中国龙天
CHINA LONGEVITY

CHINA LONGEVITY GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1863

2018
Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Shengxiong *(Chairman)*
Mr. Huang Wanneng
Mr. Jiang Shisheng

Independent Non-executive Directors

Mr. Lau Chun Pong
Mr. Lu Jiayu
Ms. Jiang Ping

AUDIT COMMITTEE

Mr. Lau Chun Pong *(Chairman)*
Mr. Lu Jiayu
Ms. Jiang Ping

REMUNERATION COMMITTEE

Mr. Lu Jiayu *(Chairman)*
Ms. Jiang Ping
Mr. Lin Shengxiong
Mr. Lau Chun Pong

NOMINATION COMMITTEE

Ms. Jiang Ping *(Chariman)*
Mr. Lu Jiayu
Mr. Lau Chun Pong

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

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Concordia Plaza
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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

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INVESTOR RELATIONS CONTACT

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Financial Highlights

	2018	2017
Results		
Revenue (RMB million)	**536.6**	523.8
Gross profit (RMB million)	**122.2**	118.8
Profit before tax (RMB million)	**31.1**	31.5
Profit for the year attributable to Owners of the Company (RMB million)	**31.1**	28.4
Basic earning per share (RMB cents)	**3.65**	3.33
Gross profit margin (%)	**22.8**	22.7
Financial position		
Cash and cash equivalents (RMB million)	**28.2**	31.9
Total assets (RMB million)	**751.1**	783.3
Total debts (RMB million)	**477.2**	540.5
Total equity (RMB million)	**274.0**	242.8
Current ratio (Times)	**0.6**	0.6
Quick ratio (Times)	**0.4**	0.4
Gearing – borrowings to total assets (%)	**14.1**	17.1
Efficiency ratios		
Average trade receivables turnover (Days)	**61**	61
Average trade payables turnover (Days)	**75**	80
Average inventories turnover (Days)	**83**	70
Cash conversion (Days)	**69**	51

Chairman's Statement

Dear Shareholders,

On behalf of the board ("Board") of directors ("Directors") of China Longevity Group Company Limited (the "Company") and its subsidiaries (together referred to as the "Group"), I am pleased to present the 2018 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 key financial 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 pages 6 to 15 of this report.

This year, the Group recorded a growth of turnover by 2.4% from approximately RMB523.8 million last year to approximately RMB536.6 million. The profit attributable to shareholders for the year was approximately RMB31.1 million as compared to the profit approximately of RMB28.4 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 2018, the Group continued to focus on the business of PVC material products and extended products, namely, the core business of reinforced materials and the super core flooring business of Sijia (collectively "Flooring Business"). 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 the scaling down of Conventional Materials and the increase of demand for Reinforced Materials, our revenue and gross profit margin for the year under review have increased.

In respect of the disposals of certain assets of approximately RMB28 million, which were reclassified as non-current assets held for sale as detailed in note 28 to the consolidated financial statements. At 31 December 2018, the disposal of property, plant and equipment and prepaid land lease payments with an aggregate carrying amount of RMB23.9 million was completed and the remaining is still in process and subject to approval by PRC government. We expect that this disposal will be completed in mid of 2019.

As compared to the global economic environment in 2017, 2018 was relatively complicated in the global politics and economy. As the market economic environment was greatly affected by the Sino-US trade war, and factors contributing to unstable market competition persisted, the Group envisages 2019 to be a year of perseverance amidst challenging economic environment.

Committed to the research and development of new materials, the Group has set out to put more resources into the development of new material business and new products. The management believes that the Group will have successful achievements in developing new materials and 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 continue to cooperate with the technical experts in Europe and US in the research and development of new materials and new products. The management expects that the Group would further expand its coverage in the international market and develop global customers for its flooring products.

With the support of the Shareholders and the leadership of the Board, the Group will continue its product technology innovation strategy, reinforce its position in the markets of existing products, and develop new drop stitch fabric products, air tightness material products and eco-friendly flooring options as its core business in the future. Furthermore, the Company will persistently uphold its market development philosophy of adopting a customer-centric approach, continue to create real value and reciprocate its Shareholders and the 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, 28 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

The Group is renowned as one of the pioneers in the industry of producing new reinforced material in the PRC, providing new materials for professional use along with eco-friendly and renewable super core 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 this experienced management team, the Group implemented a market-oriented strategy. The Group also engaged in the development and sales of new products developed by its research and development ("R&D") team and academic institutions. A number of these newly developed products and their production techniques were granted 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 for invention, to produce new materials, including drop stitch fabric, architectural membrane, waterproofing membrane, marquees materials, air tightness materials, inflatable boats materials and inflatable materials. These 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. Their flame retardancy meets the standards of EU EN 13501, Germany DIN 4102 B1, France NF P 92-507 M2, US NFPA 701, ASTM E84 Class A, CPAI-84, Canada CAN/ULC-S109, national standard GB8624 Grade B1; UV resistance meets the standards of ISO4892-3 672H 4-5; anti-bacteria capability meets the standards of US ASTM G21 0, and international environmental standards of CE, ROHS2.0, REACh, EN71, ASTM 963 and CPSIA; and biocompatibility meets the standards of ISO 10993-5, - 10. Given the diversified applications of the Reinforced Materials and end-use products, the Group's products can be applied in fifteen major sectors including outdoor leisure, sports, renewable energy, protection, construction, logistic, packaging, medical use, safety products, advertising and daily supplies.

The operations of the Group's flooring product ("PVC Floor") 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, US, as well as in Japan and Korea due to its outstanding features and eco-friendly properties. PVC Floor is sold in the global markets under the brand name "Zero Formaldehyde Super Core Flooring". It meets the environmental and technical requirements in the Europe and the US which is approved by environmental certifications including EU CE, US Floorscore, French A+, German AgBB, ROHS2.0 and REACH rules. The product quality also meets the international standard of ISO 10582, EU standards of EN 649 and EN 13329, US standards of ASTM F1066 and ASTM F1700 and national standard of GB/T 4085. Its flame retardancy is further certified with the EN 13501, ASTM E648 and GB/T 8624 certifications reaching flame retardancy Grade B1. Moreover, it obtained ISO 140-8, ASTM E492, ASTM E989-06 and other tests in terms of sound attenuation, with △IIC reaching 19dB; passed EN 14372 and CA 65 phthalate 6P tests; and passed ASTM G21 test in terms of anti-bacteria, which reaches level 0. Since PVC Floor is ecofriendly, remarkably abrasion resistant, highly elastic and shock resistant, fire-resistant and flame retardant, easy to maintain, waterproof and moisture-proof, providing extremely high quality-to-price ratio. It may be broadly used in a wide variety of fields including education, medicine, commerce, sports, office environments, industrial use, transport, and everyday household items.

Management Discussion and Analysis

Due to our strong efforts, the Group achieved a total revenue of approximately RMB536.6 million for the year ended 31 December 2018 (2017: RMB523.8 million), representing an increase of approximately RMB12.8 million, or 2.4% 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 three types: (i) Reinforced Materials; (ii) Conventional Materials; and (iii) PVC Floor. The Group generated most of its revenue from the Reinforced Materials which accounted for approximately 96.6% (2017: 96.5%) of total revenue. Domestic sales continued to be the Group's major source of revenue, representing approximately 65.9% (2017: 67.7%) of the total revenue while export sales accounted for approximately 34.1% (2017: 32.3%) of the total revenue.

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

	For the year ended 31 December			
	2018		2017	
	(RMB million)	**%**	*(RMB million)*	%
Reinforced Materials	**518.5**	**96.6**	505.4	96.5
Conventional Materials	**12.8**	**2.4**	18.4	3.5
PVC Floor	**5.3**	**1.0**	—	—
	536.6	**100.0**	523.8	100.0

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

	For the year ended 31 December			
	2018		2017	
	(RMB million)	**%**	*(RMB million)*	%
PRC	**353,467**	**65.9**	354.7	67.7
Others	**183,152**	**34.1**	169.1	32.3
	536,619	**100.0**	523.8	100.0

Reinforced Materials

The highest record of sales in 2018 is in the Reinforced Materials, particularly in the Group's drop stitch fabric, followed by marquees materials and tarpaulin materials.

Drop stitch fabric is a new material successfully developed and launched on the market by the Group after several years of research and development, which has changed consumers' lifestyle and entertainment. The product was awarded the "Fuzhou Product Quality Prize 2017" by the Fuzhou Municipal Government of Fujian Province in early 2018 and applied for 17 patents in the PRC this year. Reinforced drop stitch fabric has improved downstream processing factories' efficiency in processing surfboards by nearly 20%, allowing processing factories to reduce a number of procedures as well as environmental pollution. For example, attaching reinforced tape and brush-applied coating created an undesirable operating environment filled with strong chemical smells within the workshops. Procedures such as this are now further reduced. 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 does not only cater 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 it is the 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 and capitalise on its leading position in the market by offering competitively-priced products.

As at 31 December 2018, the Group owned a total of 56 patents with respect to the Reinforced Materials. Among these, Fujian Sijia owned 36 patents (32 patents on inventions, 4 patents on practical new models) whereas Shanghai Sijia owned 20 patents (9 patents on inventions, 6 patents on practical new models and 5 patents on software copyrights). The Group has been proactive in patent application each year, thereby ensuring continued protection for the brand's intellectual property rights.

During 2018, the Group's revenue generated from the Reinforced Materials amounted to approximately RMB518.5 million (2017: RMB505.4 million) which accounted for approximately 96.6% (2017: 96.5%) of the Group's total revenue, representing an increase in sales of approximately 2.6%. The increase in revenue from the Reinforced Materials is mainly due to increase in demand for drop stitch fabric. This contributed to approximately RMB137.9 million (2017: RMB131.8 million) of revenue for the year, which accounted for 26.6% (2017: 26.1%) of the total revenue of the Reinforced Materials for the year under review.

The Sino-US trade war during the year led to a multitude of challenges in the global market environment. A large number of competitors emerged to imitate the Group's products in the market with competitive pricing in order to increase their market shares. The Group is bound to encounter further difficulties and challenges, yet a challenging market may also lead to new innovations and opportunities. Crisis often gives rise to opportunities, whereas pressure and motivation are the two sides of the same coin.

The Group will continue to step up its structural adjustment for the Reinforced Materials by promoting the drop stitch fabric, inflatable boat materials, airtight materials, and inflatable materials to high-end customers with a particular focus on the flooring products and new application products of drop stitch fabric materials, with an aim to expand the market of drop stitch fabric products which enjoys excellent gross profit margin so as to maintain the Group's competitiveness.

In addition, the Group plans to implement a flooring project in the Shanghai plants. It will also expand the production capacity of LVT, SPC, ESPC and TPU flooring products in the Fuzhou plants. By making its best efforts to develop the global markets for the super core flooring of Sijia, the Group aims to build the brand name of Sijia, so as to increase operating profit for the Group.

Conventional Materials

During 2018, the Group's revenue generated from the Conventional Materials amounted to approximately RMB12.8 million (2017: RMB18.4 million) which accounted for approximately 2.4% (2017: 3.5%) of total revenue, representing a decrease of approximately 30.4%.

PVC Floor

The Group commenced trial manufacture of PVC Floor at the end of 2017. During the year, the Group's revenue generated from the PVC Floor amounted to approximately RMB5.3 million (2017: Nil) which accounted for approximately 1.0% (2017: Nil) of total revenue.

FINANCIAL REVIEW

Overview

Revenue

The Group's revenue for the year ended 31 December 2018 was approximately RMB536.6 million, representing an increase of approximately RMB12.8 million, or 2.4%, compared to revenue of approximately RMB523.8 million for last year. For the year under review, the Group's major sales segments, namely, (1) Reinforced Materials reported revenue of approximately RMB518.5 million (2017: RMB505.4 million); and (2) Conventional Materials recorded a revenue of approximately RMB12.8 million (2017: RMB18.4 million) and PVC Floor recorded a revenue of approximately RMB5.3 million (2017: Nil). The increase in revenue was mainly due to the increase of demand for the Reinforced Materials.

Gross Profit and Gross Profit Margin

Gross profit was approximately RMB122.2 million for the year under review (2017: RMB118.8 million), with the gross profit margin of approximately 22.8% (2017: 22.7%).

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

	For the year ended 31 December	
	2018	2017
	%	%
Reinforced Materials	**23.6**	23.4
Conventional Materials	**3.2**	3.0
PVC Floor	**(13.0)**	—
Overall	**22.8**	22.7

Profit for the Year

The Group recorded a profit attributable to equity holders of approximately RMB31.1 million, or RMB3.7 cents for basic earning per share for the year ended 31 December 2018 (2017: RMB28.4 million or RMB3.3 cents for basic earning per share).

Selling and Distribution Costs

Selling and distribution costs were approximately RMB16.5 million (2017: RMB14.4 million). An increase in selling and distribution costs was mainly due to expenses incurred for the promotion of new product and an increase in marketing staff.

Administrative Expenses

Administrative expenses were approximately RMB76.9 million (2017: RMB60.6 million). The increase in administrative expenses was mainly due to increase in research and development cost for new PVC Floor project.

Research and Development

Research and development (the "R&D") costs were approximately RMB56.0 million (2017: RMB44.5 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 2018, the impairment of deposits paid for the acquisition of property, plant and equipment amounted to approximately RMB Nil (2017: RMB0.6 million).

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 2018, impairments have been recognized in respect of trade and other receivables in the amount of approximately RMB1.0 million (2017: RMB1.8 million).

Impairment of inventories

Impairment of inventories of approximately RMB4.7 million (2017: RMB4.9 million) for the year ended 31 December 2018 was recognized by the Group. It was mainly attributable to write down the slow moving and obsolete stocks.

Finance Costs

Finance costs were approximately RMB7.0 million (2017: RMB7.9 million). The decrease of the finance cost was mainly due to decrease in bank loans.

Liquidity and Financial Resources

Total Equity

As at 31 December 2018, total equity were approximately of RMB274.0 million, representing an increase of 12.9%, as compared to approximately RMB242.8 million as at 31 December 2017.

Financial Position

As at 31 December 2018, the Group had total current assets of approximately RMB289.6 million (2017: RMB300.4 million) and total current liabilities of approximately RMB474.1 million (2017: RMB536.6 million), with net current liabilities of approximately RMB184.5 million (2017: net current liabilities of RMB236.2 million).

As at 31 December 2018, the Group's net gearing ratio (expressed as a percentage of total interest-bearing liabilities to total assets) was at 14.1%, compared to 17.1% as at 31 December 2017.

Cash and Cash Equivalents

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB28.2 million (2017: RMB31.9 million), most of which were denominated in Renminbi.

Bank Borrowings

The Group had interest-bearing bank borrowings of approximately RMB105.0 million (2017: RMB130.0 million) while total banking facilities amounted to approximately RMB200.0 million (2017: RMB283.0 million).

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities (2017: Nil).

Capital Commitments

As at 31 December 2018, capital commitments of the Group were approximately RMB0.4 million (2017: RMB0.7 million). The capital commitments will be funded partly by internal resources and partly by bank borrowings.

Pledge of Assets

As at 31 December 2018, the Group mortgaged its buildings, plant and machinery of approximately RMB289.3 million (2017: RMB320.3 million), leasehold land of approximately RMB16.9 million (2017: RMB17.5 million), investment properties of approximately RMB14.6 million (2017: RMB14.8 million) in PRC and bank deposits of approximately RMB50.3 million (2017: RMB56.0 million) were pledged to banks to secure bank loans and general banking facilities granted.

Dividends

The Board did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

Human Resources

As at 31 December 2018, the Group employed a total of 430 employees (2017: 307 employees). The increased number of staff headcount was mainly due to the Group's new production sector in PVC Floor 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 staff, based on the performance of the employees.

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.

MATERIAL ACQUISITION AND DISPOSAL

As at 31 December 2018, the disposal of property, plant and equipment and prepaid land lease payments with an aggregate carrying amount of RMB23,900,000 was completed.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed herein, the Group did not have any details of future plans for material investment or capital assets as at 31 December 2018.

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 has implemented a series of adjustment measures:

1. stabilise the business development of new materials, and actively develop new products;

2. further develop business relationships with domestic and foreign customers of the Reinforced Materials and the flooring products, for the expansion of the Group's market share;

3. establish more stable and reasonable strategic cooperation relationship with suppliers, so as to significantly lower procurement costs; and

4. all staff of the Group participate in the optimisation of internal control processes in relation to procurement, production, sales, and finance, in order to enhance the operation efficiency of the Group.

The Company has engaged professionals in 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 of the Company to update the latest progress of the Resumption as and when appropriate.

Once the Group has resumed its trading of 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. Shanghai Sijia will add an additional coating product production line and several production lines of the eco-friendly new material TPU, to expand the production capacity of new materials of Sijia by leveraging on the existing plant scale, so as to further enhance the competitiveness of the Group's products;

2. Fujian Sijia will continue to deepen the development of drop stitch fabric, and accelerate the technical research and upgrade of reinforced drop stitch fabric and plain-weaved drop stitch fabric to explore more applications of drop stitch fabric;

3. Fujian Sijia will increase its efforts in the technical development and research of PVC flooring products, diversify flooring product lines and explore more applications of PVC flooring;

4. increase the publicity of foreign professional exhibitions, expand the market share of inflatable boat materials in Russia, and increase the market share of flooring in the Europe and US;

5. plan for the operation of zero-formaldehyde super core flooring of Sijia in the Chinese market;

6. engage with well-known institutions to make plans for the improvement of site lean management, the upgrade of technical quality system and the improvement of quality control system, with service focusing on quality technology innovation, in respect of technology development, new product research and development, manufacturing quality improvement, service quality evaluation, quality diagnosis evaluation and early warning and forecasting, in order to build competitiveness and lay the foundation for building Sijia brand of new materials;

7. plan to recruit 50 undergraduates, graduates and doctoral students majoring in high polymer materials and undergraduates in management for Sijia, to construct a talent echelon, cultivate outstanding technicians and establish a management team, so as to sustain technological and management innovation;

8. 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;

9. plan to establish an enterprise technology center at the national level and cooperate with universities to establish post-doctoral workstations; and

10. work hard to create better living and working conditions and further improve the quality of physical and spiritual life of Sijia employees.

The future business activities will be funded internally by the revenue generated from the established business operations.

Biographical Details of Directors and Senior Management

DIRECTORS

The Board of the Company consists of six directors, including three executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Lin Shengxiong（林生雄先生）, aged 56, 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 51, 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 31 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. In early 2018, he was selected as an awardee in the first "Jin'an District Outstanding Talents Award" by the People's Government of Jin'an District, Fuzhou.

* *for identification purpose only*

Mr. Jiang Shisheng（蔣石生先生）, aged 49, has served as an executive director since 30 June 2016. He 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, has served as an independent non-executive director since 30 June 2016. He 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, 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 WE Solutions Limited (formerly known as 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 (i) 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 13 November 2017; (ii) the Company Secretary of Superb Summit International Group Limited (stock code: 1228) since 29 May 2018; (iii) the Company Secretary of AV Promotions Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8419) since 27 June 2018; and (iv) the Company Secretary of Grand T G Gold Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8299) since 1 January 2019.

* *for identification purpose only*

Mr. Lu Jiayu（盧佳譽先生）, aged 53, has served as an independent non-executive director since 26 July 2017. He 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 54, has served as an independent non-executive director since 26 July 2017. She 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*（瀋陽領航財稅事務有限公司）

Senior Management

Mr. Chow Yiu Wah, Joseph（周耀華先生）, aged 59, is the Company Secretary and Chief Financial Officer of the Group, Mr. Chow joined the Group in May 2016 and 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 39, 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.

Mr. Huang Daohuo（黃道火先生）, aged 46, 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 21 years of experience in polymer materials industry.

Ms. Chen Guangxing（陳光星女士）, aged 31, is the Vice General Manager of Sijia Industrial Material (Shanghai) Company Limited (the "Shanghai Sijia"). Ms. Chen joined 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 51, 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 joined the Group in June 2009 and has over 24 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 50, engineer of the Group's the Fuzhou factory's equipment center. Mr. Zhu 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. Mr. Zhu joined the Group in October 2011. 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 the Company recognises 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 2018, 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 name and biographical details of each director are set out in the section of Biographical Details of Directors and Senior Management on pages 16 to 19 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.

The Directors have no financial, business, family or other material/relevant relationship with each other. Such balanced board composition is formed to ensure strong independence in the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer have been performed by Mr. Lin Shenxiong. 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.

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 the INEDs 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 INEDs 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 2018, 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, the INEDs represented at least one-third of the Board throughout the year ended 31 December 2018.

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, culture and education, 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.

Nomination committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness from time to time, and propose to the Board for amendments when necessary.

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 of the responsibilities and on-going obligations to be performed 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. Huang Wanneng	B,C
Mr. Jiang Shisheng	B,C
Independent non-executive directors	
Mr. Lau Chun Pong	A,B,C
Mr. Lu Jiayu	B,C
Ms. Jiang Ping	B,C

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

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

C: reading memoranda issued or materials provided by the Company

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 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 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 2018	4	3	1	1	1
Executive Directors					
Mr. Lin Shengxiong	4	N/A	1	N/A	1
Mr. Huang Wanneng	3	N/A	N/A	N/A	1
Mr. Jiang Shisheng	4	N/A	N/A	N/A	1
Independent non-executive Directors					
Mr. Lau Chun Pong	3	3	1	1	1
Mr. Lu Jiayu	3	3	1	1	1
Ms. Jiang Ping	3	3	1	1	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 the 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.

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 comprises three INEDs, namely Mr. Lau Chun Pong (Chairman), Mr. Lu Jiayu and Ms. Jiang Ping. No member of Audit Committee is a member or existing auditor of the Company.

The Audit Committee was responsible for, amongst other things, overseeing the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of the system of internal control and risk management of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations. The full terms of reference setting out details of duties of the Audit Committee is available on the Company's website.

The Audit Committee is satisfied with their review of the auditors' remuneration, the independence of the auditor, ZHONGHUI ANDA CPA Limited, and recommended the Board to re-appoint ZHONGHUI ANDA CPA Limited as the Company's auditor in the financial year ending 31 December 2019, which is subject to the approval of shareholders at the forthcoming AGM. The Audit Committee has reviewed the Group's interim and annual consolidated financial statements and reports for the year of 2018, risk management and internal control system of the Group.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year. Details of the number of Audit Committee meetings held and Directors' attendance are set out in the section headed"BOARD MEETINGS/GENERAL MEETINGS" on page 24 of this annual report.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three INEDs, namely Mr. Lu Jiayu (Chairman), Mr. Lau Chun Pong and Ms. Jiang Ping and one executive Director, namely Mr. Lin Shenxiong.

The primary duties of the Remuneration Committee include (but not limited to): (a) Ongoing review of the Group's overall remuneration policies and structure; (b) Making recommendations to the Board on the administration of fair and transparent procedures for setting policies on the remuneration of directors and senior management; (c) Reviewing and approving management's remuneration proposals with reference to the Board's corporate goals and objectives; and (d) Reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office. The full terms of reference setting out details of duties of the Remuneration Committee is available on the Company's website.

The Remuneration Committee determines Directors' remuneration by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities, performance and the results of the Group in determining the exact level of remuneration for each Director.

Pursuant to the terms of reference of the Remuneration Committee, meeting shall be held at least once a year.

Details of the number of Remuneration Committee meetings held and Directors' attendance are set out in the section headed"BOARD MEETINGS/GENERAL MEETINGS" on page 24 of this annual report.

For the year ended 31 December 2018, 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

NOMINATION COMMITTEE

The Nomination Committee comprises three independent non-executive Directors, namely Ms. Jiang Ping (Chairman), Mr. Lau Chun Pong and Mr. Lu Jiayu.

The primary duties of the Nomination Committee include (but not limited to): (a) Reviewing the Directors' overall performance; (b) Making recommendations to the Board on the administration of fair and transparent procedures for making policies on the selection of individuals nominated for directorship according to the nomination procedures; (c) Assessing the independence of independent non-executive Directors according to the requirements under the Listing Rules; and (d) Making recommendations to the Board on relevant matters related to the appointment or re-appointment of Directors and succession plan for Directors.

NOMINATION POLICY

The Board has adopted the following policies for the nomination of directors.

Selection Criteria

In determining the suitability of a candidate, the Nomination Committee and the Board shall consider the potential contributions that a candidate can bring to the Board and/or the Group. The Nomination Committee would consider a candidate in terms of qualifications, skills, experience, independence and other factors. The following shows a non-exhaustive list of selection criteria:

- the candidate's race, reputation, character and integrity;
- the candidate's qualifications, skills, knowledge, business judgment and experience which are relevant to the operations of the Group;
- the relevant factors set out in the Board Diversity Policy (as amended from time to time);

Nomination Procedures

The evaluation, recommendation, nomination, selection and appointment or re-appointment of each proposed Director shall be assessed and considered by the Nomination Committee and the Board against the Selection Criteria and the Board Diversity Policy.

In the context of appointment of any proposed candidate to the Board:

- the Nomination Committee may take such measures that it considers appropriate in connection with its identification and evaluation of candidates, including referrals from the Directors, shareholders, management, advisors of the Company;
- the Nomination Committee shall identify and ascertain the character, qualification, knowledge and experience of the candidate and perform adequate due diligence in respect of such candidate; and
- the Nomination Committee shall make recommendations by submitting the candidate's personal profile to the Board for its consideration.

Board Diversity Policy

The Board has adopted the Board diversity policy. The Board aims to achieve the measurable objectives by, among others, striking for the appropriate balance of gender with reference to stakeholders' expectations. During 2018, the Board was comprised of 5 male and 1 female directors. Details of the Board diversity policy are set out in the section headed "BOARD DIVERSITY POLICY" on page 22 of this annual report.

The full terms of reference setting out details of the authority, duties and responsibilities of the Nomination Committee is available on the Company's website. Pursuant to the terms of reference of the Nomination Committee, meeting shall be held at least once a year.

The Nomination Committee has reviewed the structure, size and composition of the Board and the Board diversity policy as well as discussing matters regarding the retirement and re-election of Directors.

Details of the number of Nomination Committee meetings held and Directors' attendance are set out in the section headed"BOARD MEETINGS/GENERAL MEETINGS" on page 24 of this annual report.

CORPORATE GOVERNANCE FUNCTIONS

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 and make recommendations to the Board;

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 alias, 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.

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.

Corporate Governance Report

The Directors acknowledge their responsibilities for preparing the financial statements of the Company and the Group for the year ended 31 December 2018.

The scope of work and responsibilities of ZHONGHUI ANDA CPA Limited, as 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 control is conducted by the internal audit department annually, 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 last internal control review was conducted in 2018 and the internal audit department examined the internal control policies and measures for the year ended 31 December 2018.

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 review reports from the Group's internal control department and the Audit Committee, the Board concluded that 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.

The review of the risk management and internal control systems of the Group is an ongoing process and the Board maintain a continuing commitment to the Group's control environment and processes.

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 2018, 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	
Review of the 2018 interim results	180
	1,680

COMPANY SECRETARY

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

The biographical details of Mr. Chow, are set out in the section headed" Biographical Details of Directors and Senior Management" of this annual report. Mr. Chow took not less than 15 hours of relevant professional training during the year ended 31 December 2018 as required by the Listing Rules.

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.

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, and its contact details are set out on page 2 of this annual report under the section headed "Corporate Information".

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. Details of the Company's head office are set out on page 2 of this annual report under the section headed "Corporate Information".

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.

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 2018, 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.

DIVIDEND POLICY

The Company intends to strike a balance between maintaining sufficient capital to develop and operate the business of the Group and rewarding the shareholders of the Company. According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

- the Company's operating results, actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and
- any other factors that the Board may deem appropriate and relevant.

Such declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rule and regulations and the Articles of Association of the Company.

Any declaration and payment of future dividend under the dividend policy are subject to the Board's determination that the same would be in best interests of the Group and the Shareholders as a whole. The Board will review the dividend policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the dividend policy at any time as it deems fit and necessary.

Environmental, Social and Governance Report

ABOUT THIS REPORT

The purpose of this report is to enhance stakeholders' understanding of the Company's environmental, social and governance affairs, as well as of the Company's sustainability strategy. The board of directors of the Company confirms its responsibility to ensure the integrity of this environmental, social and governance report and has reviewed this report to confirm that its content is accurate, true and complete.

SCOPE OF THE REPORT

This report discloses the Group's environmental, social and governance performance for the period from 1 January 2018 to 31 December 2018, covering the Company and all its production plants. All data in this report are derived from the Company's production bases, as well as information about its stakeholders. We will continue to improve the content of the environmental, social and governance reports.

POLICY ON SUSTAINABLE CONTROL

The Group is principally engaged in the research and development, manufacturing and sales of PVC material products and extended products, PVC eco-friendly flooring products, in the PRC. Due to the environmental performance and a wide range of applications, the Group's customers come from more than 100 countries and regions around the world.

As a socially responsible corporate citizen, the Group adopts a sustainable business model that effectively manages the impact of related sustainability issues through the implementation of environmental, social and governance practices, bringing a positive impact on the key stakeholders, including employees, suppliers, customers and the community.

The Group is principally engaged in trading and supply chain management is vital to our sustainable development. The Group would like to ensure that our suppliers fulfil their social responsibilities, business partners are encouraged to share our environmental, social and governance values and pay attention to their sustainable development performance and compliance status.

The Group sincerely thanks its employees, customers, partners, investors, government and the public for their efforts and cooperation in the past year. We promise that we will continue to strictly abide by laws and regulations in the future and continuously improve our environmental, social and governance performance.

Stakeholder Engagement

The Group has a wide range of stakeholders, including shareholders, investors, employees, customers, suppliers, government and communities. We maintain constant communication with stakeholders via different channels and platforms. The communication channels with the stakeholders and their concerns are as follows:

Stakeholders	Key concerns	Channels
Investors/Shareholders	• Corporate governance • Risk management • Operations and Strategies • Anti-corruption	• General meeting of shareholders • Company's report
Employee	• Employee benefits • Development and training • Occupational health and safety	• Meetings • Training • Reporting channel
Customer	• Product responsibility • Data privacy	• Grievance channel
Suppliers	• Product and service quality • Business ethics	• Regular meetings
Government	• Operational Compliant • Business ethics	• Compliant with laws and regulations • Response to government policies
Community	• Community Investment	• Donation

ENVIRONMENTAL MANAGEMENT

The Group understands the importance of environmental protection. We are committed to minimising impact of our operations on the environment and strictly abide by the relevant national and regional environmental laws and regulations, including but not limited to the Environmental Protection Law of the People's Republic of China (「中華人民共和國環境保護法」), the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (「中華人民共和國大氣污染防治法」), the Water Pollution Prevention and Control Law of the People's Republic of China「(中華人民共和國水污染防治法」) and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (「中華人民共和國固體廢物污染環境防治法」). During the reporting period, the Group was not aware of any violation of relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and the generation of hazardous and non-hazardous waste.

The Group mainly operates in its offices and does not involve substantial use of resources and pollutant emissions in its operations. Nevertheless, we actively implement our environmental policies, including enforcing energy conservation and emission reduction measures in offices, requiring our suppliers to take measures to reduce carbon emissions, and promoting the Group's environmental protection values to employees and suppliers.

Environmental Management

The Group understands the importance of environmental protection. We are committed to minimising impact of our operations on the environment and strictly abide by national and regional environmental laws and regulations, including but not limited to the Environmental Protection Law of the People's Republic of China「(中華人民共和國環境保護法」), the Water Pollution Prevention and Control Law of the People's Republic of China「(中華人民共和國水污染防治法」) and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (「中華人民共和國固體廢物污染環境防治法」). During the reporting period, the Group was not aware of any violation of relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and the generation of hazardous and non-hazardous waste.

The Group mainly engages in manufacturing and sales. Factory facilities and boiler generate exhaust gas and noise, hazardous wastes mainly consist waste mineral oil and empty oil drums; domestic wastes are found in the living area of staff quarters. The Group and its subsidiaries carried out emission control pursuant to the requirements of laws and regulations and established storage area for storing the hazardous wastes according to categories and standardized management. We engaged qualified collaborative manufacturers to dispose of waste mineral oil, empty oil drums are recovered by factories, while domestic waste are removed and disposed of by the town and community environmental hygiene department.

USE OF RESOURCES

The Group's operations involved the use of electricity, petrol and water. During the year, the group's total energy consumption was 296,599.05 gigajoules (GJ) and its energy consumption intensity was 0.069 GJ per thousand RMB revenue.

The Group's total water consumption during the year was 7,583 cubic meters (m^3) and the water consumption intensity was 0.1829 cubic meters per thousand RMB revenue. We do not have any issues in sourcing water that is fit for purpose.

Packaging materials used for finished products of the Group include carton, PE film, waterproof braided belt and paper tube.

Energy and Fuel Consumption

Category	Consumption in 2018	Unit	Density (RMB0'000 in revenue per unit)
Water	7583.00	cubic meter	0.1829
Electricity	1820.48	0'000 kWh	0.0439
Petrol	3.77	tonne	0.0908
Diesel	758.61	tonne	0.0183
Biomass fuel	7121.47	tonne	0.1718

Use of Packaging Materials

Category	Usage in 2018	Unit	Density (RMB0'000 in revenue per unit)
Carton	20.09	tonne	0.0004
PE film	31.59	tonne	0.0007
Waterproof braided belt	18.77	tonne	0.0004
Paper tube	581.61	tonne	0.0140

Emissions

The Group's emissions include emissions from industrial production, industrial waste-water, and domestic waste-water discharged from employee dormitories, as well as emissions from the use of petrol by vehicles.

We strictly monitors the discharge of waste generated in the production process, regularly arranges environmental protection authorities in their respective jurisdictions or professional testing institutions designated by environmental protection departments to examine the level of soot, noise, exhaust gases and domestic waste-water.

Greenhouse Gas Emissions

Category	2018	Unit	Density (RMB0'000 in revenue per unit)
Ammonia nitrogen	0.0168	tonne	0.0004
Particulates	0.8496	tonne	0.0205
Sulfur dioxide	1.6416	tonne	0.0396
Nitrogen oxides	1.584	tonne	0.0382
Non-methane total hydrocarbon	1.296	tonne	0.0312
Vehicle sulfur oxide	0.00004	tonne	0.0096
Vehicle ammonia nitride	0.00187	tonne	0.0451

Discharge of Wastewater

Category	Discharge in 2018	Unit	Density (RMB0' 000 in revenue per unit)
Wastewater	6000	tonne	0.1447
COD	0.42	tonne	0.0101

Noise Emissions

Day≤65dB (A), Night≤55dB (A).

Wastes

Category	Output in 2018	Unit	Density (RMB0' 000 in revenue per unit)
Waste mineral oil	0.8	t/a	0.0193
Empty oil drum	0.4	t/a	0.0096

EMISSION COMPLIANCE ANALYSIS

Boiler flue gas

The boiler flue gas monitoring is carried out by a third-party assessment body, and the assessment indicators include flue gas flow rate, particulate matter, sulfur dioxide, nitrogen oxide and flue gas blackness. The assessment results show that the emission of sulfur dioxides, NOx conversion concentration and flue gas blackness of boiler flue gas, after bag dust removal and "SNCR+SCR" denitrification, are in accordance with the special emission limit of atmospheric pollutants specified in table 3 of "Emission Standard of Air Pollutants for Boiler" (GB13271-2014).

Organic Exhaust Gas

Through the assessment of the workshop exhaust cylinder by a third-party assessment body, the results show that after the organic exhaust gas is treated by the flue gas electrostatic purification recovery device, the total emission concentration and emission rate of non-methane hydrocarbon are in accordance with the level two standard in table 2 of "Integrated Emission Standard of Air Pollutants" (GB16297-1996).

Domestic Sewage

The wastewater of the Group's production base consists of domestic sewage, non-productive process wastewater discharge, as well as circulating cooling water cycle usage. After the treatment of domestic sewage by septic tanks to meet the level three standard of in table 4 of "Integrated wastewater discharge standard" (GB8978-1996), the ammonia nitrogen content reaches the B level standard in table 1 of "Wastewater Quality Standards For Discharge To Municipal Sewers" (GB/t 31962-2015), and domestic sewage is back into the municipal sewage pipe network and subsequently enters the town sewage treatment plant for further treatment.

Circulating Cooling Water

The cooling water produced by the Group's production bases mainly comes from the roller cooling process. The cooled water from the cooling water tower flows into the cistern, then runs through the pumps to the cooling rollers of each production equipment. Subsequently after roller-cooling, the used water flows back to the cooling tower to continue the cycle of cooling water usage.

Noise

The noise assessment within the factory area is carried out by a third-party assessment body, and the results show that: the noise in the factory area conforms to the types 3 of "Emission Standard for Industrial Enterprises Noise at Boundary" (GB12348-2008), which is equivalent to ≤65dB (A) during day-time and ≤55dB (A) during night-time.

Solid Waste

The solid waste of Group's production bases includes hazardous waste, general industrial solid waste and domestic waste. Hazardous waste includes mineral oil, oil barrels; general industrial solid waste includes material and domestic waste. The Company entrusts qualified third-party companies for the disposal of mineral oil, while oil barrels are recovered by the manufacturers. The environmental and hygiene authorities are commissioned for the clearance domestic waste, while material waste is recycled for further use. Hazardous waste treatment and disposal is broadly in line with the requirements in "Standard for Pollution Control on Hazardous Waste Storage" (GB18597-2001, with revisions in 2013), while the general solid waste disposal is basically in line with the requirements in "Standard for Pollution on The Storage and Disposal Site for General Industrial Solid Wastes" (GB 18599-2001, with revisions in 2013).

Sustainable Development Approach

The Group is committed to maintaining a high level of environmental protection, not only in line with the relevant requirements of applicable laws and regulations, but also through its constant enhancement of raw materials environmental protection guidelines, upgrade of product environmental protection technology requirements, improvement in production and equipment special, and measures for energy saving and emission reduction. The Group strives to achieve the coordinated development of economic benefits, social benefits and environmental protection benefits of enterprises by improving its comprehensive utilization of resources, reducing its pollutant emission concentration and total volume, and implementing energy saving and emission reduction incentives.

At the same time, each production base has developed a safety and environmental management system, and these systems have been filed with the local environmental protection authorities. Emergency leadership groups and working groups have been established. They have learned various emergency handling measures, and regularly organises professional training and emergency drills for our employees. During the year, the enterprises within the Group do not have any major environmental accidents and safety production accidents, and had no complaints form the relevant parties. Meanwhile,. the annual safety and environmental objectives and plans of the production enterprises have been effectively implemented.

In terms of reducing emissions, the Group minimizes the generation of pollutants, disposal of discharged waste in a reasonable and proper manner, and strives to minimize its impact on the natural environment. In terms of energy conservation and resources, the Group always adheres to the policy of energy saving in the production process, paying attention to the use of water resources, electrical energy, thermal energy, etc., while actively advocates the rational use of energy and resources in the actual work of employees, and at the same time increases its investment in energy-saving facilities. Environmental-friendly production processes and equipment have been introduced, while strict energy and resource usage procedures have been formulated, through which the best utilization of energy and resource value has been achieved.

TALENT MANAGEMENT

Employment Policy and Labour Standards

The Group regards human resources as its most important capital. We are committed to maintaining good labour relations with employees by adopting the best social practices. We strictly abide by all applicable labour laws and regulations, including but not limited to the Labour Law of the People's Republic of China (「中華人民共和國勞動法」), the Labour Contract Law of the People's Republic of China (「中華人民共和國勞動合同法」) and the Social Insurance Law of the People's Republic of China「(中華人民共和國社會保險法」). During the year, the Group was not aware of any violation of relevant laws and regulations that have a significant impact on the Group related to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, antidiscrimination, and other benefits and welfare.

As an employer who advocate equal opportunities, we respect and accept our employees of diverse backgrounds and ensure that every employee enjoys equal opportunities, regardless of gender, age, race, religion, social class, marital status, disability or political background. We do not tolerate any form of discrimination or harassment against our employees. All cases of discrimination and harassment are carefully investigated and appropriate actions are taken as appropriate at the Group.

According to the Provisions on the Prohibition of Using Child Labour, the Group ensures that our suppliers do not have forced labour or child labour during their operation process. During the reporting period, the Group was not aware of any violation of laws and regulations that have a significant impact on the Group related to the preventing child labour and forced labour. There were no cases of child labour or forced labour during the year.

In terms of employee benefits, we provide employees with competitive salaries and benefits in the market, including mandatory provident fund and social security benefits. We also regularly review the remuneration package of our employees to ensure that they meet current market standards and to attract and retain talents.

Composition of Employees

As at 31 December 2018, the Company had 430 employees. Set out below are the composition of employees by age, gender, education background and geographical region:

By age group

Year	Aged between 18-25	Aged between 26-35	Aged between 36-45	Aged between 46-55	Over 56
2018	11.6%	34.7%	22.3%	26.3%	5.1%

Gender ratio

Gender	Percentage (%)
Male	71.2%
Female	28.8%

Office employees by education background (other than frontline operators)

Education background	Percentage (%)
Bachelor or above	30.77%
Below bachelor	69.23%

Full-time employees by geographical region

Region	Percentage (%)
Mainland China	98.92%
Hong Kong, Macao and Taiwan and overseas	1.08%

The employees of the Group are mostly aged between 26 to 35, accounting for 34.7%, while those under the age of 25 and over 46 account for 11.6% and 26.3% respectively. The ratio of male to female employees is 71:29. Nearly 30% office employees have a bachelor's degree or above. Nearly 99% of our employees are based in Mainland China.

DEVELOPMENT AND TRAINING

Development and trainings for our employees are critical to the continuing growth of the Group. We are committed to providing the employees with opportunities and work related knowledge and skills, expecting them to reach their full potential. The Group provides its employees with various training courses according to the requirements of its business and production safety, and based on their positions, capabilities and performance. In addition, it has a promotion system, which provides career development opportunities for employees in different positions. During the year, the Group held at least two trainings a week. The total number of employees trained each time was 20 or more, with training hours of no less than one hour each time. It is expected to enhance the skills and knowledge of our employees through such training and development channels, in order to increase the efficiency throughout the Group and thus its competitiveness.

Training frequency in each week	Number of training topics in each week	Training hours each time	Number of employees trained each time
≥2	≥2	≥1 hour	≥20

Health and Safety

The Group is committed to providing employees with a safe and comfortable workplace. We have set up a sound safety facility management system, requiring all subsidiaries to regularly review the company's internal working environment and safety policies, so as to ensure that all operations and facilities comply with the standards and regulations and to protect the health and safety of employees. We strictly abide by laws and regulations related to occupational safety and health, including the Production Safety Law of the People's Republic of China「(中華人民共和國安全生產法」), Law of the People's Republic of China on the Prevention and Control of Occupational Disease (「中華人民共和國職業病防治法」), the Fire Safety Regulation of the People's Republic of China (「中華人民共和國消防法」) and Regulation on Work-Related Injury Insurance (「工傷保險條例」). During the reporting period, the Group was not aware of any violation of laws and regulations that have a significant impact on the Group related to providing a safe working environment and protecting employees from occupational hazards. There were also no cases of work-related fatalities, or occupational diseases.

In order to improve the safety awareness of our employees, we provide occupational safety and health education and training for new recruits, and provide relevant professional safety skill training for new and old employees in different departments and positions. We also conduct production safety, operational safety and regular fire safety training to disseminate the latest occupational safety information to all the employees. The Group has set up a sound communication mechanism. If an employee finds any potential hazards in the factory, they can report the issue via the safety communication mechanism. Upon receipt of the report, the Group will immediately launch an investigation and make corresponding improvement measures to create a safe and helthy production and working environment. During the year, the total headcount of employees undertaking occupational safety and health training was 430, with a coverage of 100%.

COMPLIANCE OPERATIONS

Supply Chain Management

The Group is principally engaged in trading and committed to providing high-quality and reliable products by maintaining a stable and reliable supply chain. In order to ensure that the products meet the safety and quality standards, we cooperate with suppliers of integrity and good reputation. We conduct regular reviews on suppliers and their environmental protection and quality-related certification. If a supplier is found unqualified, the Group will terminate the contract immediately upon investigation and confirmation.

Product Responsibility

The Group is committed to improving product quality, so as to meet customer needs and expectations. We have set up a sound product quality control system and regularly check product quality to ensure that all products and services on sale comply with the requirements of safety and health regulations. In addition, we attach great importance to the feedback from our customers and review the areas that can be further improved. We set up special channels to handle all customer inquiries, feedback, complaints and related after-sales services instantly. If there is a customer complaint, we will conduct an internal investigation through fair, open and impartial channels, provide the investigation results and causes to the affected customer(s) as soon as possible, and make followup remedial measures. When necessary, the management will improve internal control and management systems or facilities to prevent recurrence of similar incidents from occurring again.

We attach great importance to the security of customer information. The Group persistently abides by the Personal Data (Privacy) Ordinance (「個人資料(私隱)條例」) (Chapter 486) and strictly prohibits the dissemination and disclosure of any unauthorized confidential information and customer data by establishing a comprehensive code of service conduct and professional conduct and entering into confidentiality agreements to ensure the safety and confidentiality of customer information.

The Group strictly abides by laws and regulations related to product quality in its operation, including but not limited to the Product Quality Law of the People's Republic of China on「(中華人民共和國產品質量法」) and the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (「中華人民共和國消費者權益保護法」). During the reporting period, the Group was not aware of any violation of laws and regulations that have a significant impact on the Group related to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

Anti-Corruption

The Group stresses integrity and is committed to maintaining high ethical standards and expects our employees and suppliers to share this value. We strictly abide by all applicable anti-corruption laws and regulations, including the Prevention of Bribery Ordinance (「防止賄絡條例」) and the Criminal Law of the People's Republic of China (「中華人民共和國刑法」), and formulate a series of anti-corruption policies and codes of conduct for employees to supervise and investigate suspicious acts related to bribery or dishonesty. We also encourage employees, customers, suppliers and other stakeholders to put forward their opinions on our anti-corruption policies and measures, so as to continuously improve relevant systems and maintain the integrity of the Group.

During the reporting period, the Group was not aware of any violation of laws and regulations that have a significant impact on the Group related to bribery, extortion, fraud and money laundering. The Group was not involved in any corruption cases.

Community Involvement

While promoting business development, the Group does not forget to pay back to the society, hoping to bring positive influence to its local communities. We support the activities valued by the local communities, respect the local culture and values, and aim to consider the interests of the communities in which we operate, encourage employees to participate in community activities, and promote cultural exchanges and cooperative development with the communities.

CONTENT INDEX

Key Performance Indicators	Hong Kong Stock Exchange ESG Reporting Guide	Section/Remarks
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental management
KPI A1.1	The types of emissions and respective emissions data.	Environmental Management — Emissions
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Management — Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Management — Emissions — Greenhouse Gas Emissions
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Management — Emissions — Discharge of Wastewater, Noise Emissions, Wastes
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Environmental Management — Energy Saving and Emission Reduction
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Environmental Management — Emission Compliance Analysis & Environmental Management — Energy Saving and Emission Reduction
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental management
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	Environmental Management — Use of Resources
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Environmental Management — Use of Resources

Key Performance Indicators	Hong Kong Stock Exchange ESG Reporting Guide	Section/Remarks
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Environmental Management — Energy Saving and Emission Reduction
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Environmental Management — Use of Resources
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Environmental Management — Use of Resources
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental management
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental management
B. Social		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Talent Management — Employment Policy and Labour Standards
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Talent Management — Staff Composition
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Talent Management — Health and Safety

Key Performance Indicators	Hong Kong Stock Exchange ESG Reporting Guide	Section/Remarks
KPI B2.1	Number and rate of work-related fatalities.	Talent Management — Health and Safety
KPI B2.2	Lost days due to work injury.	Talent Management — Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Talent Management — Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Talent Management — Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Talent Management — Employment Policy and Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	During the reporting period, no relevant circumstances occurred
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Compliance Operations — Supply Chain Management

Key Performance Indicators	**Hong Kong Stock Exchange ESG Reporting Guide**	**Section/Remarks**
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Compliance Operations — Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Compliance Operations — Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Compliance Operations — Community Investment

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 2018.

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, (ii) conventional materials and (iii) PVC elastic flooring product.

The activities of its principal subsidiaries are set out in note 44 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 15.

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

— 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 Group is dedicated to compliance with the requirements of relevant laws and regulations. Any failure to comply with such requirements may result in termination of the operation permit. The Group has allocated financial and human resources to ensure continuing compliance with the applicable rules and regulations and to maintain good working relationship with regulators through effective communications. During the year under review, the Group has complied with the Listing Rules, the Securities and Futures Ordinance, the Companies Ordinance, the Patent Law of the People's Republic of China, the Contract Law and the Labour Law of the People's Republic of China and other relevant 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.

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 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 62.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: 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 37 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 RMB229.7 million (2017: RMB201.3 million) as at 31 December 2018.

Report of the Directors

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 123.

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 36 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings for the year ended 31 December 2018 are set out in note 32 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 2018.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 25.1% of the Group's total revenue and the sales attributable to the Group's largest customer were approximately 8.9% 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 37.5% of the Group's total cost of sales and the purchases attributable to the Group's largest supplier were approximately 17.3% 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. Huang Wanneng
Mr. Jiang Shisheng

Independent non-executive Directors

Mr. Lau Chun Pong
Mr. Lu Jiayu
Ms. Jiang Ping

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 2018 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.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the heading "Related Party Transactions" in note 42 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 constitutes competition directly or indirectly with the business of the Group for the year ended 31 December 2018.

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 2018, 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 2018, 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.

(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 2018, there were no outstanding share options granted.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2018 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 2018, 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 2018, 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%
Mr. Lin Shengxiong *(Note 1)*	Long position	Interests in controlled corporation	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%

Notes:

1. As at 31 December 2018, 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 2018, 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 2018, 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 2018, 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 2018, 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 42 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 2018.

EVENTS AFTER THE REPORTING PERIOD

As at 31 December 2018, the Group had no significant events after the reporting period (2017: 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, 28 March 2019

Independent Auditor's Report

ZHONGHUI

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 62 to 122, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 ("HKSAs") 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 RMB184,525,000 as at 31 December 2018 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.

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 RMB408,627,000 as at 31 December 2018 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 will 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.

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, 28 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 *RMB'000*	2017 *RMB'000*
REVENUE	*9*	**536,619**	523,799
Cost of sales		**(414,440)**	(405,002)
GROSS PROFIT		**122,179**	118,797
Other income and gains	*10*	**17,454**	7,038
Selling and distribution costs		**(16,480)**	(14,375)
Administrative expenses		**(76,895)**	(60,564)
Other expenses		**(2,181)**	(4,085)
Fair value loss on investment properties		**(200)**	(160)
Impairment of various assets		**(5,727)**	(7,275)
Finance costs	*11*	**(7,048)**	(7,879)
PROFIT BEFORE TAX	*12*	**31,102**	31,497
Income tax credit/(expense)	*13*	**23**	(3,101)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**31,125**	28,396
Other comprehensive income/(expenses) after tax:			
Items that may not be reclassified to profit or loss:			
Exchange differences on translation of non-PRC operations		**6,139**	(8,688)
Items that may be reclassified to profit or loss:			
Exchange differences on translation of non-PRC operations		**(6,063)**	8,613
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**31,201**	28,321
EARNING PER SHARE (RMB cents)	*17*		
— Basic		**3.65**	3.33
— Diluted		**3.65**	3.33

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	18	**408,627**	428,618
Prepaid land lease payments	19	**16,404**	17,049
Investment properties	20	**14,640**	14,840
Intangible assets	21	**13,643**	14,005
Deposits paid for acquisition of property, plant and equipment		**717**	581
Equity investments at fair value through other comprehensive income	22	**4,140**	4,140
Deferred tax assets	23	**3,361**	3,697
Total non-current assets		**461,532**	482,930
Current assets			
Inventories	24	**106,637**	81,689
Trade receivables	25	**89,704**	89,607
Prepayments, deposits and other receivables	26	**10,002**	12,715
Due from ultimate holding company	34	**263**	—
Pledged bank deposits	27	**50,260**	55,975
Cash and cash equivalents	27	**28,200**	31,930
		285,066	271,916
Non-current assets classified as held for sale	28	**4,537**	28,437
Total current assets		**289,603**	300,353
Current liabilities			
Trade and bills payables	29	**263,583**	266,663
Contract liabilities	30	**12,983**	13,950
Other payables and accruals	31	**55,105**	84,846
Interest-bearing borrowings	32	**105,000**	130,000
Deferred income	33	**360**	360
Due to a related party	34	**10,000**	10,000
Due to directors	34	**12,747**	11,102
Finance lease payables	35	**537**	3,666
Tax payable		**13,813**	15,993
Total current liabilities		**474,128**	536,580
Net current liabilities		**(184,525)**	(236,227)
Total assets less current liabilities		**277,007**	246,703

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Finance lease payables	35	—	537
Deferred income	33	**330**	690
Deferred tax liabilities	23	**2,711**	2,711
Total non-current liabilities		**3,041**	3,938
NET ASSETS		**273,966**	242,765
Capital and reserves			
Issued capital	36	**747**	747
Reserves		**273,219**	242,018
TOTAL EQUITY		**273,966**	242,765

The consolidated financial statements on pages 62 to 122 were approved and authorised for issue by the board of directors on 28 March 2019 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 2018

	Issued capital	Capital surplus/share premium*	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Revaluation reserve*	Accumulated losses*	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
At 1 January 2018	**747**	**566,403**	**28,994**	**118,827**	**(8,830)**	**8,133**	**(471,509)**	**242,765**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**76**	**—**	**31,125**	**31,201**
Appropriation to statutory surplus reserve	**—**	**—**	**—**	**4,304**	**—**	**—**	**(4,304)**	**—**
At 31 December 2018	**747**	**566,403**	**28,994**	**123,131**	**(8,754)**	**8,133**	**(444,688)**	**273,966**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**31,102**	31,497
Adjustments for:		
Finance costs	**7,048**	7,879
Interest income	**(298)**	(205)
Depreciation	**33,316**	30,810
Loss on disposals of property, plant and equipment	**443**	1,619
Amortisation of prepaid land lease payments	**645**	645
Amortisation of intangible assets	**562**	561
Recovery of bad debts	**(7,850)**	(450)
Release of deferred income	**(360)**	(360)
Fair value loss on investment properties	**200**	160
Impairment of deposits paid for acquisition of property, plant and equipment	**—**	578
Impairment of trade receivables	**995**	1,166
Impairment of other receivables	**—**	669
Impairment of inventories	**4,732**	4,862
Dividend income from equity investments at fair value through other comprehensive income	**—**	(136)
Operating profit before working capital changes	**70,535**	79,295
Change in inventories	**(29,680)**	(12,544)
Change in trade receivables	**6,758**	(3,847)
Change in prepayments, deposits and other receivables	**2,713**	(429)
Change in trade and bills payables	**(3,080)**	34,351
Change in contract liabilities	**(967)**	979
Change in other payables and accruals	**(5,937)**	(1,425)
Cash generated from operations	**40,342**	96,380
Income tax paid	**(1,821)**	—
Net cash generated from operating activities	**38,521**	96,380

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(25,714)**	(21,273)
Additions of intangible assets	**(200)**	(3,574)
Proceeds from disposals of property, plant and equipment	**—**	(7)
Decrease/(increase) in pledged bank deposits	**5,715**	(14,048)
Proceeds received from disposal of non-current assets held for sale	**11,950**	—
Payment of deposits for acquisition of property, plant and equipment	**(340)**	(32)
Refund of deposits for acquisition of property, plant and equipment	**—**	4,997
Advance to ultimate holding company	**(263)**	—
Interest received	**298**	205
Dividend received	**—**	136
Net cash used in investing activities	**(8,554)**	(33,596)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	**105,000**	197,000
Repayment of bank borrowings	**(130,000)**	(219,000)
Repayment of finance lease payables	**(3,666)**	(1,047)
Repayment to a related party	**—**	(4,000)
Advance from/(repayment to) directors	**1,645**	(10,408)
Finance lease charges paid	**(320)**	(91)
Interest paid	**(6,728)**	(7,788)
Net cash used in financing activities	**(34,069)**	(45,334)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(4,102)**	17,450
Cash and cash equivalents at beginning of year	**31,930**	15,008
Effect on exchange rate changes	**372**	(528)
Cash and cash equivalents at end of year	**28,200**	31,930
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**28,200**	31,930

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 617, 6/F., Seapower Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui 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 ("Reinforced Materials"), (ii) conventional materials ("Conventional Materials") and (iii) PVC elastic flooring product ("PVC Floor") during the year.

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 (the "HKICPA"), 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 RMB184,525,000 as at 31 December 2018 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.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); 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 year and prior years except as stated below.

A. HKFRS 9 (2014) "Financial Instruments"

Available-for-sale investments are now classified as equity investments at fair value through other comprehensive income.

HKFRS 9 (2014) has been applied retrospectively and resulted in changes in the consolidated amounts reported in the consolidated financial statements as follows:

	31 December 2017 *RMB'000*	1 January 2017 *RMB'000*
Decrease in available-for-sale investments	(4,140)	(4,140)
Increase in equity investments at fair value through other comprehensive income	4,140	4,140

B. HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the consolidated financial statements as follows:

	31 December 2017 *RMB'000*	1 January 2017 *RMB'000*
Decrease in other payables and accruals	(13,950)	(12,971)
Increase in contract liabilities	13,950	12,971

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

(c) Translation on consolidation *(continued)*

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.

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%

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Financial assets of the Group are classified under the following categories:

— Financial assets at amortised cost; and

— Equity investments at fair value through other comprehensive income;

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investments.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

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.

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 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.

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.

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 from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other income

Rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportion basis using the effective interest method.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

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 entities comprising the Group 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).

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(B) An entity is related to the Group if any of the following conditions applies: *(continued)*

(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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions and contingent liabilities *(continued)*

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.

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 RMB38,000,000 as at 31 December 2018 and matured within one year. The Directors are of the opinion that the breach of covenants will not have significant effect on the financial position of the Group. Details are explained in note 32.

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.

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. 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.

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. Accordingly, 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 borrowings and deposits at banks. The interest rates and terms of repayment of interest-bearing borrowings are disclosed in note 32.

At 31 December 2018, if interest rates had been 100 basis points higher/lower with all other variables held constant, profit after tax for the year would have been RMB195,000 (2017: RMB178,000) higher/lower, arising mainly as a result of higher/lower interest expense on bank borrowings and higher/lower interest income on bank balances.

6. FINANCIAL RISK MANAGEMENT *(continued)*

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 considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

— internal credit rating;

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— actual or expected significant changes in the operating results of the borrower;

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 120 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when a debtor fails to make contractual payments greater than 365 days past due. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group's credit risk is primarily attributable to its trade and other receivables and deposits with financial institutions.

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 2018, the Group has certain concentration of credit risk as approximately RMB14,961,000 (2017: RMB12,681,000) out of the total trade receivables of approximately RMB89,704,000 (2017: RMB89,607,000) was due from the Group's largest debtor.

(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 2018 and 2017, 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.

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, is as follows:

At 31 December 2018

	Within one year or on demand *RMB'000*	**In the second year** *RMB'000*	**Total** *RMB'000*
Trade and bills payables	**263,583**	**—**	**263,583**
Other payables and accruals	**55,105**	**—**	**55,105**
Due to a related party	**10,000**	**—**	**10,000**
Due to directors	**12,747**	**—**	**12,747**
Finance lease payables	**537**	**—**	**537**
Future finance charges	**46**	**—**	**46**
Principal portion of borrowings	**105,000**	**—**	**105,000**
Interest portion of borrowings	**3,458**	**—**	**3,458**
	450,476	**—**	**450,476**

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

Categories of financial instruments

	2018	2017
	RMB'000	*RMB'000*
Financial assets:		
Equity investments at fair value through other comprehensive income	**4,140**	4,140
Financial assets at amortised cost (including cash and cash equivalents)		
Trade receivables	**89,704**	89,607
Financial assets included in prepayments, deposits and other receivables	**2,265**	3,065
Due from ultimate holding company	**263**	—
Pledged bank deposits	**50,260**	55,975
Cash and cash equivalents	**28,200**	31,930
	174,832	184,717
Financial liabilities:		
Financial liabilities at amortised cost:		
Trade and bills payables	**263,583**	266,663
Financial liabilities included in other payables and accruals	**55,105**	72,896
Finance lease payables	**537**	4,203
Due to a related party	**10,000**	10,000
Due to directors	**12,747**	11,102
Borrowings	**105,000**	130,000
	446,972	494,864

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.

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 2018 and 2017:

At 31 December 2018

	Fair value measurement using:			**Total**
	Level 1	**Level 2**	**Level 3**	**2018**
Description	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurements:				
Investment properties				
Commercial — PRC	**—**	**—**	**14,640**	**14,640**

At 31 December 2017

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

7. FAIR VALUE MEASUREMENTS *(continued)*

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

Description	**Investment properties 2018** *RMB'000*
At 1 January 2018	**14,840**
Fair value loss recognised in profit and loss (#)	**(200)**
At 31 December 2018	**14,640**
# Include losses for assets held at end of reporting period	**(200)**

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

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.

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 avaliable. 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 the 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 2018 *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	14,640

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 Proince, PRC	Income approach	Rental income per square meter: RMB10 per month	Increase	14,840

8. SEGMENT INFORMATION

There is only one operating segment which is principally engaged in the design, development, manufacture and sale of (i) Reinforced Materials, (ii) Conventional Materials and (iii) PVC Floor.

Geographical information

	Revenue from external customers		Non-current assets	
	Year ended 31 December		As at 31 December	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**353,467**	354,746	**454,031**	475,093
Others	**183,152**	169,053	**—**	—
	536,619	523,799	**454,031**	475,093

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 equity investments at fair value through other comprehensive income 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 (2017: 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 (2017: Nil).

9. REVENUE

	2018	2017
	RMB'000	*RMB'000*
Sales of goods	**536,619**	523,799

There is only one operating segment which is principally engaged in the design, development, manufacture and sale of (i) Reinforced Materials, (ii) Conventional Materials and (iii) PVC Floor during the year. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

9. REVENUE *(continued)*

Sales to customers are normally made with credit terms of 30 to 90 days. For new customers, payment in advance is normally required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Disaggregation of revenue from contracts with customers:

	2018	2017
	RMB'000	*RMB'000*
Geographical markets		
PRC	**353,467**	354,746
United States	**48,794**	40,205
Russia	**30,677**	33,853
Others	**103,681**	94,995
Total	**536,619**	523,799

	2018	2017
	RMB'000	*RMB'000*
Major products		
Reinforced Materials	**518,518**	505,399
Conventional Materials	**12,758**	18,400
PVC Floor	**5,343**	—
Total	**536,619**	523,799

The revenue was recognised at a point in time.

10. OTHER INCOME AND GAINS

	2018	2017
	RMB'000	*RMB'000*
Interest income	**298**	205
Government subsidies *(note)*	**5,291**	4,601
Gross rental income	**1,719**	976
Dividend income from equity investments at fair value through other comprehensive income	**—**	136
Recovery of bad debts	**7,850**	450
Sundry income	**2,296**	670
	17,454	7,038

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 2018 and 2017.

11. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans	**6,728**	7,788
Finance leases charges	**320**	91
	7,048	7,879

12. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold *	**414,440**	405,002
Depreciation of property, plant and equipment	**33,316**	30,810
Amortisation of prepaid land lease payments	**645**	645
Amortisation of intangible assets	**562**	561
Loss on disposals of property, plant and equipment	**443**	1,619
Staff costs (including directors' remuneration *(note 14)*):		
Wages and salaries	**27,571**	19,922
Retirement benefit scheme contributions	**1,620**	1,101
Staff welfare expenses	**1,211**	706
	30,402	21,729
Operating lease charges on land and buildings	**1,565**	1,194
Research and development costs	**56,013**	44,488
Exchange (gain)/loss, net	**(547)**	1,552
Fair value loss on investment properties	**200**	160
Impairment of deposits paid for acquisition of property, plant and equipment	**—**	578
Impairment of trade receivables	**995**	1,166
Impairment of other receivables	**—**	669
Impairment of inventories	**4,732**	4,862
Auditors' remuneration	**1,317**	1,301

* Cost of inventories sold includes RMB48,562,000 (2017: RMB40,857,000) 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.

13. INCOME TAX (CREDIT)/EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax — the PRC		
Charge for the year	—	1,513
Over-provision in prior years	(359)	—
Deferred tax *(note 23)*	336	1,588
	(23)	3,101

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 2018 and 2017.

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") are subject to the tax rate of 15% for being a high-tech enterprise. Other subsidiaries are subject to a corporate income tax rate of 25% according to the Enterprise Income Tax Law of the PRC（中華人民共和國企業所得稅法）.

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

	2018 RMB'000	2017 RMB'000
Profit before tax	31,102	31,497
Tax at the applicable tax rate of 25% (2017: 25%)	7,776	7,874
Lower tax rate for specific province or enacted by local authority	(3,961)	(3,370)
Tax effect of income not taxable and expenses not deductible	(9,105)	(5,397)
Over-provision in prior years	(359)	—
Tax effect of tax losses not recognised	5,626	3,994
Income tax (credit)/expense	(23)	3,101

The English name is for identification only

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 2018			
	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	—	950	81	1,031
Mr. Huang Wanneng	—	552	62	614
Mr. Jiang Shisheng	—	329	40	369
	—	1,831	183	2,014
Independent non-executive directors				
Mr. Lau Chun Pong	203	—	10	213
Mr. Lu Jiayu	120	—	—	120
Ms. Jiang Ping	60	—	—	60
	383	—	10	393
Subtotal for directors' emoluments	383	1,831	193	2,407
Senior management	—	2,469	204	2,673
Total	383	4,300	397	5,080

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

		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		—	330	33	363
		—	1,844	143	1,987
Independent non-executive directors					
Mr. Lau Chun Pong		208	—	10	218
Mr. Lu Jiayu		25	39	—	64
Ms. Jiang Ping		25	—	—	25
Mr. Wu Jianhua	*(ii)*	77	—	—	77
Mr. Cai Weican	*(ii)*	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:

(i) Mr. Zhang Hongwang resigned as an executive director on 7 April 2017

(ii) Mr. Wu Jianhua and Mr. Cai Weican were retired as independent non-executive directors on 26 July 2017

15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included 4 (2017: 4) directors, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2017: 1) highest paid individual are set out below:

	2018	2017
	RMB'000	*RMB'000*
Salaries and allowances	**430**	364
Retirement benefit scheme contributions	**15**	16
	445	380

The emoluments of the individual fall within the following band:

	Number of individuals	
	2018	2017
Nil — HK$1,000,000	**1**	1

During the years ended 31 December 2018 and 2017, 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 2018 (2017: 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 RMB31,125,000 (2017: RMB28,396,000) and the weighted average number of approximately 852,612,000 (2017: 852,612,000) ordinary shares in issue during the year.

Diluted earning per share

Diluted earning per share for the years ended 31 December 2018 and 2017 is the same as the basic earning per share as the Company did not have any dilutive potential ordinary shares during the years.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 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 and 1 January 2018	568,239	561,734	3,941	2,694	4,738	8,035	1,149,381
Additions	2,230	8,308	661	—	377	2,192	13,768
Disposals	(1,107)	(36)	—	—	—	—	(1,143)
Transfer	—	9,418	663	—	—	(10,081)	—
At 31 December 2018	569,362	579,424	5,265	2,694	5,115	146	1,162,006
Accumulated depreciation and impairment							
At 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 and 1 January 2018	223,979	486,811	3,941	2,429	3,603	—	720,763
Charge for the year	20,256	12,747	55	98	160	—	33,316
Disposals	(672)	(28)	—	—	—	—	(700)
At 31 December 2018	243,563	499,530	3,996	2,527	3,763	—	753,379
Carrying amount							
At 31 December 2018	325,799	79,894	1,269	167	1,352	146	408,627
At 31 December 2017	344,260	74,923	—	265	1,135	8,035	428,618

At 31 December 2018, certain buildings and plant and machinery with an aggregate carrying amount of approximately RMB289,261,000 (2017: RMB320,298,000) were pledged to secure bank loan facilities granted to the Group (note 32).

19. PREPAID LAND LEASE PAYMENTS

	2018 *RMB'000*	2017 *RMB'000*
Carrying amount at 1 January	**17,530**	18,175
Amortisation	**(645)**	(645)
Carrying amount at 31 December	**16,885**	17,530
Current portion included in prepayments, deposits and other receivables	**(481)**	(481)
Non-current portion	**16,404**	17,049

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

At 31 December 2018, leasehold lands with carrying amount of approximately RMB16,885,000 (2017: RMB17,530,000) were pledged to secure bank loan facilities granted to the Group (note 32).

20. INVESTMENT PROPERTIES

	2018 *RMB'000*	2017 *RMB'000*
At beginning of year	**14,840**	15,000
Fair value loss on revaluation of investment properties	**(200)**	(160)
At end of year	**14,640**	14,840

The estimated aggregate fair value of the investment properties as at 31 December 2018 was approximately RMB14,640,000 (2017:RMB14,840,000), which has been arrived at on the basis of a valuation carried out 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 2018, investment properties with carrying amount of approximately RMB14,640,000 (2017:RMB14,840,000) were pledged to secure bank loan facilities granted to the Group (note 32).

21. INTANGIBLE ASSETS

	Building use right *RMB'000*	Software *RMB'000*	Patent *RMB'000*	Trademark *RMB'000*	Total *RMB'000*
Cost					
At 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 and 1 January 2018	14,016	2,114	50	550	16,730
Additions	200	—	—	—	200
At 31 December 2018	14,216	2,114	50	550	16,930
Accumulated amortisation					
At 1 January 2017	—	2,114	50	—	2,164
Charge for the year	561	—	—	—	561
At 31 December 2017 and 1 January 2018	561	2,114	50	—	2,725
Charge for the year	562	—	—	—	562
At 31 December 2018	1,123	2,114	50	—	3,287
Carrying amount					
At 31 December 2018	13,093	—	—	550	13,643
At 31 December 2017	13,455	—	—	550	14,005

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018	2017
	RMB'000	*RMB'000*
Unlisted equity investment in the PRC	**4,140**	4,140

The above investments are intended to be held for the medium to long-term. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss. The cost of the equity investments at fair value through other comprehensive income approximate its fair value and is an appropriate estimate of fair value since there is insufficient more recent information available to measure the fair value.

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:

Deferred tax assets	Fair value change of investment properties	Tax losses	Accrued social fund	Accrued sales rebate	Unapproved accelerated depreciation and amortisation and impairment	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 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 and 1 January 2018	565	409	775	1,500	407	41	3,697
Deferred tax credited/(charged) to profit or loss during the year *(note 13)*	50	(409)	—	—	—	23	(336)
At 31 December 2018	615	—	775	1,500	407	64	3,361

23. DEFERRED TAX *(continued)*

Deferred tax liabilities

	Fair value change of revaluation of property, plant and equipment	Total
	RMB'000	*RMB'000*
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	2,711	2,711

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

	2018	2017
	RMB'000	*RMB'000*
Tax losses	**86,181**	67,968

The Group also has tax losses arising in the PRC of approximately RMB86,181,000 (2017: RMB70,690,000) 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

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**54,587**	44,024
Work in progress	**10,047**	7,603
Finished goods	**42,003**	30,062
	106,637	81,689

25. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**94,688**	93,596
Provision for loss allowance	**(4,984)**	(3,989)
Carrying amount	**89,704**	89,607

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:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**84,111**	80,502
More than 3 months but within 6 months	**2,930**	4,707
More than 6 months but within 1 year	**376**	3,984
More than 1 year	**2,287**	414
	89,704	89,607

Reconciliation of loss allowance for trade receivables:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**3,989**	2,823
Increase in loss allowance for the year	**995**	1,166
At 31 December	**4,984**	3,989

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The weighted average expected credit losses also incorporate forward looking information.

25. TRADE RECEIVABLES *(continued)*

	Current	Within 30 days past due	31-60 days past due	61-120 days past due	Over 120 days past due	Total
At 31 December 2018						
Weighted average expected loss rate	0%	0%	4%	12%	64%	
Receivable amount *(RMB'000)*	74,325	7,786	3,572	1,744	7,261	94,688
Loss allowance *(RMB'000)*	—	—	134	216	4,634	4,984
At 31 December 2017						
Weighted average expected loss rate	0%	0%	0%	0%	53%	
Receivable amount *(RMB'000)*	75,031	4,986	2,044	4,019	7,516	93,596
Loss allowance *(RMB'000)*	—	—	—	—	3,989	3,989

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Advances to suppliers *(note)*	**6,009**	5,754
Prepaid sales tax and government surcharges	**1,247**	3,267
Prepaid expenses	**481**	629
Other receivables	**2,265**	3,065
	10,002	12,715

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

	2018	2017
	RMB'000	*RMB'000*
Cash and bank balances	**78,460**	87,905
Less: Pledged bank deposits	**(50,260)**	(55,975)
Cash and cash equivalents	**28,200**	31,930

At the end of the reporting period, the Group's cash and bank balances denominated in RMB were approximately RMB74,475,000 (2017: RMB80,241,000). 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 2018, bank deposits of RMB50,260,000 (2017: RMB55,975,000) were pledged to secure the banking facilities granted to the Group.

28. NON-CURRENT ASSETS HELD FOR SALE

	2018	2017
	RMB'000	*RMB'000*
The classes of assets classified as held for sale are as follows:		
Property, plant and equipment	**3,880**	23,369
Prepaid land lease payments	**657**	5,068
	4,537	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 the 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 2018, the disposal of property, plant and equipment and prepaid land lease payments with an aggregate carrying amount of RMB23,900,000 was completed and the remaining is still in process and subject to approval 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 RMB8,979,000 and RMB82,000 were recognised in 2015 for property, plant and equipment and prepaid land lease payments, respectively.

29. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**93,879**	76,874
Bills payables	**169,704**	189,789
	263,583	266,663

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**162,067**	156,485
More than 3 months but within 6 months	**99,515**	108,357
More than 6 months but within 1 year	**1,881**	1,540
More than 1 year	**120**	281
	263,583	266,663

30. CONTRACT LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	**12,983**	13,950	12,971

	2018	2017
	RMB'000	*RMB'000*
Revenue recognised in the year that was included in contract liabilities at beginning of year	**7,374**	10,249

30. CONTRACT LIABILITIES *(continued)*

Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:

	2018	2017
	RMB'000	*RMB'000*
2018	**—**	13,950
2019	**12,983**	—
	12,983	13,950

Significant changes in contract liabilities during the years

	2018	2017
	RMB'000	*RMB'000*
Increase due to operations in the year	**94,889**	108,797
Transfer of contract liabilities to revenue	**(95,856)**	(107,818)

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

31. OTHER PAYABLES AND ACCRUALS

	2018	2017
	RMB'000	*RMB'000*
Accrued liabilities	**22,105**	20,653
Payroll payables	**4,674**	5,286
Payable for the acquisition of property, plant and equipment	**23,430**	35,580
Deposit received for non-current asset held for sale	**—**	11,950
Others	**4,896**	11,377
	55,105	84,846

32. INTEREST-BEARING BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Bank loans — Secured	5.22%-6.50%	2018	**105,000**	5.22%-6.00%	2017	130,000
Repayable:						
Within one year or on demand			**105,000**			130,000

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 RMB289,261,000 (2017: RMB320,298,000);

(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 RMB16,885,000 (2017: RMB17,530,000); 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 RMB14,640,000 (2017: RMB14,840,000).

(ii) The Group has breached certain financial covenants in respect of secured bank loans with an outstanding balance of RMB38,000,000 (2017: RMB110,000,000) with maturity of less than one year. The Group is in the process of negotiation with the bank on renewals of those bank loans.

33. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Government grants		
At 1 January	**1,050**	1,410
Released during the year	**(360)**	(360)
At 31 December	**690**	1,050
Current	**360**	360
Non-current	**330**	690
	690	1,050

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.

34. DUE FROM/TO ULTIMATE HOLDING COMPANY/A RELATED PARTY/DIRECTORS

	2018 RMB'000	2017 RMB'000
Due from ultimate holding company		
Hopeland International Holdings Company Limited	**263**	—
Due to a related party		
Ms. Lin Hongting, the spouse of Mr. Lin	**10,000**	10,000
Due to directors		
Mr. Lin	**9,377**	9,302
Mr. Huang Wanneng	**3,370**	1,800
	12,747	11,102

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

35. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**583**	3,986	**537**	3,666
In the second to fifth years, inclusive	**—**	583	**—**	537
	583	4,569	**537**	4,203
Less: Future finance charges	**(46)**	(366)		
Present value of lease obligations	**537**	4,203	**537**	4,203
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(537)**	(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 2018, the average effective borrowing rate was 11.85% (2017: 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.

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 2018, the total future minimum sublease payments expected to be received under non-cancellable subleases amounted to RMB583,000 (2017: RMB4,569,000).

36. SHARE CAPITAL

	2018 RMB'000	2017 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.

37. 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.

37. RESERVES *(continued)*

a) Group *(continued)*

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.

b) Company

	Share premium	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	877,157	(546)	(662,914)	213,697
Total comprehensive expenses for the year	—	(8,688)	(3,760)	(12,448)
At 31 December 2017	877,157	(9,234)	(666,674)	201,249
Total comprehensive expenses for the year	—	6,139	(4,817)	1,322
At 31 December 2018	877,157	(3,095)	(671,491)	202,571

38. 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	Due to a related party	Due to directors	Finance lease payables	Total liabilities from financing activities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	152,000	14,000	21,510	—	187,510
Changes in cash flows	(29,788)	(4,000)	(10,408)	(1,138)	(45,334)
Non-cash changes					
— interest charged	7,788	—	—	91	7,879
— additions	—	—	—	5,250	5,250
At 31 December 2017 and 1 January 2018	130,000	10,000	11,102	4,203	155,305
Changes in cash flows	(31,728)	—	1,645	(3,986)	(34,069)
Non-cash changes					
— interest charged	6,728	—	—	320	7,048
At 31 December 2018	105,000	10,000	12,747	537	128,284

39. COMMITMENTS

(a) Commitments under operating leases

As lessor

The Group leases certain of its factory properties and building use right under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

39. COMMITMENTS *(continued)*

(a) Commitments under operating leases *(continued)*

As lessor *(continued)*

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

	2018	2017
	RMB'000	*RMB'000*
Within one year	**1,996**	976
In the second to fifth years, inclusive	**5,618**	814
Over 5 years	**6,077**	—
	13,691	1,790

As lessee

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

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

	2018	2017
	RMB'000	*RMB'000*
Within one year	**895**	377
In the second to fifth years, inclusive	**954**	581
	1,849	958

39. COMMITMENTS *(continued)*

(b) Capital commitments

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

	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment		
Contracted but not provided for	**437**	746

40. CONTINGENT LIABILITIES

At 31 December 2018, the Group did not have any significant contingent liabilities (2017: Nil).

41. 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.

42. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, as at 31 December 2018, the ultimate shareholder and a family member of the ultimate shareholder have guaranteed bank loans made to the Group of approximately RMB85,000,000 (2017: RMB110,000,000).

43. EVENTS AFTER THE REPORTING PERIOD

As at December 2018, the Group had no significant events after the reporting period (2017: Nil).

44. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows:

Company name	Place of incorporation/ registration/ operation	Paid-up 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	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.

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

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries		**89,340**	89,340
Current assets			
Due from a subsidiary		**120,852**	120,035
Cash and cash equivalents		**22**	21
		120,874	120,056
Current liabilities			
Other payables and accruals		**5,439**	6,018
Due to a director		**1,457**	1,382
		6,896	7,400
Net current assets		**113,978**	112,656
Total assets less current liabilities		**203,318**	201,996
NET ASSETS		**203,318**	201,996
Capital and reserves			
Issued capital	*36*	**747**	747
Reserves	*37(b)*	**202,571**	201,249
TOTAL EQUITY		**203,318**	201,996

46. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

Five-year Financial Summary

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**536,619**	523,799	472,688	466,531	682,858
Gross profit	**122,179**	118,797	94,267	5,460	48,112
PROFIT/(LOSS) BEFORE TAX	**31,102**	31,497	18,802	(685,136)	(149,028)
PROFIT/(LOSS) FOR THE YEAR	**31,125**	28,396	22,252	(692,444)	(159,573)
Attributable to:					
Owners of the Company	**31,125**	28,396	22,252	(692,217)	(159,227)
Non-controlling interests	**—**	—	—	(227)	(346)
	31,125	28,396	22,252	(692,444)	(159,573)
Basic earnings/(loss) per share (RMB cents)	**3.65**	3.33	2.61	(81.19)	(18.68)

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**751,135**	783,283	765,148	801,806	1,689,849
Equity and liabilities					
Total liabilities	**477,169**	540,518	550,704	607,090	795,776
Total equity	**273,966**	242,765	214,444	194,716	894,073