CHINA LONGEVITY

CHINA LONGEVITY GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1863

2019
Interim Report

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 *(Chairman)*
Mr. Lu Jiayu
Mr. Lau Chun Pong

COMPANY SECRETARY

Mr. Chow Yiu Wah, Joseph

AUTHORISED REPRESENTATIVES

Mr. Lin Shengxiong
Mr. Chow Yiu Wah, Joseph

INDEPENDENT AUDITORS

ZHONGHUI ANDA CPA Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 617, 6/F., Seapower Tower,
Concordia Plaza,
1 Science Museum Road,
Tsim Sha Tsui East,
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

1863

CORPORATE WEBSITE

http://www.chinalongevity.hk

INVESTOR RELATIONS CONTACT

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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. Given the diversified applications of the Reinforced Materials and end-use products, the Group's products can be applied in eleven 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 several international standards, allowing it to be broadly used in a wide variety of fields including education, medicine, commerce, sports, office environments, industrial use, transport, and everyday household items.

Revenue for the period under review was approximately RMB318.1 million, representing an increase of approximately RMB57.2 million, or 21.9%, compared to revenue of approximately RMB260.9 million for the same period last year. The increase was primarily 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 ("Conventional Materials") and (iii) PVC Floor. The Group generated most of its revenue from the Reinforced Materials which accounted for approximately 94.75% (30 June 2018: 97.57%) of total revenue. Local sales continued to be the Group's major source of revenue, representing approximately 67% (30 June 2018: 65%) of the total revenue while export sales only accounted for approximately 33% (30 June 2018: 35%) of the total revenue.

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

	For the six months ended 30 June			
	2019		2018	
	(RMB million)	**% of Total Revenue**	(RMB million)	% of Total Revenue
Reinforced Materials	**301.41**	**94.75**	254.60	97.57
Conventional Materials	**3.15**	**0.99**	6.26	2.40
PVC Floor	**13.57**	**4.26**	0.08	0.03
	318.13	**100.00**	260.94	100.00

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

	For the six months ended 30 June	
	2019 (RMB million)	2018 (RMB million)
PRC	**213.26**	168.64
Others	**104.87**	92.30
	318.13	260.94

Reinforced Materials

For the period under review, in respect of the Reinforced Materials, the Group delivered the most in drop stitch fabric, tarpaulin materials and inflatable materials. Drop stitch fabric is a new material successfully developed and launched in the market after three years of research and development. The strategy of the Group is to innovate more new products and to leverage its leading marketing position and offer products at a competitive price.

As at 30 June 2019, the Group owned a total of 62 patents of which 38 on invention and 19 on practical new models and 5 on software copyright.

For the period under review, the Group's revenue generated from Reinforced Materials amounted to approximately RMB301.4 million (30 June 2018: RMB254.6 million) which accounted for approximately 94.8% (30 June 2018: 97.6%) of the Group's total revenue, representing an increase in sales of approximately 18.4%. An increase in revenue generated from Reinforced Material is mainly attributable to the increase in demand for the high-end new product, especially in drop stitch fabric. The Group achieved revenue from sale of drop stitch fabric of approximately RMB100.9 million (30 June 2018: RMB69 million). This revenue was accounted for 31.7% (30 June 2018: 26.5%) of the Group's total revenue for the period under review with a gross profit margin of approximately 44.72%, representing an increase of 45.65% as compared with the revenue in the same period in 2018.

Conventional Materials

For the period under review, the Group's revenue generated from the Conventional Materials amounted to approximately RMB3.2 million (30 June 2018: RMB6.3 million) which accounted for approximately 0.99% (30 June 2018: 2.4%) of total revenue, representing a decrease in sales of approximately 49.7%, which was mainly due to the structural adjustment of Conventional Materials to Reinforced Materials.

PVC Floor

The Group commenced trial manufacture of PVC Floor in 2018 and during the period under review, generated revenue of approximately RMB13.6 million (30 June 2018: RMB0.1 million), which accounted for approximately 4.3% of the total revenue (30 June 2018: 0.03%).

FINANCIAL REVIEW

Financial Results

Revenue

The Group's revenue for the six months ended 30 June 2019 was approximately RMB318.1 million, representing an increase of approximately RMB57.2 million, or 21.9%, compared to revenue of approximately RMB260.9 million for the same period last year. For the period under review, the Group's major sales segments, namely, (1) Reinforced Materials reported revenue of approximately RMB301.4 million (30 June 2018: RMB254.6 million), (2) Conventional Materials recorded a revenue of approximately RMB3.2 million (30 June 2018: RMB6.3 million), and (3) PVC Floor generated a revenue of approximately RMB13.6 million (30 June 2018: RMB0.1 million) from its new products, PVC flooring materials.

Gross Profit and Gross Margin

Gross profit was approximately RMB73 million for the period under review (30 June 2018: approximately RMB56 million), with the gross profit margin of approximately 22.9% (30 June 2018: 21.5%). The increase in gross profit margin was mainly due to attributable to the higher profit margin from the product of drop stitch fabric.

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

	For the six months ended 30 June	
	2019	2018
	%	%
Reinforced Materials	**24.9**	21.9
Conventional Materials	**5.5**	4.9
PVC Floor	**(17.1)**	(5.0)
Overall	**22.9**	21.5

Selling and Distribution Costs

For the period under review, selling and distribution costs increased by approximately RMB3.8 million to approximately RMB10 million, or 3.1% of revenue for the period under review, from approximately RMB6.1 million, or 2.3% of revenue for the same period last year. The increase was mainly due to an increase in salaries, advertising and marketing expenses.

Administrative Expenses

For the period under review, administrative expenses increased by approximately RMB13.9 million or 43% to approximately RMB46.0 million. The increase in administrative expenses was mainly due to an increase in research and development and consultancy expenses.

Research and Development

For the period under review, research and development (the “R&D”) costs amounted to approximately RMB29.1 million, or 9.1% of revenue (30 June 2018: RMB22.4 million, or 8.6% of revenue). The Group believes that its on-going R&D efforts are critical in maintaining long-term competitiveness, retaining existing customers, enhancing its ability to attract new customers and developing new markets. The Group continues to dedicate resources to the R&D activities in its Fuzhou and Shanghai plants aiming to lower the cost of raw materials, streamline manufacturing processes, increase production capacities, develop high value-added new materials, and expand new application of the products and customer sales market.

Impairments of assets

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

For the period under review, impairments have been recognised for trade receivables in the amount of RMBNil (30 June 2018: RMB0.2 million) due to long outstanding.

Finance Costs

Finance costs for the period under review was approximately RMB3.0 million (30 June 2018: RMB3.8 million). The decrease was mainly due to decrease in interest-bearing bank borrowings.

Interest Income

Interest income amounted to approximately RMB0.2 million for the period under review (30 June 2018: approximately RMB0.1 million).

Income Tax

For the period under review, the Group had an overall income tax expense of approximately RMB0.5 million (30 June 2018: RMB2.4 million).

Profit for the Period

For the period ended 30 June 2019, the Group recorded a profit attributable to owners of the Company approximately RMB16.5 million, or RMB1.94 cents for basic earnings per share. As at the same period last year, the Group recorded a profit attributable to owners of the Company of approximately RMB11.8 million, or RMB1.38 cents for basic earnings per share. The weighted average number of ordinary shares of 852,612,470 in issue during the period ended 30 June 2019 (30 June 2018: 852,612,470).

Dividends

The Board has resolved not to pay any interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

Liquidity and Financial Resources

Total Equity

As at 30 June 2019, total equity amounted to approximately RMB290.4 million, representing an increase of 6%, compared to approximately RMB274.0 million as at 31 December 2018.

Financial Position

As at 30 June 2019, the Group had total current asset of approximately RMB295.9 million (31 December 2018: RMB289.6 million) and total current liabilities of approximately RMB455.0 million (31 December 2018: RMB474.1 million), with net current liabilities of approximately RMB159.1 million. (31 December 2018: RMB184.5 million)

As at 30 June 2019, the Group's net gearing (expressed as a percentage of total interest-bearing liabilities to total assets) was at 11.8%, as compared to 14.1% as at 31 December 2018.

Cash and Cash Equivalents

As at 30 June 2019, the Group had cash and cash equivalents of approximately RMB36.0 million (31 December 2018: RMB28.2 million), most of which were denominated in Renminbi ("RMB").

Bank Borrowings

As at 30 June 2019, the Group had interest-bearing bank borrowings of approximately RMB86.0 million (31 December 2018: RMB105.0 million).

Contingent Liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

Capital Commitments

As at 30 June 2019, capital commitment of the Group amounted to approximately RMB2.5 million (31 December 2018: RMB0.4 million). The capital commitment will be funded partly by internal resources and partly by bank borrowings.

Pledge of Assets

As at 30 June 2019, the Group's buildings, plant and machinery of approximately RMB278.5 million (31 December 2018: RMB289.3 million), right-of-use assets of approximately RMB16.6 million (31 December 2018: prepaid land lease payments of RMB16.9 million), investment properties of approximately RMB14.6 million (31 December 2018: RMB14.6 million) and bank deposits of approximately RMB49.1 million (31 December 2018: RMB50.3 million) were pledged to banks to secure bank loans and general banking facilities granted.

Events After The Reporting Period

There were no significant events after the reporting period.

Human Resources

As at 30 June 2019, the Group employed a total of 504 employees (31 December 2018: 430 employees).

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

Exposure to fluctuations in exchange rates and related hedge

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

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

Save as disclosed above, there has been no material change in the development or future development of the Group's business and financial position, and no important event affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2018.

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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	4	**318,133**	260,939
Cost of sales		**(245,290)**	(204,963)
GROSS PROFIT		**72,843**	55,976
Other income and gains	5	**3,834**	2,747
Selling and distribution costs		**(9,950)**	(6,101)
Administrative expenses		**(45,960)**	(32,115)
Other expenses		**(671)**	(2,369)
PROFIT FROM OPERATIONS		**20,096**	18,138
Impairment of trade receivables		**—**	(175)
Finance costs	6	**(3,024)**	(3,844)
PROFIT BEFORE TAX	7	**17,072**	14,119
Income tax expenses	8	**(537)**	(2,356)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**16,535**	11,763
Other comprehensive income/(expenses) after tax:			
Items that may not be reclassified to profit or loss:			
Exchange differences on translation of non-PRC operations		**5,678**	1,339
Items that may be reclassified to profit or loss:			
Exchange differences on translation of non-PRC operations		**(5,738)**	(1,265)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**16,475**	11,837
EARNING PER SHARE (RMB cents)	10		
— Basic		**1.94**	1.38
— Diluted		**1.94**	1.38

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**388,178**	408,627
Prepaid land lease payments		**—**	16,404
Right-of-use assets		**27,138**	—
Investment properties		**14,640**	14,640
Intangible assets		**13,655**	13,643
Deposits paid for acquisition of property, plant and equipment		**2,661**	717
Equity investments at fair value through other comprehensive income		**4,140**	4,140
Deferred tax assets		**3,372**	3,361
Total non-current assets		**453,784**	461,532
Current assets			
Inventories		**117,213**	106,637
Trade receivables	12	**82,347**	89,704
Prepayments, deposits and other receivables	13	**6,770**	10,002
Due from ultimate holding company	19	**—**	263
Pledged bank deposits		**49,059**	50,260
Cash and cash equivalents		**36,013**	28,200
		291,402	285,066
Non-current assets classified as held for sale		**4,537**	4,537
Total current assets		**295,939**	289,603
Current liabilities			
Trade and bills payables	14	**257,428**	263,583
Contract liabilities		**20,075**	12,983
Lease liabilities		**1,202**	—
Other payables and accruals	15	**55,069**	55,105
Interest-bearing borrowings	16	**86,000**	105,000
Deferred income		**360**	360
Due to a related party	19	**10,000**	10,000
Due to directors	19	**12,384**	12,747
Finance lease payables		**—**	537
Tax payable		**12,489**	13,813
Total current liabilities		**455,007**	474,128
Net current liabilities		**(159,068)**	(184,525)
Total assets less current liabilities		**294,716**	277,007

	Notes	**As at 30 June 2019 RMB'000 (Unaudited)**	As at 31 December 2018 RMB'000 (Audited)
Non-current liabilities			
Lease liabilities		**1,414**	—
Deferred income		**150**	330
Deferred tax liabilities		**2,711**	2,711
Total non-current liabilities		**4,275**	3,041
NET ASSETS		**290,441**	273,966
Capital and reserves			
Issued capital		**747**	747
Reserves		**289,694**	273,219
TOTAL EQUITY		**290,441**	273,966

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**40,673**	23,455
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(11,248)**	(8,139)
Decrease in pledged bank deposits	**1,201**	5,972
Proceeds received from disposal of non-current assets held for sale	**—**	11,672
Other investing cash flows	**(29)**	(77)
Net cash (used in)/generated from investing activities	**(10,076)**	9,428
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	**19,000**	—
Repayment of bank borrowings	**(38,000)**	(25,000)
(Repayment to)/advance from directors	**(363)**	1,170
Other financing cash flows	**(3,369)**	(5,587)
Net cash used in financing activities	**(22,732)**	(29,417)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,865**	3,466
Cash and cash equivalents at beginning of period	**28,200**	31,930
Effect on exchange rate changes	**(52)**	143
Cash and cash equivalents at end of period	**36,013**	35,539
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**36,013**	35,539

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Issued capital RMB'000	Capital surplus/ share premium* RMB'000	Capital reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Revaluation reserve* RMB'000	Accumulated losses* RMB'000	Total equity RMB'000
At 1 January 2018 (audited)	747	566,403	28,994	118,827	(8,830)	8,133	(471,509)	242,765
Total comprehensive income for the period (unaudited)	–	–	–	–	74	–	11,763	11,837
At 30 June 2018 (unaudited)	747	566,403	28,994	118,827	(8,756)	8,133	(459,746)	254,602
At 1 January 2019 (audited)	**747**	**566,403**	**28,994**	**123,131**	**(8,754)**	**8,133**	**(444,688)**	**273,966**
Total comprehensive income for the period (unaudited)	**–**	**–**	**–**	**–**	**(60)**	**–**	**16,535**	**16,475**
At 30 June 2019 (unaudited)	**747**	**566,403**	**28,994**	**123,131**	**(8,814)**	**8,133**	**(428,153)**	**290,441**

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

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 period.

In the opinion of the directors of the Company (the "Directors"), as at the date of issue of the condensed consolidated interim financial statements ("Interim 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 Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("Interim Financial Reporting") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Interim Financial Statements do not included all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's 2018 annual consolidated financial statements for the year ended 31 December 2018 ("2018 Annual Report"). The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in 2018 Annual Report except as stated below.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land and buildings	2% — 60%
Machinery	10%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

2. BASIS OF PREPARATION *(Continued)*

Leases *(Continued)*

The Group as lessee *(Continued)*

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

The Group as lessor

Operating leases

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.

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

In the current period, 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 2019. 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 financial statements and amounts reported for the current period and prior years.

HKFRS 16

On adoption of HKFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as 'operating leases' under HKAS 17 "Leases", resulted in changes in the consolidated amounts reported in the financial statement as follows:

	1 January 2019 **RMB'000**
At 1 January 2019:	
Increase in right-of-use assets	**26,934**
Increase in lease liabilities	**(2,173)**
Decrease in property, plant and equipments	**(7,876)**
Decrease in prepaid land lease payments	**(16,404)**
Decrease in prepayments, deposits and other receivables	**(481)**
Decrease in finance lease payables	**537**

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16 *(Continued)*

The reconciliation of operating lease commitment to lease liabilities as at 1 January 2019 is set out below:

	RMB'000
Operating lease commitment at 31 December 2018:	1,849
Add:	
Finance lease payables	537
Less:	
Commitment relating to leases with a remaining lease term ending on or before 30 June 2019 and low-value assets	(95)
Discounting	(118)
Lease liabilities as at 1 January 2019	2,173

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. REVENUE

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Sales of goods	**318,133**	260,939

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 periods. 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.

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.

4. REVENUE *(Continued)*

Disaggregation of revenue from contracts with customers:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Geographical markets		
The People's Republic of China (the "PRC")	**213,264**	168,642
Others	**104,869**	92,297
Total	**318,133**	260,939

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Major products		
Reinforced Materials	**301,416**	254,601
Conventional Materials	**3,150**	6,255
PVC Floor	**13,567**	83
Total	**318,133**	260,939

The revenue was recognised at a point in time.

Information about major customers

No revenue from transactions with a single customer amounted to 10% or more of the Group's total sales for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Bank interest income	**194**	109
Government subsidies (note)	**2,347**	541
Gross rental income	**959**	466
Dividend income from equity investments at fair value through other comprehensive income	**—**	67
Recovery of bad debts	**—**	1,395
Sundry income	**334**	169
	3,834	2,747

Note: Government subsidies are received and used for development of new products and implementation of environmental protection development programmes. These government subsidies are not attributable to any non-current assets and there are no other specific conditions attached to the subsidies. Therefore, the Group recognised the subsidies upon receipt during the six months ended 30 June 2019 and 2018.

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Leases interest	**103**	—
Interest on bank loans	**2,921**	3,668
Finance leases charges	**—**	176
	3,024	3,844

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Directors' remuneration	**1,251**	1,197
Depreciation of property, plant and equipment	**17,580**	16,722
Amortisation of intangible assets	**288**	316
(Gain)/loss on disposals of property, plant and equipment	**(8)**	1

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax — the PRC		
Charge for the period	**575**	2,395
Deferred tax	**(38)**	(39)
	537	2,356

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. No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong during the six months ended 30 June 2019 and 2018.

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）.

9. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

The English name is for identification only

10. 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 six months ended 30 June 2019 attributable to owners of the Company of approximately RMB16,535,000 (six months ended 30 June 2018: RMB11,763,000) and the weighted average number of approximately 852,612,000 (six months ended 30 June 2018: 852,612,000) ordinary shares in issue during the period.

Diluted earning per share

Diluted earning per share for the six months ended 30 June 2019 and 2018 is the same as the basic earning per share as the Company did not have any dilutive potential ordinary shares during the periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment at a total cost of RMB5,074,000 (six months ended 30 June 2018: RMB8,080,000).

During the six months ended 30 June 2019, property, plant and equipment with a carrying amount of RMB129,000 (six months ended 30 June 2018: RMB1,000) were disposed of by the Group, resulting in a gain on disposals of RMB8,000 (six months ended 30 June 2018: loss on disposals of RMB1,000).

12. TRADE RECEIVABLES

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

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

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Within 3 months	**77,391**	84,111
More than 3 months but within 6 months	**2,529**	2,930
More than 6 months but within 1 year	**76**	376
More than 1 year	**2,351**	2,287
	82,347	89,704

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Advances to suppliers (note)	**3,291**	6,009
Prepaid sales tax and government surcharges	**1,501**	1,247
Prepaid expenses	**12**	481
Other receivables	**1,966**	2,265
	6,770	10,002

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

14. TRADE AND BILLS PAYABLES

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Trade payables	**90,589**	93,879
Bills payables	**166,839**	169,704
	257,428	263,583

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

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Within 3 months	**170,474**	162,067
More than 3 months but within 6 months	**86,147**	99,515
More than 6 months but within 1 year	**373**	1,881
More than 1 year	**434**	120
	257,428	263,583

15. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Accrued liabilities	**26,813**	22,105
Payroll payables	**4,345**	4,674
Payable for the acquisition of property, plant and equipment	**19,983**	23,430
Others	**3,928**	4,896
	55,069	55,105

16. INTEREST-BEARING BORROWINGS

During the period under review, the Group obtained new bank loans of RMB19,000,000 as additional working capital (six months ended 30 June 2018: Nil) and made repayments of bank loans of RMB38,000,000 (six months ended 30 June 2018: RMB25,000,000)

17. CAPITAL COMMITMENTS

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

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Property, plant and equipment		
Contracted but not provided for	**2,482**	437

18. CONTINGENT LIABILITIES

At 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

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

(a) Related party transactions

At 30 June 2019, the ultimate shareholder and a family member of the ultimate shareholder guaranteed bank loans made to the Group of approximately RMB66,000,000 (30 June 2018: RMB85,000,000).

(b) Outstanding balances with related parties

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Due from ultimate holding company		
Hopeland International	–	263
Due to a related party		
Ms. Lin Hongting, the spouse of Mr. Lin	10,000	10,000
Due to directors		
Mr. Lin	9,114	9,377
Mr. Huang Wanneng	3,270	3,370
	12,384	12,747

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

(c) Key management compensation

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

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Short-term employee benefits	2,715	2,211
Post-employment benefits	199	207
	2,914	2,418

20. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.

21. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the board of directors on 29 August 2019.