and the chairman of Association of Plastic Material Industry of Fuzhou City* (福州市塑膠同業公會) in 2010. Mr. Lin was also elected as a Member of the 8th Committee of the Chinese People’s Political Consultative Conference of Jinan District of Fuzhou City* (中國人民政治協商會議福州市晉安區第八屆委員會) in December 2011 and deputy chairman of Association of Environmental Protection of Jinan District of Fuzhou City* (福州市晉安區環保協會) in 2011. Mr. Lin completed certificate course for graduate students in world economics in Graduate Students’ College of Xiamen University (廈門大學研究生院) in September 2001.

Mr. Huang Wanneng (黃萬能先生), aged 50, is an executive Director of the Company. Mr. Huang was appointed as a Director on 7 October 2009. Other than holding directorship in the Company, Mr. Huang is also a manager of Sijia New Material (Shanghai) Co., Ltd.* (思嘉環保材料科技(上海)有限公司). He is principally responsible for the research and development of the Group. Mr. Huang is a chief mechanical engineer and has about 29 years of experience in the polymer and plastic industry. He has extensive experience in on-site management, development of technology and equipments and improvement in production techniques. Mr. Huang joined the Group and served as deputy general manager and chief engineer of Fujian Sijia, mainly responsible for the new equipments, technology and product development, equipment management and technology reform of equipments since September 2002. Prior to joining the Group, Mr. Huang worked for Fujian Hongming Plastics Co., Ltd.* (福建省宏明塑膠股份有限公司) where he served various positions, namely, workshop technician, workshop supervisor, equipment engineer and department chief of equipment department from July 1989 to August 2002. During this period, Mr. Huang specialised in management of production automation system used in the manufacturing of polymer products. He obtained his bachelor’s degree in electric engineering from Southeast University in July 1989.

* for identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Jiang Shisheng (蔣石生先生), aged 48, is the division head of technology of the Group, primarily responsible for technological development of the Group. Mr. Jiang was approved as an engineer by Fujian Provincial Bureau of Personnel in December 1998. Prior to joining the Group in August 2006, Mr. Jiang served various positions as crafts technician, supervisor of technological development department and supervisor of technical center of Fujian Hongming Plastics Co., Ltd* (福建宏明塑膠股份有限公司) from July 1992 to August 2003, crafts engineer of Sanming Mingxin Plastics Co., Ltd* (三明明鑫塑膠有限公司) from August 1993 to July 1999, and supervisor of technical department of Zhejiang Longyue Technology Co., Ltd. (浙江龍躍科技有限公司) from August 2003 to April 2006. Mr. Jiang obtained a bachelor degree in engineering from Tianjin University of Light Industry* (天津輕工業學院).

Independent non-executive Directors

Mr. Lau Chun Pong (劉振邦先生), aged 44, graduated from the University of California, Los Angeles with a Bachelor of Arts degree in Business Economics in 1997. Mr. Lau is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He has over 15 years' working experience in the accounting and auditing field. Mr. Lau was the qualified accountant and company secretary of Shenzhen Mingwah Aohan High Technology Corporation Limited (深圳市明華澳漢科技股份有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8301), since April 2005 till May 2006. Furthermore, he was the financial controller and company secretary of O Luxe Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 860), since June 2008 till November 2017. He has also served as an independent non-executive director of China CBM Group Company Limited (中國煤層氣集團有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8270), since November 2017.

* for identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lu Jiayu (盧佳譽先生), aged 52, graduated from the Fujian Radio and Television University* (福建廣播電視大學) in 1994. Mr. Lu has extensive experience in accounting, marketing, and business management. Prior to joining the Company, Mr. Lu held various positions in Youxi County Agricultural and Mechanical Company* (尤溪縣農業機械公司) from July 1985 to December 1996. From January 1996 to January 2004, Mr. Lu worked in the Xiamen Liangxing Chemical and Industrial Company* (廈門聯星化學工業公司) and was promoted to associate general manager before he left the position. In February 2004, Mr. Lu joined Fujian Shenlangxiang Cooking Oil (Group) Company* (福建沈郎鄉食用油(集團)公司) as associate general manager in the sales department and was then promoted to general manager of the company's Fuzhou branch before leaving in May 2008. From June 2008 to June 2014, Mr. Lu was the director of Youxi County People's Government Office in Fuzhou* (尤溪縣人民政府駐福州辦事處). He was also been the legal representative and general manager of Fujian Xulong Cultural Industry Company Limited* (福建旭隆文化產業有限公司). Moreover, Mr. Lu was elected the executive chairman of Youxi Chamber of Fuzhou Commerce* (福州尤溪商會) since June 2012.

Ms. Jiang Ping (姜萍女士), aged 53, graduated from the Shenyang Industrial College* (瀋陽工業學院) (currently known as Shenyang University of Technology (瀋陽理工大學) in 1999. Ms. Jiang has over 20 years of experience in accounting, audit and finance management. Prior to joining the Company, Ms. Jiang held various positions in Shenyang First Food Plant* (瀋陽市第一食品廠) from August 1986 to October 1992. From October 1992 to July 1997, Ms. Jiang has worked for the China Chemical & Light Industrial materials Corporation and Shenyang Chemical Joint Company* (中國化工輕工材料總公司瀋陽化工聯合公司), where she was responsible for preparing statistical statements and auditing of product costs. From July 1997 to May 1999, Ms. Jiang held various positions in accounting at Shenyang Food Manufacturing Company Limited* (瀋陽食品釀造有限公司) and was the financial manager before she left. From May 1999 to March 2008, Ms. Jiang worked for Liaoning Huashang Certified Public Accountant Company Limited* (遼寧華商會計師事務所有限責任公司) and was responsible for various auditing duties. Since March 2008, Ms. Jiang held the position of executive director and general manager of Shenyang Linghang Finance and Taxation Company Limited* (瀋陽領航財稅事務所有限公司)

Senior Management

Mr. Chow Yiu Wah, Joseph (周耀華先生), aged 58, is the Company Secretary and Chief Financial Officer of the Group, Mr. Chow is responsible for the overall company secretarial, compliance and financial control of the Group. Mr. Chow has over 30 years' experience in the accounting, auditing and company secretarial work. Mr. Chow obtained a Bachelor of degree (Hons) in Accounting from University of Ulster (UK). He is fellow member of the Chartered Association of Certified Accountants, Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales and Hong Kong Securities and Investment Institute.

Ms. Zheng Lijuan (鄭麗娟女士), aged 38, is the deputy general manager and division head of the procurement department of the Group and is responsible for the procurement of the Group, cost control and the 7S management of the Group. Ms. Zheng joined the Group in October 2005. During the period from October 2005 to June 2010, Ms. Zheng was the division head of finance of the Group and in March 2010, the division head of the procurement department of the Group. In June 2010, she was promoted as the deputy general manager. Ms. Zheng graduated from Xiamen University (廈門大學) in 1999, majoring in financial accounting and completed the MBA course of Fuzhou University (福州大學) in 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Huang Daohuo (黃道火先生), aged 45, is the product technology manager and the division head of sales support of the Group, primarily responsible for overseeing the marketing of new products and the after-sale technical support service of the Group. Mr. Huang joined the Group in July 2003 and has 20 years of experience in polymer materials industry.

Ms. Chen Guangxing (陳光星女士), aged 30, is the Vice General Manager of Sijia Industrial Material (Shanghai) Company Limited (the "Shanghai Sijia"). Ms. Chen joined into the Group in December 2005 and worked as the Financial Accountant and President's Assistant in the subsidiary of the Group, namely Fujian Sijia Industrial Material Company Limited from December 2005 to August 2012. Ms. Chen worked as the Vice General Manager of Shanghai Sijia since September 2012 and is responsible for overall in charge of purchasing, human resource and warehousing management. Ms. Chen graduated from Tianjin Technology University majoring Financial Accounting.

Mr. Liao Basheng (廖八生先生), aged 50, the head of manufacturing center at the Group's Fuzhou factory, is responsible for conducting and coordinating the Company's overall manufacturing operations. Prior to joining the Group, he employed by a wholly-Taiwanese owned enterprise. Mr. Liao has over 23 years of experience in industry production management, and possesses knowledge and skills with respect to quality, techniques, raw materials, operations, equipment, electrical and mechanical matters, and safety practices. He is capable of organizing staff in the production line in the most efficient manner to ensure completion of the production tasks allocated by the Company on schedule in compliance with quality standards. With a comprehensive skill set in organization, commands giving and coordination, Mr. Liao is capable of solving significant quality and safety issues in the course of production independently, as well as reasonably arranging and allocating the Company's staff in the production line and management personnel in line with corporate development needs and requirements, partaking in discussions over a multitude of corporate management duties with staff members, listening to the staff's diverse opinions along with establishing a myriad of sound rules and regulations.

Mr. Zhu Chaoyang (朱超揚先生), aged 49, engineer of the Group's the Fuzhou factory's equipment center. He is principally responsible for research and development of techniques for the Group's electrical equipment, equipment management and advancing equipment techniques, and has completed the design and installation of a combination of several production lines. With over 22 years of experience in industry technologies, equipment development, and production techniques improvement, Mr. Zhu possesses core knowledge and skills in operations, equipment, electrical and mechanical matters, and safety practices. Mr. Zhu graduated from Zhengzhou University of Light Industry* (鄭州輕工業學院), majoring in household electrical appliances.

CORPORATE GOVERNANCE REPORT

The Board of directors of the Company (the “Board”) is recognized the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public.

The Board will strive to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all of its shareholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE OF THE LISTING RULES

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 year ended 31 December 2017, the Company has complied with the code provisions under the CG Code.

DIRECTORS’ SECURITIES TRANSACTIONS

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 its code of conduct regarding securities transactions by Directors. Having made specific enquiry with each of the Directors, all of them have confirmed that they have complied with the required standard set out in the Model Code during the year.

THE BOARD

The Board’s primary responsibilities are to oversee the management of the Group, to formulate the Group’s long-term corporate strategy including the formulation and approval of all policy matters, internal control and risk management systems, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board.

In addition, the Board has also established Board Committees and has delegated to these Board Committees various responsibilities set out in their terms of reference respectively.

The Board has delegated the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group’s businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

CORPORATE GOVERNANCE REPORT

COMPOSITION OF THE BOARD

As at the date of this report, the Board of Directors was chaired by Mr. Lin Shengxiong. There are (i) three executive Directors, namely Mr. Lin Shengxiong, Mr. Huang Wanneng and Mr. Jiang Shisheng, and (ii) three independent non-executive Directors, namely Mr. Lau Chun Pong, Mr. Lu Jiayu and Ms. Jiang Ping.

The names and biographical details of each director are set out in the section of Biographical Details of Directors and Senior Management on pages 14 to 17 of this annual report. All Directors have confirmed that they have taken an active interest in the Company's affairs and obtained a general understanding of its business.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer have been performed by Mr. Lin Shengxiong since Mr. Zhang Hongwan's resignation on 7 April 2017. With Mr. Lin's extensive experience in reinforced materials markets, he is responsible for the overall strategic planning and business development of the Group. The Board considers that vesting both of the roles of Chairman and Chief Executive Officer with Mr. Lin is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals. The Board currently comprises 3 executive directors and 3 independent non-executive directors and therefore has a strong independence element in its composition.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company for a specific term. Such term is subject to his re-appointment by the Company at an annual general meeting (the "AGM") upon retirement. The articles of association of the Company provide that any Director appointed by the Board, (i) to fill a casual vacancy in the Board, shall hold office only until the next following general meeting of the Company and shall be subject to re-election at such meeting and (ii) as an addition to the Board shall hold office until the next AGM of the Company and shall then be eligible for re-election.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors (the “INED(s)”) play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board’s decision. In particular, they bring an impartial view to bear on issues of the Company’s strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board.

The Board also considers that independent non-executive Directors can provide independent advice on the Company’s business strategy, results and management so that all interests of shareholders can be taken into account, and the interests of the Company and its shareholders can be protected.

All of the independent non-executive Directors are appointed for a term of 2 years and are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

During the year of 2017, the Board at all times met the requirements of Rule 3.10(1) and Rule 3.10(2) of the Listing Rules relating to the appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications, or accounting or related financial management expertise. In compliance with Rule 3.10A of the Listing Rules, INEDs represented at least one-third of the Board throughout the year ended 31 December 2017.

The Company has received a written annual confirmation from each INED of his independence pursuant to the requirements of Rule 3.13 of the Listing Rules, which confirmed to the Company that he has met the independence guidelines set out in the Listing Rules. And the Company also considers that they are independent.

BOARD DIVERSITY POLICY

The Company adopted a Board Diversity Policy (the “Diversity Policy”) which became effective in September 2013. The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members’ selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are based on merits, and the selection of candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each newly appointed Director receives an induction package from the Company's legal advisor on the first occasion of his/her appointment. This induction package is a comprehensive, formal and tailored induction the responsibilities and on-going obligations to be observed by a director pursuant to the Companies Ordinance, Listing Rules and Securities and Futures Ordinance.

During the year, all the Directors had reviewed the regular business and financial updates and other reading materials concerning latest developments in corporate governance practices and relevant legal and regulatory developments, that provided to them by the Company. Besides, the Company will arrange and fund suitable training for directors in order to develop and refresh their knowledge and skills.

Executive directors

Mr. Lin Shengxiong	B,C
Mr. Zhang Hongwang (Resigned on 7 April 2017)	B,C
Mr. Huang Wanneng	B,C
Mr. Jiang Shisheng	B,C

Independent non-executive directors

Mr. Lau Chun Pong	A,B,C
Mr. Cai Weican (Retired on 26 July 2017)	B,C
Mr. Wu Jianhu (Retired on 26 July 2017)	B,C
Mr. Lu Jiayu (Appointed on 26 July 2017)	B,C
Ms. Jiang Ping (Appointed on 26 July 2017)	B,C

A: attending seminars/meetings/forums/conferences/courses/workshops organized by professional bodies or regulatory bodies

B: reading journals/newsletters/seminar materials/publications/magazines

C: reading memoranda issued or materials provided by the Company

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS/GENERAL MEETINGS

The Board meets regularly to discuss the overall strategy as well as operation and financial performance of the Group, and to review and approve the Group's annual and interim results and other ad hoc matters. Notice, agenda and Board papers of Board and committee meetings are served to all directors prior to the meeting in accordance with the Company's Articles of Association and the CG Code requirement (except under emergency situation). Extraordinary and Annual General Meeting schedules and draft agenda are made available to the Directors in advance. Details of individual attendance of directors at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Extraordinary and Annual General Meeting are set out in the table below:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Number of meetings held for the year ended 31 December 2017	6	2	1	1	1
<i>Executive Directors</i>					
Mr. Lin Shengxiong	6	N/A	1	N/A	1
Mr. Zhang Hongwang (Resigned on 7 April 2017)	1	N/A	N/A	N/A	N/A
Mr. Huang Wanneng	5	N/A	N/A	N/A	1
Mr. Jiang Shisheng	6	N/A	N/A	N/A	1
<i>Independent non-executive Directors</i>					
Mr. Lau Chun Pong	5	2	1	1	1
Mr. Cai Weican (Retired on 26 July 2017)	1	1	N/A	N/A	N/A
Mr. Wu Jianhua (Retired on 26 July 2017)	1	1	N/A	N/A	N/A
Mr. Lu Jiayu (Appointed on 26 July 2017)	2	1	N/A	N/A	1
Ms. Jiang Ping (Appointed on 26 July 2017)	2	1	N/A	N/A	1

All Directors are provided with notice and agenda of meeting at least 14 days in advance, while relevant materials relating to the matters brought before the meetings at least three days in advance. All Directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have access to the advice and services of our Company Secretary, who is responsible for providing Directors with Board papers and related materials and ensuring that Board procedures are followed. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Reasonable notices of Board meetings are given to the Directors and Board procedures complied with the articles of association of the Company, as well as relevant rules and regulations.

CORPORATE GOVERNANCE REPORT

CONFLICT OF INTEREST

If a Director has a conflict of interest in relation to a transaction or proposal to be considered by the Board, such Director is required to declare his interest and to abstain from voting. The matter is considered at a Board meeting attended by Directors who have no material interest in the transaction.

BOARD COMMITTEES

The Board has established Audit Committee, Remuneration Committee and Nomination Committee (collectively "Board Committees") with defined terms of reference. The terms of reference of the Board Committees are available upon request. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Audit Committee is responsible for the review and supervision of the Group's financial reporting process, internal controls and review of the consolidated financial statements. The Audit Committee meets regularly with the Company's external auditors to discuss the audit process and accounting issues (and in the absence of management if appropriate). Their written terms of reference are in line with the CG Code provisions. Members of the Audit Committee comprise Mr. Lau Chun Pong (Chairman), Mr. Lu Jiayu and Ms. Jiang Ping, all of whom are independent non-executive Directors.

The Audit Committee has specific written terms of reference, including amongst other duties the following key responsibilities:

- Make recommendations to the Board on the appointment and, if necessary, the replacement/resignation of the external auditors and assess their independence, performance and fee levels;
- Review the completeness, accuracy and fairness of our Company's interim and annual financial statements and reports;
- Ensure compliance with the applicable accounting standards and legal and regulatory requirements on financial reporting and disclosures;
- Review the arrangements for the employees of the Group to raise concerns about financial reporting and any other improprieties;
- Oversee the effectiveness of financial reporting systems; and
- Ensure ongoing assessments of the Group's internal control systems over financial, operational, compliance and broad risk management processes.

CORPORATE GOVERNANCE REPORT

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's audited consolidated financial statements for the year ended 31 December 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.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits. The remuneration of all Directors is subject to regular review by the Remuneration Committee to ensure that their remuneration and compensation are reasonable. Their written terms of reference are in line with the CG Code provisions. Members of the Remuneration Committee comprise Mr. Lu Jiayu (Chairman), Mr. Lin Shengxiong, Mr. Lau Chun Pong and Ms. Jiang Ping.

The Remuneration Committee has specific written terms of reference and its primary duties include:

- Ongoing review of the Group's overall remuneration policies and structure;
- Making recommendations to the Board on the administration of fair and transparent procedures for setting policies on the remuneration of directors and senior management;
- Reviewing and approving management's remuneration proposals with reference to the Board's corporate goals and objectives; and
- Reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office.

For the year ended 31 December 2017, the remuneration of members of senior management by band is set out below:

Band of remuneration	Number of individual
Nil to RMB1,000,000	14

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Nomination Committee is primarily responsible to consider and recommend to the Board suitably qualified persons to become the member of the Board and is also responsible for reviewing the structure, size and composition of the Board on a regular basis and as required. Members of the Nomination Committee comprise Ms. Jiang Ping (Chairman), Mr. Lau Chun Pong and Mr. Lu Jiayu.

The Nomination Committee has specific written terms of reference and its primary duties include:

- Review the structure, size and composition and diversity (including the skills, knowledge, gender, age, cultural and educational background & professional experience) of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- Identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- Assess the independence of independent non-executive directors and review the independent non-executive directors' annual confirmation on their independence;
- Make recommendations to the Board on the appointment and re-appointment of directors and the succession planning for directors and, in particular, the chairman and the chief executive;
- Review the contribution required from a director to perform his/her responsibilities, and whether he/she is spending sufficient time performing them; and
- Review the training and continuous professional development of the Directors.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for determining the policy for the corporate governance of the Company and performing its corporate governance duties as set out below:

- i Develop and review the Company's policies and practices on corporate governance;
- ii Review and monitor the training and continuous professional development of Directors and senior management;
- iii Review and monitor the Company's policies and practices on compliance with all legal and regulatory requirements;
- iv Develop, review and monitor the code of conduct and compliance manual applicable to the employees and directors; and
- v Review the Company's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

During the year, the Board continued to adopt its Corporate Governance Handbook which is comprised of, inter alia, continuous disclosure policies, securities dealings policies, whistle-blowing policies, shareholders' communication policies as well as terms of reference of the board committees and the charter for internal audit.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES IN PREPARING THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibilities for preparing the financial statements of the Company and the Group for the year ended 31 December 2017.

The work scope and responsibilities of ZHONGHUI ANDA CPA Limited, the Company's external auditor, are stated in the section entitled "Independent Auditor's Report" in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognizes its responsibility to ensure the Company maintains a sound and effective risk management and internal control system. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment.

The Group's risk management framework includes the following elements:

- identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business;
- develop necessary measures to manage those risks;
- monitor and review the effectiveness of such measures.

The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews periodically the Group's risk management systems.

Audit committee reported to the Board the implementation of the Group's risk management and internal control policy which, among other things, included the determination of risk factors, evaluation of risk level the Group could take and effectiveness of risk management measures. Based on the reports from the Group's internal control department and the Audit Committee, the Board considers the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG code.

CORPORATE GOVERNANCE REPORT

LISTING RULES COMPLIANCE

Throughout the year, the Group has fully complied with the Listing Rules requirements. Financial Reports, announcements and circulars have been prepared and published in accordance with the requirements of the Listing Rules.

AUDITOR'S REMUNERATION

Audit Committee of the Company reviews the terms of appointment of the external auditor each year. The review includes their independence, the scope of their audit, their audit fees, and the scope and professional fees for any non-audit services. For the year ended 31 December 2017, services provided to the Company by its external auditor and the respective fees paid were:

Services rendered	Fee paid/ payable HK\$'000
Audit of financial statements	1,500
Other non-audit services	180
	<hr/>
	1,680

COMPANY SECRETARY

The Company Secretary of the Company during the year was Mr. Chow Yiu Wah, Joseph.

The biographical details of Mr. Chow Yiu Wah, Joseph, are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. All the Company Secretaries took not less than 15 hours of relevant professional training in the year ended 31 December 2017 as required by the Listing Rules.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with Shareholders and highly respects the Shareholders' right to express their view and appreciates their suggestions to the Company.

The Company uses a number of formal communication channels to deliver the information to Shareholders in a timely manner for assuring the Shareholders are kept well informed of the Company's key business imperatives. These include general meetings, interim and annual reports, various announcements and circulars. The Company's website offers a communication channel between the Company and the Shareholders as the website be updated with published information of the Group.

VOTING BY POLL

AGM proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices. The notice of AGM is distributed to all shareholders at least 21 days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the AGM exercises his power under the articles of association of the Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the beginning of the meeting. Voting results are posted on our Group's website on the day of the AGM.

The Company will invite representatives of the external auditors to attend the AGM to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

SHAREHOLDERS' RIGHTS

1. Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to Article 58 of the articles of association of the Company extraordinary general meetings shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT

2. Procedures for Raising Enquiries

Shareholders may direct their queries about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited.

3. Procedures for Putting Forward Proposals at Shareholders' Meetings

i. Proposal for Election of a Person Other than a Director as a Director:

According to Article 85 of the articles of association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder of the Company (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office of the Company in Hong Kong or at the Company's branch share registrar in Hong Kong provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

ii. Other Proposals:

If a shareholder wishes to make other proposals (the "Proposal(s)") at a general meeting, he/she may lodge a written request, duly signed, at the head office of the Company in Hong Kong marked for the attention of the Company Secretary of the Company.

The identity of such shareholder and his/her request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the share registrar that the request is proper and in order, and is made by a shareholder of the Company, the Board will in its sole discretion decide whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

CORPORATE GOVERNANCE REPORT

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

1. Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting of the Company.
2. Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting of the Company;
3. Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of an ordinary resolution in an extraordinary general meeting of the Company.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, there was no change in the memorandum and articles of association of the Company.

The amended and restated memorandum and articles of association of the Company are available on the website of the Stock Exchange and the website of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THE GROUP

China Longevity Group Company Limited (hereinafter referred as the Company) is an exempted company incorporated in the Cayman Islands with limited liability. Its shares were listed on the Stock Exchange on 29 April 2010 with stock code "1863". As a renowned industry leader in the PRC in providing new reinforced materials, the company is a high and new technology enterprise which incorporates research and development, production and merchandising all in one to provide new types of eco-friendly materials to a broad spectrum of fields including agriculture, industry and construction. The main products manufactured by the Group include 3D drop stitch fabric, foaming agent-based sound insulation coating new material, environmental and eco-friendly flooring materials, architectural membrane, waterproofing membrane, tarpaulin materials, airtightness materials, inflatable boat materials, and inflatable materials. Such materials exhibit several characteristics, including environmental-friendliness, high tensile strength, anti-tearing, anti-stripping, flame retardancy, anti-bacteria, anti-corrosive, durable, as well as resistance to extremely low temperature and sunlight. Products manufactured and merchandised by the Group fall within the industry of new materials from a national strategic perspective, have passed several American and European tests on environmental-friendly properties, flame retardancy, safety directives and classification such as European Union environmental standard REACH, ROHS2.0, EN 71, and California Proposition 65 (CA Prop 65), and are primarily applied in 15 major industries including outdoor leisure, sports, renewable energy, protection, construction, logistics, packaging, medical use, safety products, advertising and daily supplies.

2. AWARDS AND ACCREDITATIONS

Having received accreditations issued by ISO, CE, ROHS2.0, REACH and other systems, the Group is committed to overall operations and a quality control system, attaches great importance to products' environmental-friendly properties, ensures that its flame retardancy standard meets the European Commission standard EN 13501-1, the German standard DIN 4102 (B1) B2, the French standard NF P 92-507, the American standards NFPA 701, ASTM E84, and ACPAI-84, the Canadian standard CAN/ULC-S109, and the international standard GB8624 B1; ultraviolet radiation-blocking properties meet the ISO4892-3 672H 4-5 standard; antifungal and antibacterial performance meets, the American standard ASTM G21 (with the rating of 0); compliant with international environmental-friendly standards including CE, ROHS2.0, REACH, EN71, ASTM 963 and CPSIA; bio-compatibility performance meets the ISO 10993-5 and ISO 10993-10 standards. The Group's effects in pushing ahead with setting up clean production together with optimizing operations and the production environment have been highly praised by the relevant government departments.

Fujian Sijia was awarded the key high and new technology enterprise certificate and the high and new technology enterprise certificates issued by the National Torch Program, endorsed as a well-known trademark in China, an innovative enterprise in Fujian Province, an outstanding Fujian Province enterprise in intellectual property rights, a backbone enterprise in Fujian Province's strategic emerging industry, a nationally acclaimed contract compliance and creditworthy company, an awardee of Fujian Province Product Quality Award, a national-level exemplary unit for university graduate employment and internships, a vice president unit of the Good Faith Council of Jinan District in Fuzhou City, a vice

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

president unit of the Environmental Protection Association of Jinan District in Fuzhou City, a president unit of the Association of Plastic Material Industry in Fuzhou City, a national exemplary home for workers granted by the All-China Federation of Trade Unions, and a leading party organization approved by the Communist Youth League's District Committee of Jinan District in Fuzhou City among other titles; Shanghai Sijia was awarded as a high and new technology enterprise in Shanghai, an enterprise technology center in Jinshan District; an exemplary enterprise of patents in Jinshan District; a technology little giant enterprise in Jinshan District, and a Shanghai ZJTX Enterprise among other honorary titles.

3. OUR CORE VALUES

We aim to upgrade all aspects of our existing product technologies, utilize innovations as the building blocks for development, invigorate product technologies and facilitate innovative applications by means of technology innovations, enhance product quality on the back of a top-notch quality management model, provide worldwide customers with top-grade products in connection with professional product services; promote Chinese innovations through technology innovations, create more products to fill the industry's export voids.

Enable employees to live a decent life, allow the shareholders to share the results of the Company's innovations; establish a new model of a highly efficient supply chain management, perfect the system of standards for product production process and technologies, establish a consultation and service platform for the reinforced materials industry, build a sound mechanism for new product innovations, and transform life with innovations.

4. STAKEHOLDER PARTICIPATION

The participation of stakeholders offers important information for business operations. We invite and encourage all stakeholders to express their concerns and feedbacks. We provide communication platforms to our shareholders in the form of the Company's website, general meetings, on-site visits, email, mail, and phone calls.

5. CORPORATE GOVERNANCE

We maintain corporate governance to ensure that the Company's operations continue to observe applicable laws and regulations, and that such laws and regulations are interpreted and carried out in line with the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Such initiatives include, but without limitations, having the directors of the listed issuer to review the effectiveness of the internal control system at least once per year in addition to reporting to shareholders with respect to completion of relevant reviews in the listed issuer's corporate governance report.

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6. ANTI-CORRUPTION

As integrity is the key to the improvement of the management team, the Company attaches great importance to establishing clean governance. In addition to enhancing the employment system and determinedly following through with rules and regulations, the Group vigorously advocates 49 elements of one's character to elevate our ethical standing. In addition, the Company has established a monitoring system and anti-corruption system based on the business nature and the actual situation of the Company and strengthened supervision of the relevant departments for common corruption loopholes. Meanwhile, the Group has imparted the concept of integrity and curbed corruption in any form while strictly complying with the relevant laws and regulations in Mainland China and Hong Kong. We have also formulated policies and related management measures such as the "Employee Integrity and Self-Discipline System" to strengthen prevention and fighting of corruption from the roots. The Company stipulates in the employment contracts that all employees are required to strictly abide to a set of business ethical standards to eliminate any corruption and bribery, and an integrity declaration meeting is held annually at which all employees sign at the declaration ceremony. In a nutshell, the Company takes various approaches to raises our employees' awareness of anti-corruption, thereby striving toward a healthy, fair and transparent business environment collaboratively. During the reporting period, there has been no confirmed case of corruption with the Company involved.

7. QUALITY MANAGEMENT SYSTEM

The Company has always committed itself to providing satisfactory services to its customers with products of the highest quality. To this end, we strictly follow the standards developed by systems such as ISO, CE, and ROHS2.0 in overall operations, setting up a quality control system, and enacting measures to draw up documents including the "Raw Material Inspection Procedure", the "Raw Material Inspection Standard", the "Production-Process Inspection Procedures", the "Finished Product Inspection Procedures", the "Independent Inspection Regulations", the "Prevention and Rectification Action Procedures", the "Customer Complaints and Return Procedures for Finished Products" and the "Quality Control Manual". The Company has established a tracing system for product quality so that customers' product quality feedback could be promptly traced back to the corresponding production batch, scenarios of production of the relevant production team and related statistical data on testing and inspection. The Company further consolidates customers' feedback and records to provide customers with reasonable explanations and solutions.

For instance, we have upgraded the quality of drop stitch fabric products as per our customers' order requirements. In 2016, the Sijia brand's reinforced drop stich fabric improved downstream processing factories' efficiency in processing surfboards by nearly 20%, allowing processing factories to do without procedures such as attaching reinforced tapes and brush-applied coating, which generated a strong solvent smell throughout workshops and created an undesirable operating environment for employees, as well as curbed adverse environmental impacts resulting from vaporization of solvents; in 2017, the Sijia brand's TPU drop stitch fabrics weighted 10% lighter than equivalent lightweight chemical-based fabric products offered by other industry players around the world.

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8. SUPPLY CHAIN MANAGEMENT AND CUSTOMER MANAGEMENT

The Company is of the views that effective management of supply can safeguard the stable operations of an enterprise as well as the quality and safety of its products and services. The Company has formulated relevant management procedures for the suppliers of our products and services in accordance with the national and local laws and regulations to ensure that the procurement process complies with regulations, and the selected suppliers are up to standard on quality, environmental protection and safety. Suppliers' Code of Conduct: we require our suppliers to hold relevant certification of corporate social responsibility, such as quality of services, environmental protection, occupational safety and health. Raw Material Quality and Safety Standards: We assess the performance of suppliers' services annually, including inspection of samples, reviewing factory inspection orders and collaborative manufacturers' test results of products from suppliers to ensure the quality of products. In order to monitor the satisfaction rate of customers and manufacturers, we conduct satisfaction surveys annually to gain insight into the expectations of customers and suppliers.

9. INTELLECTUAL PROPERTY RIGHTS

We owned 53 intellectual property rights: 35 patents on inventions, 13 patents on practical new models, and 5 software copyrights. In particular, Fujian Sijia owned 29 patents (25 patents on inventions, 4 patents on practical new models) whereas Shanghai Sijia owned 24 patents (10 patents on inventions, 9 patents on practical new models, 5 software copyrights).

The "Sijia" brand is endorsed as a "Well-Known Trademark in the PRC" as well as a "Well-Known Trademark in Fujian Province" whereas its product patents have been awarded the "First Award for Patents in Fujian Province" among others.

We have been proactive in patent application each year for continuous protection of our intellectual property rights.

10. CONFIDENTIALITY OF CLIENT INFORMATION

Client information is treated as confidential by the Company. Prior to the commencement of employment, each employee is requested to sign a non-disclosure agreement whereby business secrets of the Company that are made known to the employee in connection therewith to the employee's position, job duties, occupation or technical reasons shall be kept in strict confidence and promised not to be disclosed or made use of (whether intentionally, accidentally or due to negligence).

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11. EMPLOYEE PROTECTION

In order to protect the employees' fundamental interests, the Company has formulated and strictly implemented related management systems and methods in accordance with the relevant laws and regulations in Mainland China and Hong Kong, including the "Recruitment and Allocation Management System", the "New Employee Trial Management System", the "Code of Conduct about Confidentiality for all Employees", the "Staff Complaint, Reporting and Suggestion Management Approach", "Rationalisation of the Proposed Management Approach", the "Attendance and Leave Management System", the "Salary Management System", the "Management System for Five Insurances and One Fund", the "Reward and Punishment Management System", the "Training Management System" and the "Performance Appraisal Management System". The Company has made detailed provisions for staff recruitment, labour relation, remunerations, and employee benefits, and is committed to safeguarding the interests of all employees. In addition, the Company provides employees with medical benefits such as the national health insurance and hiring specialized medical consultants to offer employees regular consultations at the Company's premises, hands out health-related reading materials to employees, and organizes employee skills competitions, recreational competitions and excursions to offer better employee benefits, encourage team members' sense of belonging and build a strong team spirit.

12. LABOR STANDARDS

In the course of open recruitment, the Company strictly complies with the relevant laws and regulations in Mainland China and Hong Kong as well as the "Provisions on Prohibition of Child Labour" and the "Labour Contract Law" issued by the State Council and the "Employment Ordinance" in Hong Kong. Candidates are required to present the original copies of their identity documents for verification. Also, employment of any individual under the age of 18 is prohibited. During the reporting period, all employees of the Company were in compliance with the minimum employment age stipulated in relevant Mainland China and Hong Kong laws and regulations. There was no child labor or forced labor.

The Gender Ratio of Employees

Gender	2016 Percentage (%)	2017 Percentage (%)
Male	70.5%	69.4%
Female	29.5%	30.6%

Workforce by Age Group

Year	Aged between 18 and 25	Aged between 26 and 35	Aged between 36 and 45	Aged between 46 and 55	Over 56
2017	13.6%	37.7%	46.2%	2.5%	0%
2016	15.2%	36.3%	45.7%	2.8%	0%

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13. TRAINING AND DEVELOPMENT

We actively build a sound career development environment to closely align employees' career development with the Company's business development, thereby attracting and retaining outstanding staff. The Company has developed comprehensive measures to manage the growth and development of employees. An internal rotation mechanism has been implemented to broaden the vision of employees and explore their potential. We espouse comprehensive human resources development to meet our four targets: professional talent, practical talent, market-oriented talent and international talent. In daily operations, the Company arranges induction training for new employees whereby senior employees are delegated to give guidance to junior employees at work. Such initiatives are conducive to communication and understanding among the team and improve their technical and management capabilities, encourage sustainable development and growth for employees in all ranks. Concrete measures include making a contribution to the fees payable by employees for self-study examinations and correspondence courses as well as offering incentives to getting the level or title of professional qualifications verified so as to assist employees in continuing to enhance their knowledge, expertise, and professional skills as well as empowering individuals to reach their potential.

Learning for all: being an advocate of life-long learning, the Company has established the Company as a learning organization and elevated training to a strategic height.

New employee training: the Company arranges training programs which cover career-oriented willpower and determination, corporate knowledge, career planning, career mindset, effective communication, team building and essential professional product knowledge for new office employees; the Company arranges training programs which cover corporate knowledge and safety operating procedures for new production-line employees, anticipating that new employees could get acclimated to the business, develop a sense of belonging, and have a clear direction for both learning and development

Senior management personnel: training programs which cover operational strategies and the art of leadership are offered to assist senior management personnel in keeping abreast of changes in the operating environment, trends of industry development as well as patterns and approaches for decision-making so as to achieve enhanced perceptive abilities, conceptual abilities, decision-making skills, and leadership skills, thereby making certain that decision makers carry out duties in the right manner.

Mid-level management personnel: training programs which cover management skills, business know-hows and work improvement are offered, thereby allowing mid-level management personnel to get a better grasp of top-level management personnel's decision-making policy and act upon it precisely, possess a broad set of skills and better management skills, improve management performance as well as enhance management standard and quality.

Office employees: training programs which cover position-specific duties, professional skills and business procedures are offered to enhance the level of employees' professional and technical competencies in addition to work-related skills, allow employees to keep up with new knowledge, enable them to master their current work and further go above and beyond.

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Entry-level management personnel: special training courses which cover safe production, technical process management, quality control, environmental protection management, and 7S management are arranged for squad leaders for the purposes of enhancing operating skills and management skills such that squad leaders' team management skills and professional techniques could advance to a higher level.

Culture-related training: 49 building components of moral integrity are promoted and put into practice, helping employees advance their minds and moral standards to a higher level; training programs that cover book reading and sharing are organized to cultivate a proactive and innovative corporate culture.

14. OCCUPATIONAL HEALTH AND SAFETY

The Company has always been committed to ensuring the occupational health and safety of employees, and therefore has established a sound management system, including the "Occupational Health Management System", "Safety Operating Procedures for Power Distribution", "Safety Operating Procedures for Welding", "Boiler Emergency Stop Methods" and "Safety Operating Procedures for Gas Welding and Gas Cutting". We strictly abide by the occupational health and safety laws and regulations in Mainland China and Hong Kong in order to lay a solid foundation for safe operations and production. The Company arranges annual occupational health checkups for employees at qualified occupational health checkup hospitals or institutions designated by the government. Also, the Company has obtained level-3 accreditation in safety production standards. Employees working in particular positions are provided with safety protective equipment. Likewise, employees are provided with occupational health and safety production training.

The Company cares about the comprehensive development of employees. On top of providing employees with human resources development activities such as professional skills training and career planning with a focus on improving professional attributes and honing work-related skills, cultural and sports activities which center on enriching employees' life after work and improving their life quality are organized year-round; year-end recreational sports events and year-end performance appraisal and reward events are organized at the end of each year; employee benefits are constantly improved; the "life and work service guide for Sijia employees" has been formulated and an "incentive program for higher education admissions of employees' children" is in place. Pursuant to the newly established incentive program, children of full-time permanent employees belonging to any company of the Group are entitled to corresponding rewards shall they be amongst the second-batch students being admitted to an undergraduate (or higher) degree program.

In addition, to ensure the health of employees, health consultants are appointed by the Company on an on-going basis to provide employees with regular nutrition courses, outpatient services and health checkups.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

15. ENVIRONMENTAL PROTECTION

The Company takes the initiative to factor the environmental impact of day-to-day operations and business decisions into its overall consideration while improving the environmental management system, appointing dedicated management personnel, strengthening the target and responsibility assessment, enhancing environmental supervision and management, and endeavoring to minimize the environmental impact of production and operations.

Committed to maintaining a high environmental protection standard, the Company not only complies with the relevant requirements of applicable laws and regulations, but also constantly improves environmental-friendly indexes of raw materials, upgrades the requirements for environmental-friendly product techniques, makes particular production and equipment improvements, adopts energy conservation and emission reduction measures such as revolutionizing machines' energy conservation performance and energy consumption alongside revolutionizing and upgrading environmental-friendly boilers in 2017 and contributes to revolutionizing environmentally-friendly dust removal equipment at workshops to create a more environmental-friendly production environment. We have installed the environmental protection facility RTO for the treatment and reuse of exhaust gas whereby treated exhaust gas is converted to heat that are subsequently directed to boilers.

Given the exceedingly high requirements for technologies and environmental indexes in European and American countries, we insist on upgrading product technologies and technical formulas such that the ordered products could meet the specified requirements. In particular, the antifungal and antibacterial properties meet the US ASTM G21 Standard (with the rating of 0); other physical properties meet international environmental standards CE, ROHS2.0, REACH, EN71, ASTM 963, and CPSIA; the biocompatibility property meets ISO 10993-5 and ISO 10993-10 standards. We, provide both customers and the market environment with environmental-friendly products from the source to ensure our customers' safety.

16. EMISSIONS

In terms of the Company's production techniques, all technical processes are completed by the physical reaction of various raw materials, which can achieve zero emissions for industrial sewage, while our daily operations are monitored by various regulations stipulated by environmental protection and relevant departments. These regulations include, without limitations, GB5468-1991 "Test Method of Boiler Soot", GB/T16157-1996 "Determination of Particulate Objects at Stationary Pollution Sources and Sampling Method of Gaseous Pollutants", HJ/T57-2000 "Stationary Source Emission – Determination of Sulfur Dioxide – Fixed Potential by Electrolysis Method", Electrolysis Method (B) mentioned in the Article 2(3) of Section Four under the Fifth Chapter of "Air and Exhaust Gas Detection and Analysis Methods" (4th Edition) prepared by the State Environmental Protection Administration, Measuring Smoke Telescope (B) mentioned in the Article 3(2) under the Third Chapter of "Air and Exhaust Gas Detection and Analysis Methods" (4th Edition) prepared by the State Environmental Protection Administration, GB12348-2008 "Emission Standard for the Noise of Industrial Enterprises", HJ/T38-1999 "Determination of NMHC in Stationary Sources of Exhaust Gas – Gas Chromatographic Method", GB/T16157-1996 "Determination

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of Particulate Objects at Stationary Pollution Sources and Sampling Method of Gaseous Pollutants”, HJ/T55-2000 “Technical Guidelines for Fugitive Emission Monitoring of Air Pollutants”, GB6920-86 Glass Electrode Method, HJ/399-2007 Fast Digestion-Spectrophotometric Method, HJ637-2012 Infrared Spectrometric Method, HJ505-2009 “Dilution and Seeding Method” and GB11901-89 “Gravimetric Method”. The Company strictly monitors the discharge of waste generated in the production process, and regularly arranges the environmental protection department or environmental testing institutions designated by the environmental protection department in the local area to inspect the soot, noise, exhaust gas and domestic wastewater. The Company’s process water do not produce pollutant emission. Discharge of domestic sewage in 2017 included 6.24kg of animal and vegetable oil, 233.28kg of chemical oxygen demand, 89.81kg of biochemical oxygen demand and 414.07kg of suspended substances. In 2017, emission of nitrogen oxides amounted to 15,214kg, sulfur dioxide 7,884kg and soot 554.53kg. In 2017, the level of noise from machines was 63.3, with grade length over 100 meters within limits. Results of the animal and vegetable oil, chemical oxygen demand, biochemical oxygen demand, suspended substances, nitrogen oxides, sulfur dioxide, soot and noise control monitoring were all in line with the standards.

17. ENERGY CONSUMPTION

The Group is a rising star in the industry of producing and manufacturing new polymeric materials. The chemical properties and characteristics inherent to the industry necessitate a better performance in environmental protection and energy conservation. Having firmly established the concept of environmental protection and resources conservation, the Company continuously adjusts its development strategies, comprehensively promotes environmental protection, quality control and energy conservation, and constantly delves into more profound reviews and discussions about environmental protection and energy conservation.

The primary forms of energy for production are fuel, electricity, and water whereas water consumption is mainly attributable to the operation of production machines, equipment and power generation equipment. The company continuously monitors consumption of such resources and endeavors to facilitate efficient use. The fuel adopted for boilers is environmental-friendly biomass fuel and an RTO environmental protection facility has been set up. After treatment, the Exhaust gas is converted to heat, which is further directed to boilers. Exhaust gas is treated and reused; detailed records of fuel use are kept; electricity consumption of production machines and equipment are monitored through an electricity meter installed on the equipment; recycling water for reuse is actualized through the installation of cooling and filtering equipment. We have also kept detailed relevant water and electricity records to carry out energy conservation measures and actions in the future. At the same time, in order to achieve energy conservation and emissions reduction, the Company makes specific improvements to machines and equipment annually on top of new techniques in a bid to boost production capacity and reduce use of electricity and raw materials.

To actively respond to the national and provincial governments’ advocacy for cleaner production, controlling pollution at the source, and staying on the track of sustainable development with energy conservation, consumption reduction, pollution reduction, and efficiency enhancement, the Company

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continues to implement cleaner production audits (in accordance with the Fujian (Min) Provincial Department of Environmental Protection [2010] Document No. 12) with a view to comprehensively enhance the Company's ability in upholding clean production as well as enable the Company to achieve remarkable results in various aspects such as economic benefits, environmental benefits, and technological progress.

We have been actively implementing energy-saving measures in our day-to-day operations, including maintaining appropriate office temperatures, encouraging employees to set their computers to the automatic standby or sleep mode, turn off idle electronic appliances or lights before exiting the office, and arranging reasonable reuse of used A4 paper based on paper content and the requirements of respective files.

18. HAZARDOUS AND NON-HAZARDOUS WASTE MANAGEMENT

Waste plasticizers, the main chemical waste that we produced, are recycled for reuse by using an electrostatic dust removal device, thereby curbing the potential risk of environment damage in line with environmental authorities' requirements. Likewise, we have adopted various sustainable measures to reduce and properly handle non-hazardous waste. We have set up different collection bins for general wastes and arrange recycling companies to pick them up upon receipt of notifications.

19. COMMUNITY SERVICES

Business operations are conducted in a specific geographical area. As such, enterprise development is inseparable from the understanding and support of its neighboring community. As a member of its community, the Company shares active concern for society and fulfills our social responsibilities. We take appropriate approaches to give back to the community where we operate as well as the different groups in the community. We employ corporate capital, manpower, products and services to offer aids to the community to the best of our ability, take the initiative to participate in various community development undertakings, and foster public welfare undertakings by making use of the competitive edges of our products.

Since the establishment of the Company, we have always maintained close communication and interaction with the community, including, but without limitation, teaming up with the community where we operated for collaborative development, providing funds to the community each year, having job openings for the neighboring community as and when appropriate, giving priority to residents in the neighboring community during recruitment, donating money to colleagues, giving financial aids to underprivileged university students, and organizing school visits among other consoling initiatives on Teacher's Day and International Children's Day.

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As a recognition of the Group's active participation in the Red Cross's charitable donation activities, the Company was awarded the "Red Cross Humanity Award" on two occasions pursuant to the provisions of the "Interim Measures of Fujian Province Red Cross in Recognition of Humanitarian Aid for Unemployment"; moreover, the Company has participated in the "Precision Education for Poverty Alleviation Program" launched by the Fujian Province Charity Federation and donated money to impoverished areas through the Fuzhou City Society for Promotion of the Guangcai Program (a poverty relief social cause initiated and actualized by individuals not within the state-owned economy in 1994 in response to the "National Eight-Seven Poverty Alleviation Program" under the advocacy of the United Front Work Department of CPC Central Committee and All-China Federation of Industry and Commerce economy), as well as donated books and computers to children and schools in mountainous regions and poverty-stricken areas on several occasions.

20. FUTURE PLANS

We will continue new product research and development, reinforce our position in the old product market, explore new fields where respective products may be applied, innovate drop stitch fabric techniques, and develop reinforced, lightweight and TPU drop stitch fabric, to name but a few; continue to step up quality management, maintain the largest market share worldwide, play the role of the best manufacturer of drop stitch fabric and airtightness materials for outdoor surfing and water recreation activities; make drop stitch fabric and eco-friendly flooring selections as the core business in the future, uphold our market development philosophies, adopt a customer-centric approach, continue to create real value to reciprocate its shareholders and society.

The Fuzhou factory will develop and manufacture environmental-friendly, renewable, and ecological elastic PVC flooring selections. Domestic marketing and promotion will be facilitated through existing sales offices, the international market through participation in exhibitions and deepening cooperation with dealers of flooring materials in European and American countries with the aim of increasing market presence.

Aligned with ever growing environmental awareness across society, the Company will continue to uphold the concept of environmental protection as always, maintain sustainable operations with unremitting efforts, achieve harmonious development with the environment and society in the course of business expansion while simultaneously accelerating the development of the Company's new products so as to obtain better results in creating a sound and quality living environment.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the Group 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.

The activities of its principal subsidiaries are set out in note 43 to the consolidated financial statements.

BUSINESS REVIEW AND OUTLOOK

A review and outlook of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement and Management Discussion and Analysis respectively from pages 4 to 5 and pages 6 to 13.

RISK AND UNCERTAINTIES

Our Group's financial condition, results of operations and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The following are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Economic risks

- A severe or prolonged downturn of the global economy.
- Fluctuations in foreign currency exchange rate, inflation and fluctuations of interest rates would adversely affect the customers' spending sentiment and the Group's profit margin.

Operational risks

- Failure to compete in the competitive environment which the Group operated in;
- Unable to keep pace with the technological advances in timely and cost-efficient manner; and

REPORT OF THE DIRECTORS

- Failure to attract, train, retain, and motivate highly skilled and qualified managerial, sales, marketing, operating, and technical personnel, the loss of key personnel, or the inability to find additional qualified personnel.

Regulatory risks

- Failure to adhere to laws, regulations and rules, or to obtain or maintain all applicable permits and approvals;
- Infringement of valid patents, copyrights or other intellectual property rights held by third parties; and
- Any change in laws and regulations in different customers' and suppliers' countries.

Financial risks

- Details of financial risks are set out in note 6 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimize the impact of its activities on the environment, and compliance with applicable environmental laws. It is policy of the Group to promote clean operation and strives to making the most efficient use of resources in its operations, and minimizing wastes and emission. The Group achieves this through actively re-designing its activities and operation that encourage and promote recycling of resources, using environmental friendly raw materials and reviewing operations constantly to ensure that the processes are effective and efficient.

Please refer to the Environmental, Social and Governance Report contained in the Annual Report for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

The Board was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Group during the year.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Details of the key relationships between the Company and its employees are set out in the paragraph headed Human Resources in the section of Management Discussion And Analysis and Environmental, Social and Governance Report of this Annual Report.

REPORT OF THE DIRECTORS

The management of the Group understands the importance of maintaining a good relationship with its customers and suppliers for achieving its long term goals. Hence, the management of the Group would keep good communication and relationship with its customers and suppliers.

The Group will continue to enhance its customer service and deliver the excellent quality products to its customers. Simultaneously, the Group would expand its market segment to the international market.

The Group has established long term relationships with its major suppliers in order to ensure the sustainable suppliers for the business of the Group.

During the year, there were no material dispute between the Group and its customers and suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 55.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and note 36 to the consolidated financial statements.

The Company's reserves available for distribution represent the share premium and retained profits under the Companies Law of the Cayman Islands. The share premium of the Company is available for paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can be distributed out of the share premium and retained profits of the Company which in aggregate amounted to approximately RMB201.3 million (2016: RMB213.7 million) as at 31 December 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 112.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 35 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings for the year ended 31 December 2017 are set out in note 31 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under our Company's Articles of Association and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares for the year ended 31 December 2017.

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 24.9% of the Group's total revenue and the sales attributable to the Group's largest customer were approximately 8% of the Group's revenue.

REPORT OF THE DIRECTORS

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 36.9% of the Group's total cost of sales and the purchases attributable to the Group's largest supplier were approximately 13.0% of the Group's total cost of sales.

None of the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers during the year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Lin Shengxiong (*Chairman*)

Mr. Zhang Hongwang (*Chief Executive Officer*) (Resigned on 7 April 2017)

Mr. Huang Wanneng

Mr. Jiang Shisheng

Independent non-executive Directors

Mr. Lau Chun Pong

Mr. Wu Jianhua (Retired on 26 July 2017)

Mr. Cai Weican (Retired on 26 July 2017)

Mr. Lu Jiayu (Appointed on 26 July 2017)

Ms. Jiang Ping (Appointed on 26 July 2017)

In accordance with Article 84 of the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting at least once every three years.

The Company has received confirmation of independence in respect of the year ended 31 December 2017 from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Up to and as at the date of this report, the Company considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and the independent non-executive Directors has entered into a service contract with the Company for a term of three years and two years respectively unless terminated by either party giving not less than three months' notice to the other party.

None of the Directors has entered into any service agreement with the Company which is not determinable within one year without payment of compensation, other than the statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the heading "Related Party Transactions" in note 41 to the consolidated financial statements, no contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company had engaged in any business or had any interest in business which competes or may constitute competition directly or indirectly with the business of the Group for the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2017, the interests and short positions of the directors and chief executives 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")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") of the Listing Rules were as follows:

(a) Long Positions in shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in the Company
Mr. Lin Shengxiong	Interests in controlled corporation (Note)	410,886,000 (Note)	48.19% (Note)
Mr. Huang Wanneng	Beneficial owner	5,060,000	0.59%

Note: As at 31 December 2017, Mr. Lin Shenxiong, through his 100% equity interest in Hopeland International Holdings Company Limited held 410,886,000 shares of the Company, representing approximately 48.19% of the entire issued share capital of the Company.

REPORT OF THE DIRECTORS

(b) Long positions in shares of the associated corporation of the Company

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

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 the Group to recruit high-calibre employees, to 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 from the date of its adoption.

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 capitalization 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.

As at 31 December 2017, there were no outstanding share options granted.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2017 was the Company, its subsidiaries or its associate a party to any arrangement to enable the Directors and chief executives of the Company or their spouses or children under the age of 18, to acquire benefits by means of acquisition of shares in, or debentures of the Company or its associated corporation.

Save as disclosed above and the section "Share Option Scheme", as at 31 December 2017, none of the Directors or the chief executive of the Company had or was deemed to have any interests in or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, the following persons or corporations, other than the interest disclosed above in respect of the directors, interest in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Section 336 of Part XV of the SFO:

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%
Ms. 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%
Mr. Lin Wanpeng (Note 3)	Long position	Interests in controlled corporation	59,011,000	6.92%
Ms. Wang Huiqing (Note 4)	Long position	Interests of spouse	59,011,000	6.92%

REPORT OF THE DIRECTORS

Notes

1. As at 31 December 2017, Mr. Lin Shengxiong through his 100% equity interest in Hopeland International Holdings Company Limited held 410,886,000 shares of the Company, representing approximately 48.19% of the entire issued share capital of the Company. Mr. Lin Shengxiong, is an executive Director of the Company.
2. As at 31 December 2017, Ms. Lin Hongting, the spouse of Mr. Lin Shengxiong is deemed to be interested in 410,886,000 shares of the Company, representing approximately 48.19% of the entire issued share capital of the Company.
3. Glory Bright Investments Enterprise Limited is beneficially owned by Mr. Lin Wanpeng. As at 31 December 2017, Mr. Lin Wanpeng is deemed to be interested in 59,011,000 shares of the Company, representing approximately 6.92% of the entire issued share capital of the Company.
4. As at 31 December 2017, Ms. Wang Huiqing, the spouse of Mr. Lin Wanpeng is deemed to be interested in 59,011,000 shares of the Company, representing approximately 6.92% of the entire issued share capital of the Company.

As at 31 December 2017, save as disclosed above, so far as was known to the Directors, no other person (other than the Directors or chief executive of the Company) had any interests or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as notified to the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 41 to the consolidated financial statements. In the opinion of the independent non-executive directors, none of the related party transactions is a connected transaction or continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group (other than contracts of service with Director or any person engaged in full time employment of the Group) were entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

REPORT OF THE DIRECTORS

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their qualifications, competence and performance.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market rates.

The Company has adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme are set out in the above section of share option scheme.

CHARITABLE CONTRIBUTIONS

During the year, no charitable contributions were made by the Group.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2017.

EVENTS AFTER THE REPORTING PERIOD

As at 31 December 2017, the Group had no significant events after the reporting period (2016: Nil).

AUDITORS

The consolidated financial statements for the year have been audited by ZHONGHUI ANDA CPA Limited. A resolution will be submitted to the annual general meeting to re-appoint ZHONGHUI ANDA CPA Limited as auditor of the Company.

CONTINUED SUSPENSION IN TRADING

Trading in the Shares of our Company was suspended with effect from 14 February 2013 and will remain suspended until further notice.

On Behalf of the Board

Mr. Lin Shengxiong

Chairman

Hong Kong, 29 March 2018

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF CHINA LONGEVITY GROUP COMPANY LIMITED

中國龍天集團有限公司

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Longevity Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 111, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group had net current liabilities of RMB236,227,000 as at 31 December 2017 and the Company's shares have been suspended for trading since 14 February 2013. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Property, plant and equipment

Refer to Note 18 to the consolidated financial statements

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of RMB428,618,000 as at 31 December 2017 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- assessing the identification of the related cash generating units;
- assessing the arithmetical accuracy of the value-in-use calculations;
- comparing the actual cash flows with the cash flow projections;
- assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates); and
- checking input data to supporting evidence.

We consider that the Group's impairment test for property, plant and equipment is supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Sze Lin Tang

Audit Engagement Director

Practising Certificate Number P03614

Hong Kong, 29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	9	523,799	472,688
Cost of sales		(405,002)	(378,421)
GROSS PROFIT		118,797	94,267
Other income and gains	10	7,038	22,208
Selling and distribution costs		(14,375)	(15,393)
Administrative expenses		(60,564)	(53,287)
Other expenses		(4,085)	(8,380)
PROFIT FROM OPERATIONS		46,811	39,415
Fair value loss on investment properties		(160)	(2,100)
Impairment of various assets		(7,275)	(7,489)
Finance costs	11	(7,879)	(11,024)
PROFIT BEFORE TAX	12	31,497	18,802
Income tax (expense)/credit	13	(3,101)	3,450
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		28,396	22,252
Other comprehensive income/(expenses) after tax:			
<i>Items that may not be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		(8,688)	30,562
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		8,613	(33,086)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		28,321	19,728
EARNING PER SHARE (RMB cents)	17		
— Basic		3.33	2.61
— Diluted		3.33	2.61

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	18	428,618	456,947
Prepaid land lease payments	19	17,049	17,694
Investment properties	20	14,840	15,000
Intangible assets	21	14,005	550
Deposits paid for acquisition of property, plant and equipment		581	6,722
Available-for-sale investment	22	4,140	4,140
Deferred tax assets	23	3,697	5,285
Total non-current assets		482,930	506,338
Current assets			
Inventories	24	81,689	74,007
Trade receivables	25	89,607	86,476
Prepayments, deposits and other receivables	26	12,715	12,955
Pledged bank deposits	27	55,975	41,927
Cash and cash equivalents	27	31,930	15,008
		271,916	230,373
Non-current assets classified as held for sale	28	28,437	28,437
Total current assets		300,353	258,810
Current liabilities			
Trade and bills payables	29	266,663	232,312
Other payables and accruals	30	98,796	112,281
Interest-bearing borrowings	31	130,000	152,000
Deferred income	32	360	360
Due to a related party	33	10,000	14,000
Due to directors	33	11,102	21,510
Finance lease payables	34	3,666	—
Tax payable		15,993	14,480
Total current liabilities		536,580	546,943
Net current liabilities		(236,227)	(288,133)
Total assets less current liabilities		246,703	218,205

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Finance lease payables	34	537	—
Deferred income	32	690	1,050
Deferred tax liabilities	23	2,711	2,711
Total non-current liabilities		3,938	3,761
NET ASSETS		242,765	214,444
Capital and reserves			
Issued capital	35	747	747
Reserves		242,018	213,697
		242,765	214,444
TOTAL EQUITY		242,765	214,444

The consolidated financial statements on pages 55 to 111 were approved and authorised for issue by the board of directors on 29 March 2018 and are signed on its behalf by:

Approved by:

Lin Shengxiong
Director

Huang Wanneng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Issued capital <i>RMB'000</i>	Capital surplus/ share premium* <i>RMB'000</i>	Capital reserve* <i>RMB'000</i>	Statutory surplus reserve* <i>RMB'000</i>	Exchange fluctuation reserve* <i>RMB'000</i>	Revaluation reserve* <i>RMB'000</i>	Accumulated losses* <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2016	747	566,403	28,994	115,396	(6,231)	8,133	(518,726)	194,716
Total comprehensive income for the year	—	—	—	—	(2,524)	—	22,252	19,728
At 31 December 2016	747	566,403	28,994	115,396	(8,755)	8,133	(496,474)	214,444
At 1 January 2017	747	566,403	28,994	115,396	(8,755)	8,133	(496,474)	214,444
Total comprehensive income for the year	—	—	—	—	(75)	—	28,396	28,321
Appropriation to statutory surplus reserve	—	—	—	3,431	—	—	(3,431)	—
At 31 December 2017	747	566,403	28,994	118,827	(8,830)	8,133	(471,509)	242,765

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

CONSOLIDATED STATEMENT OF CASH FLOWS

As at 31 December 2017

	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	31,497	18,802
Adjustments for:		
Finance costs	7,879	11,024
Interest income	(205)	(95)
Depreciation	30,810	36,062
Loss on disposals of property, plant and equipment	1,619	6,144
Waiver of remuneration payables to directors	—	(4,098)
Written off of intangible assets	—	1,128
Amortisation of prepaid land lease payments	645	646
Amortisation of intangible assets	561	220
Reversal of allowance for receivables	(450)	(9,346)
Release of deferred income	(360)	(360)
Fair value loss on investment properties	160	2,100
Impairment of property, plant and equipment	—	18
Impairment of deposits paid for acquisition of property, plant and equipment	578	—
Impairment of trade receivables	1,166	2,823
Impairment of other receivables	669	—
Impairment of advances to suppliers	—	1,503
Impairment of inventories	4,862	3,145
Dividend income from available-for-sale investment	(136)	(424)
Operating profit before working capital changes	79,295	69,292
Change in inventories	(12,544)	(16,214)
Change in trade receivables	(3,847)	9,746
Change in prepayments, deposits and other receivables	(429)	15,610
Change in trade and bills payables	34,351	(6,932)
Change in other payables and accruals	(446)	(9,068)
Cash generated from operations	96,380	62,434
Income tax refunded	—	28
Net cash generated from operating activities	96,380	62,462

CONSOLIDATED STATEMENT OF CASH FLOWS

As at 31 December 2017

	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(21,273)	(15,712)
Additions of prepaid land lease payments	—	(76)
Additions of intangible assets	(3,574)	—
Proceeds from disposals of property, plant and equipment	(7)	469
Decrease in pledged bank deposits	(14,048)	823
Deposit received for non-current asset held for sale	—	11,950
Net cash inflow on disposal of a subsidiary	—	1,800
Payment of deposits for acquisition of property, plant and equipment	(32)	(510)
Refund of deposits for acquisition of property, plant and equipment	4,997	6,333
Interest received	205	95
Dividend received	136	424
Net cash (used in)/generated from investing activities	(33,596)	5,596
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	197,000	112,000
Repayment of bank borrowings	(219,000)	(209,980)
Repayment of finance lease payables	(1,047)	—
(Repayment to)/advance from a related party	(4,000)	14,000
(Repayment to)/advance from directors	(10,408)	16,510
Finance lease charges paid	(91)	—
Interest paid	(7,788)	(11,024)
Net cash used in financing activities	(45,334)	(78,494)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	15,008	27,583
Effect on exchange rate changes	(528)	(2,139)
Cash and cash equivalents at end of year	31,930	15,008
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	31,930	15,008

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 7 October 2009. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is located at Room 701, 7/F, New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited and have been suspended for trading since 14 February 2013.

The Company acts as an investment holding company. The Company, through its major subsidiaries, 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.

In the opinion of the directors of the Company (the "Directors"), as at the date of issue of these consolidated financial statements, Hopeland International Holdings Company Limited ("Hopeland International") is the ultimate holding company of the Company and Mr. Lin Shengxiong ("Mr. Lin"), the Chairman and an executive director, is the ultimate controlling party of the Company.

2. BASIS OF PREPARATION

The consolidated 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 Group had net current liabilities of RMB236,227,000 as at 31 December 2017 and the Company's shares have been suspended for trading since 14 February 2013. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated 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 consolidated 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 consolidated 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

In the current year, 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 Group's consolidated financial statements and amounts reported for the current 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. SIGNIFICANT ACCOUNTING POLICIES

These consolidated 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.

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Consolidation *(continued)*

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated exchange fluctuation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

(c) Translation on consolidation

The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange fluctuation reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	4.5%
Plant and machinery	9% to 18%
Leasehold improvements	30%
Office equipment	18%
Motor vehicles	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. The residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Construction in progress represents buildings under construction and plant and machinery pending for installation, and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Building use right

Building use right is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of twenty-five years.

Software

Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Patent and trademark

Purchased patent is stated at cost less any impairment loss and amortised on the straight-line basis over its estimated useful life of five years.

Trademark with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the trademark has suffered an impairment loss.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's new product development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Operating leases

The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Finance leases

Leases that substantially transfer to the Company all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the consolidated statement of financial position as finance lease payables. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment losses on unquoted equity instruments that are not carried at fair value because their fair values cannot be reliably measured, or on derivative assets that are linked to and must be settled by delivery of such unquoted equity instruments are not reversed.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal group classified as held for sale are measured at the lower of the assets' or disposal group's previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.
- (b) Rental income is recognised on a straight-line basis over the lease term.
- (c) Interest income is recognised on a time-proportion basis using the effective interest method.
- (d) Dividend income is recognised when the shareholders' right to receive payment has been established.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China (the "PRC") are required to participate in a central pension scheme operated by the local municipal governments. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (B) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except investments, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CRITICAL JUDGEMENT AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) *Going concern basis*

These consolidated 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. Details are explained in note 2.

(b) *Loan covenants*

The Group has breached certain financial covenants in respect of secured bank loans with an outstanding balance of RMB110,000,000 as at 31 December 2017 and matured within one year. The Directors are of opinion that the breach of covenants will not have significant effect on the financial position of the Group. Details are explained in note 31.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) *Impairment of property, plant and equipment and prepaid land lease payments*

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds their recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CRITICAL JUDGEMENT AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(b) *Impairment of trade and other receivables*

The Group makes impairment for trade and other receivables based on assessments of the recoverability of the receivables, including the current creditworthiness and the past collection history of each debtor. Impairment arises where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(c) *Impairment of inventories*

The Group determines impairment for obsolescence of inventories with reference to aged inventory analysis and projections of expected future saleability of goods. Based on this review, impairment of inventories will be made when the carrying amounts of inventories are higher than their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(d) *Useful lives of property, plant and equipment*

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise interest-bearing bank loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise funding for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The Directors review and agree on policies for managing each of these risks and they are summarised below:

Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. The Group's business are mainly located in the PRC and are mainly transacted and settled in RMB, so the Group has minimal exposure to foreign currency risk.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing loans and deposits at banks. The interest rates and terms of repayment of interest-bearing loans are disclosed in note 31.

At 31 December 2017, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, profit after tax for the year would have been RMB209,000 higher/lower (2016: RMB551,000 lower/higher), arising mainly as a result of higher/lower interest expense on bank borrowings and higher/lower interest income on bank balances.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its trade and other receivables and deposits with financial institutions. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(i) Trade and other receivables

The Group has established a credit policy under which credit evaluations are performed on all customers requiring credit. Trade receivables are due within 3 months from the date of delivery. Debtors with balances that are more than 3 months are requested to settle all outstanding balance before any further credit to be granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At 31 December 2017, the Group has certain concentration of credit risk as approximately RMB12,681,000 (2016: RMB16,524,000) out of the total trade receivables of approximately RMB89,607,000 (2016: RMB86,476,000) was due from the Group's largest debtor.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 25.

(ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At 31 December 2017 and 2016, the Group has low concentration of credit risk as the deposits are placed in various financial institutions.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings to meet its working capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payment, was as follows:

At 31 December 2017

	Within one year or on demand RMB'000	In the second year RMB'000	Total RMB'000
Trade and bills payables	266,663	—	266,663
Other payables and accruals	72,896	—	72,896
Due to a related party	10,000	—	10,000
Due to directors	11,102	—	11,102
Finance lease payables	3,666	537	4,203
Future finance charges	320	46	366
Principal portion of borrowings	130,000	—	130,000
Interest portion of borrowings	5,729	—	5,729
	500,376	583	500,959

At 31 December 2016

	Within one year or on demand RMB'000	In the second year RMB'000	Total RMB'000
Trade and bills payables	232,312	—	232,312
Other payables and accruals	87,360	—	87,360
Due to a related party	14,000	—	14,000
Due to directors	21,510	—	21,510
Principal portion of borrowings	152,000	—	152,000
Interest portion of borrowings	4,114	—	4,114
	511,296	—	511,296

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets:		
Available-for-sale financial assets	4,140	4,140
Loans and receivables:		
Trade receivables	89,607	86,476
Financial assets included in prepayments, deposits and other receivables	3,065	2,924
Pledged bank deposits	55,975	41,927
Cash and cash equivalents	31,930	15,008
	184,717	150,475
Financial liabilities:		
Financial liabilities at amortised cost:		
Trade and bills payables	266,663	232,312
Financial liabilities included in other payables and accruals	72,896	87,360
Finance lease payables	4,203	—
Due to a related party	10,000	14,000
Due to directors	11,102	21,510
Borrowings	130,000	152,000
	494,864	507,182

Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values except for available-for-sale financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2017 and 2016:

At 31 December 2017

Description	Fair value measurement using:			Total
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	2017 RMB'000
Recurring fair value measurements:				
Investment properties				
Commercial – PRC	—	—	14,840	14,840

At 31 December 2016

Description	Fair value measurement using:			Total
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	2016 RMB'000
Recurring fair value measurements:				
Investment properties				
Commercial – PRC	—	—	15,000	15,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of assets measured at fair value based on level 3:

Description	Investment properties 2017 RMB'000
At 1 January 2017	15,000
Fair value loss recognised in profit and loss (#)	(160)
<hr/>	
At 31 December 2017	14,840
<hr/>	
# Include losses for assets held at end of reporting period	(160)

Description	Investment properties 2016 RMB'000
At 1 January 2016	17,100
Fair value loss recognised in profit and loss (#)	(2,100)
<hr/>	
At 31 December 2016	15,000
<hr/>	
# Include losses for assets held at end of reporting period	(2,100)

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in fair value loss on investment properties in the consolidated statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Directors determine the appropriate valuation techniques and inputs for fair value measurements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (continued)

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model and to understand the cause of fluctuations in the fair value of the assets and liabilities.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable input used in level 3 fair value measurements is mainly:

- rental income per square meter (estimated based on market comparables with adjustment on various factors)

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2017 RMB'000
Investment properties An Industrial Complex situated at No. 63 Huli Yuan, Tongan District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB10 per month	Increase	14,840

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2016 RMB'000
Investment properties An Industrial Complex situated at No. 63 Huli Yuan, Tongan District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB10 per month	Increase	15,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. 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.

Geographical information

	Revenue from external customers		Non-current assets	
	Year ended 31 December		As at 31 December	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC	354,746	355,094	475,093	496,913
Others	169,053	117,594	—	—
	523,799	472,688	475,093	496,913

In presenting the geographical information, the revenue information is based on the locations of the customers while the non-current assets information is based on the location of assets and excludes available-for-sale investment and deferred tax assets. No revenue from transactions with a single country other than PRC amounted to 10% or more of the Group's total sales for the year (2016: Nil).

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 year (2016: Nil).

9. REVENUE

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	523,799	472,688

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. OTHER INCOME AND GAINS

	2017	2016
	RMB'000	RMB'000
Bank interest income	205	95
Government subsidies (<i>note</i>)	4,601	1,571
Gross rental income	976	1,087
Dividend income from available-for-sale investment	136	424
Reversal of allowance for receivables	450	9,346
Waiver of remuneration payables to directors	—	4,098
Exchange gain, net	—	4,153
Sundry income	670	1,434
	7,038	22,208

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 years ended 31 December 2017 and 2016.

11. FINANCE COSTS

	2017	2016
	RMB'000	RMB'000
Interest on bank loans	7,788	11,024
Finance leases charges	91	—
	7,879	11,024

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. PROFIT BEFORE TAX

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

	2017	2016
	RMB'000	RMB'000
Cost of inventories sold *	405,002	378,421
Depreciation of property, plant and equipment	30,810	36,062
Amortisation of prepaid land lease payments	645	646
Amortisation of intangible assets	561	220
Loss on disposals of property, plant and equipment	1,619	6,144
Written off of intangible assets	—	1,128
Staff costs (including directors' remuneration (note 14)):		
Wages and salaries	19,922	22,310
Retirement benefits scheme contributions	1,101	978
Staff welfare expenses	706	1,360
	21,729	24,648
Operating lease charges on land and buildings	1,194	1,775
Research and development costs	44,488	31,892
Exchange loss/(gain), net	1,552	(4,153)
Fair value loss on investment properties	160	2,100
Impairment of property, plant and equipment	—	18
Impairment of deposits paid for acquisition of property, plant and equipment	578	—
Impairment of trade receivables	1,166	2,823
Impairment of other receivables	669	—
Impairment of advances to suppliers	—	1,503
Impairment of inventories	4,862	3,145
Auditors' remuneration	1,301	1,430

* Cost of inventories sold includes RMB40,857,000 (2016: RMB47,561,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. INCOME TAX EXPENSE/(CREDIT)

	2017 RMB'000	2016 RMB'000
Current tax — the PRC		
Charge for the year	1,513	1,309
Over-provision in prior years	—	(5,230)
Deferred tax (note 23)	1,588	471
	3,101	(3,450)

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group 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 to be provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the years ended 31 December 2017 and 2016.

Pursuant to the approval of the tax bureau, in accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), Fujian Sijia Industrial Material Co., Ltd.[#] (福建思嘉環保材料科技有限公司) ("Fujian Sijia") and Sijia New Material (Shanghai) Co., Ltd.[#] (思嘉環保材料科技(上海)有限公司) ("Shanghai Sijia") (2016: Fujian Sijia) are subject to the tax rates for being a high-tech enterprise, levied at the tax rate of 15% for the year (2016: 15%). Other subsidiaries are subject to a corporate income tax rate of 25% during the year according to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (2016: 25%).

[#] The English name is for identification only

The reconciliation between income tax expense/(credit) and loss before tax is as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	31,497	18,802
Tax at the applicable tax rate of 25% (2016: 25%)	7,874	4,701
Lower tax rate for specific province or enacted by local authority	(3,370)	(1,543)
Effect of income not taxable and expenses not deductible	(5,397)	(7,211)
Over-provision in prior years	—	(5,230)
Tax effect of tax losses not recognised	3,994	5,833
Income tax expense/(credit)	3,101	(3,450)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The emoluments of each director and senior management, equivalent to key management compensation, are as follows:

For the year ended 31 December 2017					
		Fees	Salaries, allowances and benefits in-kind	Retirement benefit scheme contributions	Total remuneration
		RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Lin		—	854	65	919
Mr. Zhang Hongwang	(i)	—	60	1	61
Mr. Huang Wanneng		—	600	44	644
Mr. Jiang Shisheng	(ii)	—	330	33	363
		—	1,844	143	1,987
Independent non-executive directors					
Mr. Lau Chun Pong	(vi)	208	—	10	218
Mr. Lu Jiayu	(iii)	25	39	—	64
Ms. Jiang Ping	(iii)	25	—	—	25
Mr. Wu Jianhua	(iv)	77	—	—	77
Mr. Cai Weican	(iv)	131	—	—	131
		466	39	10	515
Subtotal for directors' emoluments		466	1,883	153	2,502
Senior management		—	2,223	165	2,388
Total		466	4,106	318	4,890

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

For the year ended 31 December 2016					
		Fees	Salaries, allowances and benefits in-kind	Retirement benefit scheme contributions	Total remuneration
		RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Lin		257	739	47	1,043
Mr. Zhang Hongwang	(i)	205	234	14	453
Mr. Huang Wanneng		154	535	33	722
Mr. Jiang Shisheng	(ii)	—	238	13	251
		616	1,746	107	2,469
Independent non-executive directors					
Mr. Chong Chi Wah	(v)	103	—	—	103
Mr. Wu Jianhua	(iv)	133	131	—	264
Mr. Cai Weican	(iv)	31	61	—	92
Mr. Lau Chun Pong	(vi)	86	—	—	86
		353	192	—	545
Subtotal for Directors' emoluments		969	1,938	107	3,014
Senior management		—	1,791	111	1,902
Total		969	3,729	218	4,916

Notes:

- (i) Mr. Zhang Hongwang resigned as an executive director on 7 April 2017
- (ii) Mr. Jiang Shisheng was appointed as an executive director on 30 June 2016
- (iii) Mr. Lu Jiayu and Ms. Jiang Ping were appointed as independent non-executive directors on 26 July 2017
- (iv) Mr. Wu Jianhua and Mr. Cai Weican were retired as independent non-executive directors on 26 July 2017
- (v) Mr. Chong Chi Wah resigned as an independent non-executive director on 30 June 2016
- (vi) Mr. Lau Chun Pong was appointed as an independent non-executive director on 30 June 2016

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included 4 (2016: 5) directors, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2016 : Nil) highest paid individual are set out below:

	2017	2016
	RMB'000	RMB'000
Salaries and allowances	364	—
Retirement benefit scheme contributions	16	—
	380	—

The emoluments of the 1 (2016: Nil) individual fall within the following band:

	Number of individuals	
	2017	2016
Nil — HK\$1,000,000	1	—

During the years ended 31 December 2017 and 2016, no emoluments was paid or payable to the five highest paid individuals (including Directors and other employees) as an inducement to join the Group or as a compensation for loss of office.

16. DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: Nil).

17. EARNING PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Earning per share

The calculation of basic earning per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately RMB28,396,000 (2016: RMB22,252,000) and the weighted average number of approximately 852,612,000 (2016: 852,612,000) ordinary shares in issue during the year.

Diluted earning per share

Diluted earning per share for the years ended 31 December 2017 and 2016 is the same as the basic earning per share as the Company did not have any dilutive potential ordinary shares during the years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2016	542,868	617,895	3,941	5,394	6,468	1,881	1,178,447
Additions	24,867	6,064	—	14	—	9,459	40,404
Disposals	(3,141)	(51,443)	—	(2,227)	(1,627)	—	(58,438)
At 31 December 2016 and 1 January 2017	564,594	572,516	3,941	3,181	4,841	11,340	1,160,413
Additions	3,645	2,785	—	44	28	8,033	14,535
Disposals	—	(13,567)	—	(531)	(131)	(472)	(14,701)
Transfer to intangible assets	—	—	—	—	—	(10,866)	(10,866)
At 31 December 2017	568,239	561,734	3,941	2,694	4,738	8,035	1,149,381
Accumulated depreciation and impairment							
At 1 January 2016	187,128	518,964	3,941	4,088	4,349	741	719,211
Charge for the year	18,807	15,968	—	831	456	—	36,062
Disposals	(1,854)	(46,622)	—	(2,014)	(1,335)	—	(51,825)
Impairment	—	—	—	18	—	—	18
At 31 December 2016 and 1 January 2017	204,081	488,310	3,941	2,923	3,470	741	703,466
Charge for the year	19,898	10,645	—	33	234	—	30,810
Disposals	—	(12,144)	—	(527)	(101)	(317)	(13,089)
Transfer to intangible assets	—	—	—	—	—	(424)	(424)
At 31 December 2017	223,979	486,811	3,941	2,429	3,603	—	720,763
Carrying amount							
At 31 December 2017	344,260	74,923	—	265	1,135	8,035	428,618
At 31 December 2016	360,513	84,206	—	258	1,371	10,599	456,947

At 31 December 2017, certain buildings and plant and machinery with an aggregate carrying amount of approximately RMB320,298,000 (2016: RMB343,807,000) were pledged to secure bank loan facilities granted to the Group (note 31).

No impairment of property, plant and equipment was made for the year ended 31 December 2017 based on the review carried out by the Directors at the end of the reporting period. Impairment of property, plant and equipment of approximately RMB18,000 was made for the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. PREPAID LAND LEASE PAYMENTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Carrying amount at 1 January	18,175	18,745
Additions	—	76
Amortisation	(645)	(646)
<hr/>		
Carrying amount at 31 December	17,530	18,175
Current portion included in prepayments, deposits and other receivables	(481)	(481)
<hr/>		
Non-current portion	17,049	17,694

The Group's leasehold lands are situated in the PRC.

At 31 December 2017, leasehold lands with carrying amount of approximately RMB17,530,000 (2016: RMB18,175,000) were pledged to secure bank loan facilities granted to the Group (note 31).

20. INVESTMENT PROPERTIES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
At beginning of year	15,000	17,100
Fair value loss on revaluation of investment properties	(160)	(2,100)
<hr/>		
At end of year	14,840	15,000

The estimated aggregate fair value of the investment properties as at 31 December 2017 was approximately RMB14,840,000 (2016: RMB15,000,000), which has been arrived at on the basis of a valuation carried out on those dates by 福建華成房地產土地資產評估有限公司, an independent professional valuer.

At 31 December 2017, investment properties with carrying amount of approximately RMB14,840,000 (2016: RMB15,000,000) were pledged to secure bank loan facilities granted to the Group (note 31).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. INTANGIBLE ASSETS

	Building use right <i>RMB'000</i>	Software <i>RMB'000</i>	Patent <i>RMB'000</i>	Trademark <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
At 1 January 2016	—	7,437	50	550	8,037
Written off	—	(5,323)	—	—	(5,323)
At 31 December 2016 and 1 January 2017	—	2,114	50	550	2,714
Additions	3,574	—	—	—	3,574
Transfer from construction in progress	10,442	—	—	—	10,442
At 31 December 2017	14,016	2,114	50	550	16,730
Accumulated amortisation					
At 1 January 2016	—	6,089	50	—	6,139
Charge for the year	—	220	—	—	220
Written off	—	(4,195)	—	—	(4,195)
At 31 December 2016 and 1 January 2017	—	2,114	50	—	2,164
Charge for the year	561	—	—	—	561
At 31 December 2017	561	2,114	50	—	2,725
Carrying amount					
At 31 December 2017	13,455	—	—	550	14,005
At 31 December 2016	—	—	—	550	550

22. AVAILABLE-FOR-SALE INVESTMENT

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Unlisted equity investment in the PRC, at cost	4,140	4,140

At 31 December 2017, the unlisted equity investment with a carrying amount of RMB4,140,000 (2016: RMB4,140,000) was stated at cost less impairment because it does not have a quoted market price in an active market and its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. DEFERRED TAX

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value change of investment properties	Tax loss <i>RMB'000</i>	Accrued social fund <i>RMB'000</i>	Accrued sales rebate <i>RMB'000</i>	Unapproved accelerated depreciation and amortisation and impairment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Deferred tax assets							
At 1 January 2016	—	2,819	775	1,500	407	255	5,756
Deferred tax credited/(charged) to profit or loss during the year (note 13)	525	(940)	—	—	—	(56)	(471)
At 31 December 2016 and 1 January 2017	525	1,879	775	1,500	407	199	5,285
Deferred tax credited/(charged) to profit or loss during the year (note 13)	40	(1,470)	—	—	—	(158)	(1,588)
At 31 December 2017	565	409	775	1,500	407	41	3,697

Deferred tax liabilities

	Fair value change of revaluation of property, plant and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	2,711	2,711

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. DEFERRED TAX (continued)

Deferred tax assets have not been recognised in respect of the following items:

	2017	2016
	RMB'000	RMB'000
Tax losses	67,968	88,591

The Group also has tax losses arising in the PRC of approximately RMB70,690,000 (2016: RMB96,105,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for years and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. INVENTORIES

	2017	2016
	RMB'000	RMB'000
Raw materials	44,024	37,367
Work in progress	7,603	6,705
Finished goods	30,062	29,935
	81,689	74,007

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. 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:

	2017	2016
	RMB'000	RMB'000
Within 3 months	80,502	65,212
More than 3 months but within 6 months	4,707	14,417
More than 6 months but within 1 year	3,984	4,818
More than 1 year	414	2,029
	89,607	86,476

An impairment of trade receivables of approximately RMB1,166,000 was made for the year ended 31 December 2017 (2016: RMB2,823,000).

The aging analysis of trade receivables as at the end of the reporting period that are past due but neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	RMB'000
Within 3 months	5,473	—
More than 3 months but within 6 months	4,707	14,417
More than 6 months but within 1 year	3,984	4,818
More than 1 year	414	2,029
	14,578	21,264

Receivables that were past due but not impaired relate to a number of independent customers for whom there was no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Advances to suppliers (<i>note</i>)	5,754	5,451
Prepaid sales tax and government surcharges	3,267	3,880
Prepaid expenses	629	700
Other receivables	3,065	2,924
	12,715	12,955

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

27. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cash and bank balances	87,905	56,935
Less: Pledged bank deposits	(55,975)	(41,927)
Cash and cash equivalents	31,930	15,008

At the end of the reporting period, the Group's cash and bank balances denominated in RMB were approximately RMB80,241,000 (2016: RMB56,748,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interests at floating rates based on daily bank deposit rates. Certain deposits are pledged for bills payable which is due within six months. Therefore, pledged deposits are classified as current assets.

At 31 December 2017, bank deposits of RMB55,975,000 (2016: RMB41,927,000) were pledged to secure the banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

28. NON-CURRENT ASSETS HELD FOR SALE

	2017	2016
	RMB'000	RMB'000
The classes of assets classified as held for sale are as follows:		
Property, plant and equipment	23,369	23,369
Prepaid land lease payments	5,068	5,068
	28,437	28,437

Note: In 2015, a subsidiary of the Company entered into sales and purchases agreements, pursuant to which, the Group dispose of certain property, plant and equipment and prepaid land lease payments of a subsidiary at a total consideration of RMB28,437,000. The property, plant and equipment associated with prepaid land lease payments, which are expected to be sold within twelve months, have been classified as non-current asset held for sale and are presented separately in the consolidated statement of financial position. At 31 December 2017, the disposal is still in process by PRC government.

The proceeds of disposal are expected to be less than the net book value of the relevant property, plant and equipment and prepaid land lease payments and, accordingly, impairment losses of RMB46,936,000 and RMB5,784,000 were recognised in 2015 for property, plant and equipment and prepaid land lease payments, respectively.

29. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	RMB'000
Trade payables	76,874	101,066
Bills payables	189,789	131,246
	266,663	232,312

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

29. TRADE AND BILLS PAYABLES (continued)

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

	2017 RMB'000	2016 <i>RMB'000</i>
Within 3 months	156,485	137,545
More than 3 months but within 6 months	108,357	86,585
More than 6 months but within 1 year	1,540	6,895
More than 1 year	281	1,287
	266,663	232,312

30. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 <i>RMB'000</i>
Advances from customers	13,950	12,971
Accrued liabilities	20,653	24,279
Payroll payables	5,286	6,212
Payable for the acquisition of property, plant and equipment	35,580	48,166
Deposit received for non-current asset held for sale	11,950	11,950
Others	11,377	8,703
	98,796	112,281

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

31. INTEREST-BEARING BORROWINGS

	2017			2016		
	Effective	Maturity	RMB'000	Effective	Maturity	RMB'000
	interest rate			interest rate		
(%)	(%)		(%)			
Bank loans — Secured	5.22%-6.00%	2018	<u>130,000</u>	4.79%-6.00%	2017	<u>152,000</u>
Repayable: Within one year or on demand			<u>130,000</u>			<u>152,000</u>

Notes:

- (i) The Group's bank borrowings are secured by:
- (a) mortgages over the Group's buildings and plant and machinery situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB320,298,000 (2016: RMB343,807,000);
 - (b) mortgages over the Group's leasehold lands situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB17,530,000 (2016: RMB18,175,000); and
 - (c) mortgages over the Group's investment properties in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB14,840,000 (2016: RMB15,000,000).
- (ii) The Group has breached certain financial covenants in respect of secured bank loans with an outstanding balance of RMB110,000,000 (2016: RMB112,000,000) with maturity of less than one year. The Group is in the process of negotiation with the bank on renewals of those bank loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. DEFERRED INCOME

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Government grants		
At 1 January	1,410	1,770
Released during the year	(360)	(360)
At 31 December	1,050	1,410
Current	360	360
Non-current	690	1,050
	1,050	1,410

Government grants received are for the technical development of machinery and equipment. The government grants received are accounted for as deferred income and are released to profit or loss over the expected useful lives of the underlying items of machinery and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

33. DUE TO A RELATED PARTY/DIRECTORS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Due to a related party		
Ms. Lin Hongting, the spouse of Mr. Lin	10,000	14,000
Due to directors		
Mr. Lin	9,302	21,510
Mr. Huang Wanneng	1,800	—
	11,102	21,510

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Within one year	3,986	—	3,666	—
In the second to fifth years, inclusive	583	—	537	—
	4,569	—	4,203	—
Less: Future finance charges	(366)	—		
Present value of lease obligations	4,203	—	4,203	—
Less: Amount due for settlement within 12 months (shown under current liabilities)			(3,666)	—
Amount due for settlement after 12 months			537	—

Certain machinery and equipment of the Group were held under finance leases with average lease term of 2 years. At 31 December 2017, the average effective borrowing rate was 11.85%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the machinery and equipment at nominal prices.

All finance lease payables are denominated in RMB.

The Group's finance lease payables are secured by a director of the lessee and the lessee's title to the leased assets.

At 31 December 2017, the total future minimum sublease payments expected to be received under non-cancellable subleases amounted to RMB4,569,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. SHARE CAPITAL

	2017	2016
	RMB'000	RMB'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.001 each	1,760	1,760
Issued and fully paid:		
852,612,470 ordinary shares of HK\$0.001 each	747	747

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

There is no movement of the number of shares issued and the share capital during the year.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

Nature and purpose of reserves of the Group

Statutory surplus reserve

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax as shown in the statutory financial statements of the relevant PRC subsidiaries and after making up prior year cumulative losses. The amounts and allocation basis are decided by the board of directors of the respective subsidiaries annually. The statutory surplus reserve can be applied in conversion into issued capital by means of capitalisation issue.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RESERVES (continued)

(b) Company

	Share premium <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2016	877,157	(31,108)	(652,080)	193,969
Total comprehensive income for the year	—	30,562	(10,834)	19,728
At 31 December 2016	877,157	(546)	(662,914)	213,697
Total comprehensive income for the year	—	(8,688)	(3,760)	(12,448)
At 31 December 2017	877,157	(9,234)	(666,674)	201,249

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Interest- bearing borrowings <i>RMB'000</i>	Due to a related party <i>RMB'000</i>	Due to directors <i>RMB'000</i>	Finance lease payables <i>RMB'000</i>	Total liabilities from financing activities <i>RMB'000</i>
At 1 January 2016	249,980	—	5,000	—	254,980
Changes in cash flows	(97,980)	14,000	16,510	—	(67,470)
At 31 December 2016 and 1 January 2017	152,000	14,000	21,510	—	187,510
Changes in cash flows	(22,000)	(4,000)	(10,408)	(1,047)	(37,455)
Non-cash changes — additions	—	—	—	5,250	5,250
At 31 December 2017	130,000	10,000	11,102	4,203	155,305

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. COMMITMENTS

(a) Commitments under operating leases

As lessor

The Group leases certain of its factory properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had the total future minimum lease receivable under non-cancellable operating leases in respect of land and buildings as follows:

	2017	2016
	RMB'000	RMB'000
Within one year	976	846
In the second to fifth years, inclusive	814	50
	1,790	896

As lessee

The Group leases certain of its office premises and staff accommodations under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2017	2016
	RMB'000	RMB'000
Within one year	377	964
In the second to fifth years, inclusive	581	1,225
	958	2,189

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. COMMITMENTS (continued)

(b) Capital commitments

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

	2017	2016
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	746	2,800

39. CONTINGENT LIABILITIES

At 31 December 2017, the Group did not have any significant contingent liabilities (2016: Nil).

40. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank borrowings and bills payable which are secured by the assets of the Group are included in notes 18, 19, 20 and 27.

41. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, as at 31 December 2017, the ultimate shareholder and a family member of the ultimate shareholder have guaranteed bank loans made to the Group of approximately RMB110,000,000 (2016: RMB112,000,000).

42. EVENTS AFTER THE REPORTING PERIOD

As at December 2017, the Group had no significant events after the reporting period (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Company name	Place of incorporation/ registration	Issued and paid-up share capital/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held:				
China Grandsoo Holdings Company Limited	British Virgin Islands	US\$3	100%	Investment holding
Indirectly held:				
Sijia International Holding Limited	Hong Kong	HK\$10,000	100%	Investment holding
Xiamen Grandsoo Industrial & Trade Company Limited (Note i)	PRC	HK\$300,000,000	100%	Manufacturing and selling end products
Fujian Sijia # (Note ii)	PRC	HK\$390,000,000	100%	Manufacturing and selling materials and end products
Shanghai Sijia# (Note i)	PRC	HK\$100,000,000/ HK\$177,500,000	100%	Manufacturing and selling special functional composites
Fujian Hausa Import and Export Co., Ltd.# (福建浩思進出口貿易有限公司) (Note iii)	PRC	RMB50,000,000	100%	Exporting products and trade agent

The English names are for identification only

Note:

- (i) The subsidiary is a wholly foreign-owned enterprise incorporated in the PRC.
- (ii) The subsidiary is a non-wholly foreign-owned enterprise incorporated in the PRC.
- (iii) The subsidiary is a wholly owned domestic limited company incorporated in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Investments in subsidiaries		89,340	89,340
Current assets			
Due from a subsidiary		120,035	131,065
Prepayments, deposits and other receivables		—	5
Cash and cash equivalents		21	22
		120,056	131,092
Current liabilities			
Other payables and accruals		6,018	5,988
Due to a director		1,382	—
		7,400	5,988
Net current assets		112,656	125,104
Total assets less current liabilities		201,996	214,444
NET ASSETS		201,996	214,444
Capital and reserves			
Issued capital	35	747	747
Reserves	36(b)	201,249	213,697
TOTAL EQUITY		201,996	214,444

45. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
REVENUE	523,799	472,688	466,531	682,858	911,550
Gross profit	118,797	94,267	5,460	48,112	110,120
PROFIT/(LOSS) BEFORE TAX	31,497	18,802	(685,136)	(149,028)	(28,650)
PROFIT/(LOSS) FOR THE YEAR	28,396	22,252	(692,444)	(159,573)	(35,626)
Attributable to:					
Owners of the Company	28,396	22,252	(692,217)	(159,227)	(35,222)
Non-controlling interests	—	—	(227)	(346)	(404)
	28,396	22,252	(692,444)	(159,573)	(35,626)
Basic earnings/(loss) per share (RMB cents)	3.33	2.61	(81.19)	(18.68)	(4.13)
	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total assets	783,283	765,148	801,806	1,689,849	1,908,685
Equity and liabilities					
Total liabilities	540,518	550,704	607,090	795,776	854,776
Total equity	242,765	214,444	194,716	894,073	1,053,909