



CHINA LONGEVITY GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1863



2019 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 (*Chairman*)
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

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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,
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

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INVESTOR RELATIONS CONTACT

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FINANCIAL HIGHLIGHTS

	2019	2018
Results		
Revenue (RMB million)	660.5	536.6
Gross profit (RMB million)	145.0	122.2
Profit before tax (RMB million)	44.2	31.1
Profit for the year attributable to Owners of the Company (RMB million)	40.4	31.1
Basic earning per share (RMB cents)	4.74	3.65
Gross profit margin (%)	22.0	22.8
Financial position		
Cash and cash equivalents (RMB million)	26.4	28.2
Total assets (RMB million)	784.6	751.1
Total debts (RMB million)	466.4	477.2
Total equity (RMB million)	318.2	274.0
Current ratio (Times)	0.7	0.6
Quick ratio (Times)	0.5	0.4
Gearing – borrowings to total assets (%)	11.6	14.1
Efficiency ratios		
Average trade receivables turnover (Days)	57	61
Average trade payables turnover (Days)	71	75
Average inventories turnover (Days)	79	83
Cash conversion (Days)	65	69

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 2019 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 23.1% from approximately RMB536.6 million last year to approximately RMB660.5 million. The profit attributable to shareholders for the year was approximately RMB40.4 million as compared to the profit approximately of RMB31.1 million for the previous year. The reason for the increase is due to increase in gross profit for the year arising from the increase in sales.

During the year ended 31 December 2019, the Group continued to focus on the business of PVC and TPU material products as well as the super core flooring business of Sijia. Besides maintaining the business relationship with our loyal customers for more than ten years, we put our best efforts on finding new customers to increase our shares in both domestic and foreign markets.

As stated in note 28 and 38(a) to the consolidated financial statements, the non-current assets held for sale with an aggregate carrying amount of approximately RMB4,537,000 was completed and gain of approximately RMB587,000 arose from the disposal of a subsidiary was recognised for the year ended 31 December 2019.

The international political economy was tumultuous in 2019. The 2018 market downturn was further exacerbated by the ongoing Sino-US trade war and the outbreak of COVID-19, the Group envisages 2020 to be a year of perseverance amidst a challenging economic environment.

Committed to the research and development of PVC and TPU materials and eco-friendly products, the Group plans to further inject resources into the development of new materials and flooring products. The management believes that the Group will be successful in developing new materials and upgrading new technologies in the foreseeable future to consolidate the development momentum of PVC and TPU materials and Sijia's super core flooring products.

CHAIRMAN'S STATEMENT

In 2019, the Group introduced various organization management systems, such as, streamlined management, performance measures, adopting an automated technological system, and improving the quality control system to better the Group's management on a whole. In the meantime, aiming at continuously boosting the effectiveness and optimizing the production capacity, the management team and employees continued to put in all efforts and strictly abided by the Group's cost-controlling measures; meanwhile, the management will continue to cooperate with European technical experts, as well as local and overseas colleges and institutions to develop materials and building flooring which are not only ground breaking but also eco-friendly in order to further expand the domestic and foreign markets.

The Group acquired 9 new nationally authorized patents in 2019, not to mention its vivacious efforts to make applications for 28 patents for inventions and 3 utility model patents during the same year. Furthermore, He Chaojin (何超金), the chief engineer of the Group's Technology Research and Development Center, was awarded the "4th Fuzhou Youth Technology Award", whereas Yao Xingnan (姚興南), the head of Technical Division, was also awarded the "2019 Fujian Provincial May Day Medal". Fujian Sijia was appraised as the "2019 National Intellectual Property Superior Enterprises", in addition to its successes in passing the triennial review assessment conducted by Fujian Provincial Enterprise Technology Centre and being elected to be part of the "2020 Fujian Provincial Key Industrial Projects", all leveraging on its super core flooring project. Likewise, Shanghai Sijia was again appraised to be medium-sized enterprise of "Specialty, Excellency, Uniqueness and Innovation" in Shanghai, with its construction project of polyester fiber composite materials being elected to be the technical transformation project of Shanghai.

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. The Company's currently applying for the resumption of trading in its shares on the Stock Exchange (the "Resumption"). The Company would update the Shareholders on the progress of the Resumption through further announcement in due course.

With the support of the Group's 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 drop stitch fabric products, eco-friendly TPU materials, airtight materials and super core flooring of Sijia as its core business in the future. Furthermore, the Group will persistently uphold its market development philosophy of adopting a customer-centric approach, create value for its customers and reciprocate its Shareholders and the community.



CHAIRMAN'S STATEMENT

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, 5 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Being one of the notable leaders among the industry of manufacturing new materials featuring eco-friendliness and special features around the globe, the Group provides skillful and functional new materials and super core flooring of Sijia for 18 industries, including healthcare, modern transportation, construction, renewable energy, agriculture, outdoor leisure sports and daily supplies. With their extensive industry experience, the management team of the Group does not only adhere to market orientation, but also hones in on patented technology, product innovation and market exploration. The Group also engages in the production and sale of path-breaking products, which are the joint development efforts of its technology research and development (“R&D”) team and academic institutions. A number of new products and production processes of the Group are also granted with independent intellectual property rights and national patents for invention.

The Group’s material products (“Material Products”) business is located in Fuzhou and Shanghai. It utilizes self-developed equipment and processes that have been granted with the national invention patents in the manufacturing of new materials, such as drop stitch fabric, architectural membrane, waterproofing membrane, marquees materials, air tightness materials, inflatable boats materials and inflatable materials. These materials exhibit 9 key characteristics, including high tensile strength, anti-tearing, anti-stripping, flame retardant, anti-bacterial, anti-corrosive, durable, low temperature resistant and sunlight resistant. With their flame retardancy performance complying the standards of EU, U.S., Canada and national standards and gradings, these materials’ anti-UV capacity has also met the standard of ISO4892-3 672H 4-5. Their anti-mold and anti-bacterial characteristics conform to the U.S. standard of ASTM G21 0. These products are certified by a series of international environmental standards such as CE, ROHS2.0, REACH, EN71, ASTM 963, CPSIA and CA65, and their biocompatibility also complies with the standards of ISO 10993-5, — 10. The diversified applications of the Material Products and end-use products are applicable in 18 major sectors, including healthcare, modern transportation, construction, renewable energy, agriculture, outdoor leisure sports and daily supplies.

The operations of the Group’s flooring products (“Flooring Products”) business are based in Fuzhou. Capitalising on their premium quality and eco-friendly properties, the Flooring Products are now the preferred floor decorative materials amongst buyers around Europe, U.S., Japan and Korea. Flooring Products are globally marketed under the brand of “Zero Formaldehyde Super Core Flooring”. These products were granted with a number of environmental certifications since they are in compliance with EU and U.S. regulations and environmental requirements, including EU CE, U.S. Floorscore, French A+, German AgBB, ROHS2.0 and REACH rules. The quality of these products are accredited by international/ EU/ U.S./ national standards, with their flame retardancy performance being accredited with various certifications reaching as high as Grade B1. Moreover, the sound attenuation of these products also passed a series of tests, including IIC reaching a maximum of 24dB. These products also passed EN 14372 and CA 65 phthalate 6P tests, when their anti-bacterial characteristics passed ASTM G21, reaching an excellence of level 0. Because the Flooring Products are eco-friendly, remarkably abrasion resistant, anti-bacterial, non-slip, highly elastic, shock resistant, fire-resistant, flame retardant, low-maintenance, water and moist-repellent, they have an outstanding price-performance ratio and are applicable in a wide spectrum of public and household domains, including education, healthcare, commerce, sports, offices, industrial usage and transportation.

MANAGEMENT DISCUSSION AND ANALYSIS

Due to our efforts, the Group achieved a total revenue of approximately RMB660.5 million for the year ended 31 December 2019 (2018: RMB536.6 million), representing an increase of approximately RMB123.9 million, or 23.1% over the last corresponding year. The overall increase in revenue was mainly attributable to the increase in demand for Material Products.

The Group's products were categorized into three types in 2018: (i) Reinforced Materials; (ii) Conventional Materials; and (iii) PVC Floor. In 2019, Conventional Materials is no longer a significant component due to its decrease in production. The Group has thus regrouped Reinforced Materials and Conventional Materials under one umbrella as "Material Products". Furthermore, the Group successfully developed EUF flooring at the end of 2019, extending the scope of Flooring Products from PVC Floor to Non-PVC Floor. The two products are merged and classified as "Flooring Products" this year. The Group generated most of its revenue from the Material Products which accounted for approximately 94.2% (2018: 99%) of total revenue. Domestic sales continued to be the Group's major source of revenue, representing approximately 68.2% (2018: 65.9%) of the total revenue while export sales accounted for approximately 31.8% (2018: 34.1%) of the total revenue.

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

	For the year ended 31 December			
	2019		2018	
	(RMB million)	%	(RMB million)	%
Material Products	622.3	94.2	531.3	99.0
Flooring Products	38.2	5.8	5.3	1.0
	660.5	100.0	536.6	100.0

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

	For the year ended 31 December			
	2019		2018	
	(RMB million)	%	(RMB million)	%
PRC	450.3	68.2	353.5	65.9
Others	210.2	31.8	183.1	34.1
	660.5	100.0	536.6	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Market Prospects of Material Products and Flooring Products

In 2019, the success of our research and development efforts over the past two years, brought about the Group's the highest record of sales, including the sales of new products for drop stitch fabric and inflatable boats materials.

Drop stitch fabric is a new material that was successfully developed and launched onto the market in recent years. It has been widely used in fields such as outdoor water sports, entertainment and military industry. Furthermore, reinforced drop stitch fabric has demonstrated its success in lifting the downstream processing factories' efficiency in processing surfboards by nearly 20%. It also solved the issue of overwhelming solvent smell in workshops and the operating environmental issues caused by processes such as attaching reinforced tape and brush-applied coating. At present, the indexes of physical properties of TPU drop stitch fabric products have already outperformed those of products launched by our domestic and overseas industry peers, with the quality of these products even ranking on top of the list among our industry peers globally. These fabric products do not only cater to the needs of our global customers, but also deliver significant economic benefits. When the Group has now become the sole supplier around the world to deliver the largest production volume of both wrap-knitted and plain-weave drop stitch fabric, it has also become the preferred material supplier for the world-renowned French sports brand Decathlon in 2019, and the designated material supplier for the top ten brands in the world. Forging ahead, the Group is confident to deploy resources strategically to invent and develop more new products.

In 2019, the Group marked its success by developing the Flooring Materials for the construction of medical isolation wards, which in turn have been applied to the manufacturing of negative pressure medical isolation wards for the prevention and control of the coronavirus outbreak in the PRC. The product has been used as the protected commodities for the prevention and control of the coronavirus outbreak in early 2020. Moreover, the Group's Fuzhou factory was one of the first companies approved by the National Development and Reform Commission to implement epidemic prevention and control in February 2020. The same factory was also approved by the Fujian Provincial Department of Industry and Information Technology as one of the companies to implement epidemic prevention and control in the Fujian Province. On the other hand, the newly developed products in 2019, particularly Zero Formaldehyde Super Core Flooring and SPC lock flooring products, were used to renovate sterile factories to manufacture hazmat suits during the outbreak.

As at 31 December 2019, the Group owned a total of 62 patents with respect to the Material Products. Among these, Fujian Sijia owned 40 patents (29 patents on inventions, 11 patents on practical new models) whereas Shanghai Sijia owned 22 patents (9 patents on inventions, 8 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.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2019, the Sino-US trade war 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 and adopted a low pricing strategy in order to increase their market shares. Consequently, the Group will encounter further unprecedented 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 promote Material Products and Flooring Products, including drop stitch fabric, eco-friendly TPU materials, inflatable boat materials, airtight materials, and inflatable materials, to high-end customers with a particular focus on promoting Flooring Products and new application products of drop stitch fabric materials and eco-friendly TPU 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.

Material Products

During 2019, the Group's revenue generated from Material Products amounted to approximately RMB622.3 million (2018: RMB531.3 million) which accounted for approximately 94.2% (2018: 99%) of the Group's total revenue, representing an increase in sales of approximately 17.1%. The increase in revenue from the Material Products is mainly due to increase in demand.

Flooring Products

During the year, the Group's revenue generated from the Flooring Products amounted to approximately RMB38.2 million (2018: RMB5.3 million) which accounted for approximately 5.8% (2018: 1.0%) of total revenue.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2019 was approximately RMB660.5 million, representing an increase of approximately RMB123.9 million, or 23.1%, compared to revenue of approximately RMB536.6 million for last year. For the year under review, the Group's major sales segments, namely, (1) Material Products recorded revenue of approximately RMB622.3 million (2018: RMB531.3 million); and (2) Flooring Products recorded a revenue of approximately RMB38.2 million (2018: RMB5.3 million). The increase in revenue was mainly due to the increase in demand for Material Products.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Gross profit was approximately RMB145.0 million for the year under review (2018: RMB122.2 million), with the gross profit margin of approximately 22.0% (2018: 22.8%).

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

	For the year ended	
	31 December	
	2019	2018
	%	%
Material Products	23.7	23.1
Flooring Products	(7.0)	(13.0)
Overall	22.0	22.8

Profit for the Year

The Group recorded a profit attributable to equity holders of approximately RMB40.4 million, or RMB4.7 cents for basic earning per share for the year ended 31 December 2019 (2018: RMB31.1 million or RMB3.7 cents for basic earning per share).

Selling and Distribution Costs

Selling and distribution costs were approximately RMB23.1 million (2018: RMB16.5 million). An increase in selling and distribution costs was mainly due to expenses incurred for the promotion of new products and an increase in transportation expenses.

Administrative Expenses

Administrative expenses were approximately RMB70.6 million (2018: RMB76.9 million). The decrease in administrative expenses was mainly due to the decrease in research and development costs. The large injection of investment in research and development for new products in the previous year is no longer necessary this year as they have reached the completion stage.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development

Research and development (the “R&D”) costs were approximately RMB46.0 million (2018: RMB56.0 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 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 2019, impairments have been recognized in respect of trade and other receivables in the amount of approximately RMB3.2 million (2018: RMB1.0 million).

Impairment of inventories

Impairment of inventories of approximately RMB4.0 million (2018: RMB4.7 million) for the year ended 31 December 2019 was recognized by the Group. It was mainly attributable to write down the slow moving and obsolete stocks.

Finance Costs

Finance costs were approximately RMB5.6 million (2018: RMB7.0 million). The decrease of the finance costs was mainly due to the decrease in bank loans.

Liquidity and Financial Resources

Total Equity

As at 31 December 2019, total equity were approximately of RMB318.2 million, representing an increase of 16.1%, as compared to approximately RMB274.0 million as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Position

As at 31 December 2019, the Group had total current assets of approximately RMB336.5 million (2018: RMB289.6 million) and total current liabilities of approximately RMB461.7 million (2018: RMB474.1 million), with net current liabilities of approximately RMB125.3 million (2018: RMB184.5 million).

As at 31 December 2019, the Group's net gearing ratio (expressed as a percentage of total interest-bearing liabilities to total assets) was at 11.6%, compared to 14.1% as at 31 December 2018.

Cash and Cash Equivalents

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB26.4 million (2018: RMB28.2 million), most of which were denominated in Renminbi.

Bank Borrowings

The Group had interest-bearing bank borrowings of approximately RMB89.7 million (2018: RMB105.0 million) while total banking facilities amounted to approximately RMB245.0 million (2018: RMB200.0 million).

Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities (2018: Nil).

Capital Commitments

As at 31 December 2019, capital commitments of the Group were approximately RMB11.1 million (2018: RMB0.4 million). The capital commitments will be funded partly by internal resources and partly by bank borrowings.

Pledge of Assets

As at 31 December 2019, the Group mortgaged its buildings, plant and machinery of approximately RMB257.9 million (2018: RMB289.3 million), leasehold land of approximately RMB16.2 million (2018: RMB16.9 million), investment properties of approximately RMB35.7 million (2018: RMB14.6 million) in PRC and bank deposits of approximately RMB57.4 million (2018: RMB50.3 million) were pledged to banks to secure bank loans and general banking facilities granted.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividends

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

Human Resources

As at 31 December 2019, the Group had a total of 445 employees (2018: 430 employees). The increase in the number of employees was mainly due to the Group's new production sector in Flooring Products 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

During the year, the Group disposed of an indirect wholly owned subsidiary, at a disposal gain of approximately RMB587,000.

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 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

Facing the severe global pandemic of COVID-19 with Europe becoming the new coronavirus epicenter, the continuing downturn of Eurozone economy, the Sino-US trade tensions 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 special functional materials for domestic and foreign customers to expand the Group’s market shares;
3. establish more stable and reasonable strategic cooperation relationship with suppliers, so as to significantly lower procurement costs;
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 the Shareholders to update the latest progress of the Resumption as and when appropriate.

Looking forward, the Group will upgrade its business and operation in 2020 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 introduce domestic and international state-of-the-art production lines to expand the growth of upstream and downstream industrial chains;
2. Fujian Sijia will increase its efforts to facilitate technical transformation, and will lay plans for the addition of a production line exclusively for handling orders from Decathlon;
3. Fujian Sijia will continue to deepen the developments of drop stitch fabric, meanwhile to expedite the development of such fabric to become more applicable across different fields;
4. Fujian Sijia will speed up the product R&D of TPU materials for healthcare usage, and continue to push forward the advancement of eco-friendly TPU materials;
5. Fujian Sijia will increase its R&D efforts regarding the super core flooring products of Sijia for the purposes of diversifying its flooring products and exploring more applications of these products;

MANAGEMENT DISCUSSION AND ANALYSIS

6. Fujian Sijia will conduct the intelligent transformation of its flooring production line to streamline its manpower in order to slash its labor costs and perk up its production efficiency. It will also continue to invest in expanding the production capacity of its flooring production line so as to bolster the new operating profit of the Group;
7. increase the publicity of foreign professional exhibitions, meanwhile to expand the market shares of our inflatable boat materials in Europe and our Flooring Products on global markets;
8. plan for the operation under the brand of zero-formaldehyde super core flooring of Sijia in the Chinese market;
9. continue to engage well-known institutions to assist in the improvement of site lean management, the upgrade of technical quality system and the improvement of quality control system, with our service focusing on quality technology innovation; meanwhile to provide quality innovation techniques to enterprises for assisting them in technology development, new product R&D, product quality improvement, service quality rating, quality diagnosis and assessment , as well as forecast and warning, in order to build the core competitiveness and lay the foundation for the new materials under the Sijia brand;
10. plan to recruit 30 undergraduates, postgraduates and doctoral students majoring in polymer materials and chemical engineering to join Sijia and nurture these skillful talents in order to further enhance the competitiveness of the enterprise, so do the competitive advantages of these talents for propelling the sustainable development of the enterprise;
11. step up the protection for the intellectual property rights of our new technology and new techniques, and apply for more patents on technology in order to equip the Group to become one of the most innovative high-tech enterprises in the industry and create values for the Shareholders;
12. plan to establish an enterprise technology center at the national level and cooperate with colleges to establish post-doctoral workstations;
13. strive onwards to create better living and working conditions for Sijia employees for the sake of further improving the quality of their physical and spiritual lives; and
14. actively observe the corporate responsibilities that we shall bear, proactively participate in activities to help villages thrive and pay back to our home villages, and support campaigns such as “Thousand Enterprises Helping Thousand Villages” and “Precision Poverty Alleviation by Education”.

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 57, is the Chairman and an executive Director of the Company. 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 33 years of experience in the polymers and plastics industry. He has extensive experience in corporate development and production management. Mr. Lin was elected as the life honorary chairman of Association of Plastic Material Industry of Fuzhou City* (福州塑膠同業公會) in 2018. He was also elected as the president of Private Technology Entrepreneur Association of Fuzhou City* (福州市民營科技實業家協會) and the president of Sanming Chamber of Commerce of Fuzhou City* (福州市三明商會) in 2018.

Mr. Huang Wanneng (黃萬能先生), aged 52, is an executive Director of the Company and a chief mechanical engineer. Mr. Huang was appointed as a Director on 7 October 2009. Other than holding directorship in the Company, Mr. Huang is also the chief equipment engineer and 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 32 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 and 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. He was selected as the "Outstanding Member of the Communist Party" of Fuzhou by the Fuzhou Municipal Committee of the Communist Party of China in 2011, awarded the title of "Model Worker of Fuzhou City" in the thirty-third session of evaluation by the People's Government of Fuzhou in 2013 and selected as an awardee in the first "Jin'an District Outstanding Talents Award" by the People's Government of Jin'an District, Fuzhou, Fujian in early 2018.

* for identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Jiang Shisheng (蔣石生先生), aged 50, is the chief technology engineer of the Group, and 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 obtained a bachelor degree in engineering from Tianjin University of Light Industry* (天津輕工業學院). He was involved in drafting and applying of dozens of patents for the Company, compiling three industry standards, namely the Inflatable Model Materials* (《充氣模型材料》), the Technical Conditions of Inflatable Amusement Facilities* (《氣模遊樂設施技術條件》) and the Red Mud Composite Materials for Biogas Plant Engineering* (《沼氣池工程用紅泥複合材料》), formulating a local standard, namely the Technical Specifications for Red Mud Plastic Anaerobic Fermentation Biogas Engineering* (《紅泥塑膠厭氧發酵沼氣工程技術規範》), and an international standard, namely the Safety Specifications for Inflatable Amusement Facilities (Draft)* (《充氣式遊樂設施安全規範(草案)》). Mr. Jiang won the title of “top 10 inventor in Fuzhou city” by the Fuzhou Municipal Labour Union* (福州市總工會) in 2014.

Independent non-executive Directors

Mr. Lau Chun Pong (劉振邦先生), aged 45, 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 (深圳市明華澳漢科技股份有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8301), since April 2005 till May 2006. 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 was the Group Financial Controller and Company Secretary of AV Promotions Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8419), since June 2018 till June 2019. He was the Company Secretary of Superb Summit International Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1228). He was the Company Secretary of Grand T G Gold Holdings Ltd (大唐潼金控股有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8299) since January 2019 till February 2020. He is currently 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 and the Chief Financial Officer and Company Secretary of Clifford Modern Living Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3686), since 20 December 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lu Jiayu (盧佳譽先生), aged 54, 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). In February 2004, Mr. Lu joined Fujian Shenlangxiang Cooking Oil (Group) Company* (福建沈郎鄉食用油(集團)公司) and was then promoted to general manager of the company's Fuzhou branch. 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 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 55, 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 promoted to financial manager. From May 1999 to March 2008, Ms. Jiang worked for Liaoning Huashang Certified Public Accountant Company Limited* (遼寧華商會計師事務所有限責任公司) and was responsible for various auditing duties. Since March 2008, Ms. Jiang held the position of executive director and general manager of Shenyang Linghang Finance and Taxation Company Limited* (瀋陽領航財稅事務所有限公司).

Senior Management

Mr. Chow Yiu Wah, Joseph (周耀華先生), aged 60, is the Company Secretary and Chief Financial Officer of the Group. Mr. Chow is responsible for the overall company secretarial, compliance and financial control of the Group. Mr. Chow has over 30 years' experience in the accounting, auditing and company secretarial work. Mr. Chow obtained a Bachelor of degree (Hons) in Accounting from University of Ulster (UK). He is fellow member of the Chartered Association of Certified Accountants, Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales and Hong Kong Securities and Investment Institute.

Ms. Zheng Lijuan (鄭麗娟女士), aged 40, is the deputy general manager and division head of the procurement department of the Group and is responsible for the procurement management and control of the Group, cost control and the internal sales, operation and management of the Group's flooring product projects. 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; in March 2010, the division head of the procurement department of the Group; in June 2010, she was promoted as the deputy general manager. Ms. Zheng graduated from Xiamen University (廈門大學) in 1999, majoring in financial accounting and completed the MBA course of Fuzhou University (福州大學) in 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Liao Basheng (廖八生先生), aged 52, is the general manager of the Group's Fuzhou factory and is responsible for facilitating the daily operation and management of the Company, focusing on the management of each departments, giving commands and coordinating the Company's overall operations. Prior to joining the Group, Mr. Liao employed by a wholly-Taiwanese owned enterprise and has over 25 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, safety and management issues in the course of production and daily operation 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. Liao was awarded the title of "Model Worker of Fuzhou City" in the thirty-fifth session of evaluation by the People's Government of Fuzhou in 2017.

Mr. Zhu Chaoyang (朱超揚先生), aged 51, is the engineer of the Group's the Fuzhou factory's equipment center and principally responsible for research and development of techniques for the Group's electrical equipment, equipment management and advancing equipment techniques, and has completed the design and installation of a combination of several production lines. With over 22 years of experience in industry technologies, equipment development, and production techniques improvement, Mr. Zhu possesses core knowledge and skills in operations, equipment, electrical and mechanical matters, and safety practices. Mr. Zhu graduated from Zhengzhou University of Light Industry* (鄭州輕工業學院), majoring in household electrical appliances.

Mr. Huang Daohuo (黃道火先生), aged 47, is the head of production management at the Group's material production centre and responsible for production scheduling, management of materials and maximizing production capacity. Mr. Huang joined the Group in July 2003 and has 22 years of experience in polymer materials industry.

Ms. Chen Guangxing (陳光星女士), aged 32, 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2019, 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 or senior management 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 Shengxiong. 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

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than normal statutory compensation.

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

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES OF THE DIRECTORS

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including the non-executive Director and the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interest and serving on Board committees, all non-executive Directors (including the independent non-executive Directors) make various contributions to the effective direction of the Company.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

All Directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

The Directors shall disclose to the Company details of other offices held by them.

CORPORATE GOVERNANCE REPORT

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Board has clearly set out the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Board regularly reviews the above said circumstances and ensures they remain appropriate.

If any Substantial Shareholder or Director has a potential conflict of interest in a matter to be considered by a general meeting or the Board, the relevant Directors shall abstain from voting and a Board meeting attended by independent non-executive Directors who have no material interest in the matter shall be held to discuss and vote on the same. Save as disclosed above, there are no relationships (including financial, business, family or other material/relevant relationship(s)) among the Board members.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The Board also considers that 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 3 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 2019, 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 2019.

The Company has received an annual written 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.

CORPORATE GOVERNANCE REPORT

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 regulatory bodies
- B: reading journals/newsletters/seminar materials/publications/magazines
- C: reading memoranda issued or materials provided by the Company

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS/GENERAL MEETINGS

The Board meets regularly to discuss the overall strategy as well as operation and financial performance of the Group, and to review and approve the Group's annual and interim results and other 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 2019	4/4	2/2	1/1	1/1	1/1
<i>Executive Directors</i>					
Mr. Lin Shengxiong	4/4	N/A	1/1	N/A	1/1
Mr. Huang Wanneng	4/4	N/A	N/A	N/A	1/1
Mr. Jiang Shisheng	4/4	N/A	N/A	N/A	1/1
<i>Independent non-executive Directors</i>					
Mr. Lau Chun Pong	4/4	2/2	1/1	1/1	1/1
Mr. Lu Jiayu	4/4	2/2	1/1	1/1	1/1
Ms. Jiang Ping	4/4	2/2	1/1	1/1	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.

CORPORATE GOVERNANCE REPORT

CONFLICT OF INTEREST

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

The Audit Committee 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 26 of this annual report.

CORPORATE GOVERNANCE 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 26 of this annual report.

For the year ended 31 December 2019, 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 INEDs, 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.

CORPORATE GOVERNANCE REPORT

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 2019, the Board comprise 5 male and 1 female directors. Details of the Board diversity policy are set out in the section headed "BOARD DIVERSITY POLICY" on page 25 of this annual report.

CORPORATE GOVERNANCE 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 alia, continuous disclosure policies, securities dealings policies, whistle-blowing policies, shareholders' communication policies as well as terms of reference of the board committees and the charter for internal audit.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES IN PREPARING THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibilities for preparing the financial statements of the Company and the Group for the year ended 31 December 2019.

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 2019 and the internal audit department examined the internal control policies and measures for the year ended 31 December 2019.

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.

CORPORATE GOVERNANCE REPORT

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.

WHISTLEBLOWING POLICY FOR EMPLOYEES TO RAISE CONCERNS ABOUT POSSIBLE IMPROPRIETIES

The Company is committed to achieving and maintaining the highest standards of openness, probity and accountability. The Company's employees at all levels should conduct themselves with integrity, impartiality and honesty.

The Board has adopted a Whistleblowing Policy to govern and deal with fairly and properly concerns raised by the Company's employees about any suspected misconduct or malpractice regarding financial reporting, internal control or other matters within the Company.

The Audit Committee of the Company shall review regularly the policy and ensure that arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

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.

CORPORATE GOVERNANCE REPORT

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 2019, services provided to the Company by its external auditor and the respective fees paid were:

Services rendered	Fee paid/ payable <i>HK\$'000</i>
Audit of financial statements	1,400
Other non-audit services	
— Review of the 2019 interim results	180
	<hr/> 1,580

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 2019 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.

CORPORATE GOVERNANCE REPORT

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".

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, 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.

CORPORATE GOVERNANCE REPORT

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Room 617, 6/F., Seapower Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong
(For the attention of the Board of Directors/Company Secretary)

Telephone: (852) 2477 3799

Fax: (852) 2477 9969

Email: ir@chinalongevity.hk

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This report is the third “Environmental, Social and Governance Report” issued by China Longevity Group Company Limited (the “Company”) and its subsidiaries (the “Group”), aiming to enhance stakeholders’ understanding of the Company’s sustainable development strategies and environmental and social performance. The Board of the Company has reviewed this report and confirmed its accuracy, authenticity and completeness.

REPORTING GUIDELINE

This report is prepared in accordance with the requirement of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules, as well as the actual condition of the Company. Upon review of the Company’s corporate governance practice, the Board confirms that it was in line with the provisions of the Corporate Governance Code set forth in Appendix 14 to the Listing Rules throughout the financial year ended 31 December 2019.

SCOPE OF THE REPORT

This report discloses the Group’s environmental and social performance for the period from 1 January 2019 to 31 December 2019, covering the the Group’s business operation. For the disclosure of all indicators in the report, please refer to the content index at the end of this report.

POLICY ON SUSTAINABLE CONTROL

The Group is principally engaged in the research and development, manufacturing and sales of new material products and extended products, eco-friendly flooring products, in the PRC. Due to the environmental performance and a wide range of applications, the Group’s customers come from 18 sectors in 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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	<ul style="list-style-type: none"> • Corporate governance • Risk management • Operations and Strategies • Anti-corruption 	<ul style="list-style-type: none"> • General meeting of shareholders • Company's report
Employee	<ul style="list-style-type: none"> • Employee benefits • Development and training • Occupational health and safety 	<ul style="list-style-type: none"> • Meetings • Training • Reporting channel
Customer	<ul style="list-style-type: none"> • Product responsibility • Data privacy 	<ul style="list-style-type: none"> • Grievance channel
Suppliers	<ul style="list-style-type: none"> • Product and service quality • Business ethics 	<ul style="list-style-type: none"> • Regular meetings
Government	<ul style="list-style-type: none"> • Operational Compliant • Business ethics 	<ul style="list-style-type: none"> • Compliant with laws and regulations • Response to government policies
Community	<ul style="list-style-type: none"> • Care for Community • Community communication and development 	<ul style="list-style-type: none"> • Education, donation and poverty alleviation • Village-enterprise cooperation • Participating in volunteering services

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

USE OF RESOURCES

The Group's operations involved the use of electricity, petrol, diesel, biomass fuel and water.

The Group's total water consumption during the year was 41,954 cubic meters (m³). 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 of Resources	Consumption in 2019	Unit	Density (\$'000 in revenue per unit)
Water	41954	cubic meter	0.8135
Electricity	2157.19	0'000 kWh	0.0418
Petrol	19040	tonne	0.3692
Diesel	724.02	tonne	0.0140
Biomass fuel	10111.29	tonne	0.1961

Use of Packaging Materials

Category of Packaging Materials	Usage in 2019	Unit	Density (\$'000 in revenue per unit)
Carton	123	tonne	0.0024
PE film	40.14	tonne	0.0008
Waterproof braided belt	72.46	tonne	0.0014
Paper tube	858	tonne	0.0166
Total:	1,093.6	tonne	

Emissions

The Group's emissions include emissions from industrial production, industrial waste-water, and domestic waste-water discharged from employee's daily life, 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 soot, noise, exhaust gases and domestic waste-water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Greenhouse Gas Emissions

Category of Emissions	2019	Unit	Density (\$0'000 in revenue per unit)
Sulfur dioxide	12374	Kg	0.2399
Nitrogen oxides	18474.72	Kg	0.3582
Non-methane total hydrocarbon	3762.26	Kg	0.0729
Vehicle sulfur oxide	539.7	g	0.0105
Vehicle ammonia nitride	2570	Kg	0.0498

Discharge of Wastewater

Category of Emissions	Discharge in 2019	Unit	Density (\$0'000 in revenue per unit)
Wastewater	3145	tonne	0.061
COD	450	Kg	0.0087

Noise Emissions

Day≤65dB (A), Night≤55dB (A).

Wastes

Category of Sources	Output in 2019	Unit	Density (\$0'000 in revenue per unit)
Waste mineral oil	670	Kg	0.013
Empty oil drum	2667.2	Kg	0.0517

EMISSION COMPLIANCE ANALYSIS

Boiler flue gas

The boiler flue gas monitoring is carried out by a third-party assessment body. The assessment results show that the emission 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).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 $\leq 65\text{dB (A)}$ during day-time and $\leq 55\text{dB (A)}$ during night-time.

Biomass Ash

The Group provided all the biomass ashes arising from the operation to the people living around the factory area, allowing the villagers to use biomass ashes in agriculture, forestry and plantation or as a soil fertilizer in a sustainable manner. This can not only reduce the use of synthetic fertilizers to maintain balanced soil nutrition or increase the soil nutrient elements, but also minimize mineral loss, thereby realizing a truly sustainable development in terms of the recycling of the nutrients and biomass energy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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" (GB18599-2001, with revisions in 2013).

Energy Saving and Emission Reduction

The Group is committed to maintaining a high level of environmental protection through continuing 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.

In addition, the Group vigorously supports, promotes the green office plan and implements paper recycling measures to reduce the great paper consumption in offices. Paper recycling boxes are placed beside printers to facilitate recycling. The used toner cartridges as well as scrap consumables and accessories will also be recycled and disposed of by qualified third party to reduce general wastes. Moreover, as the energy saving measures in offices, the air conditioners are available in designated period for the Group's offices of the Group, turned to the minimum temperature and turned off when they are not used; and LED lighting is used in the office to reduce unnecessary energy consumption. The green office plan will help the Group's staff to foster the environmental awareness and habit of energy and water conservation to jointly build a green work place.

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 the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As an employer who advocate equal opportunities, we respect and accept our employees of diverse backgrounds and ensure that employees enjoy 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 current year.

Every employee should enjoy an equal employment environment and opportunities. In addition to the employment regulations, the Group also complies with relevant labor laws and regulations, including 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 Hong Kong Employment Ordinance.

In terms of employee benefits, we provide employees with competitive salaries and benefits in the market, including mandatory provident fund and social security. 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 2019, the Company had 445 employees. Set out below are the composition of employees by age, gender, education background and geographical region:

By age group

2019	Aged between 18-25	Aged between 26-35	Aged between 36-45	Aged between 46-55	Over 56
Employee (person)	69	135	95	115	31
Percentage (%)	15.5%	30.3%	21.4%	25.8%	7%

Gender ratio

Gender	Employee (person)	Percentage (%)
Male	304	68.3%
Female	141	31.7%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Office employees by education background (other than frontline operators)

Education background	Employee (person)	Percentage (%)
Bachelor or above	61	66.3%
Below bachelor	31	33.7%

Full-time employees by geographical region

Region	Employee (person)	Percentage (%)
Mainland China	442	99.3%
Hong Kong, Macao and Taiwan and overseas	3	0.7%

The employees of the Group are mostly aged between 26 to 35, accounting for 30.3%, while those under the age of 25 and over 46 account for 15.5% and 32.8% respectively. The ratio of male to female employees is 68:32. Nearly 60% office employees have a bachelor's degree or above. Over 99% of our employees are based in Mainland China.

Employee Turnover Rate

The employee turnover of the Group during the year was 197.

Gender	Employee (person)	Percentage (%)
Male	135	69
Female	62	31

Age group	Employee (person)	Percentage (%)
Below 30	81	41
Aged between 30-50	90	46
Over 50	26	13

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 three trainings a week. The total number of employees trained each time was 30 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.

Frequency of Staff Training

Training frequency in each week	Number of training topics in each week	Training hours each time	Number of employees trained each time
≥3	≥2	≥1 hour	≥30

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 and an emergency response system of compliance, requiring all subsidiaries to regularly review the company's internal production and 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》). It also regularly organises annual medical check-ups for employees and special roles to ensure good practices of occupational diseases prevention works. 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to improve the safety awareness of our employees, we organise 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 healthy production and working environment. During the year, the total headcount of employees undertaking occupational safety and health educational training of the Group was 445, with a coverage of 100%.

COMPLIANCE OPERATIONS

Supply Chain Management

The Group is principally engaged in production and trading. It is committed to providing high-quality and reliable products by maintaining a stable and reliable supply chain. The majority of our Group's suppliers are from the Mainland China. 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 assessments on suppliers and review 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 to ensure the safety and confidentiality of customer information.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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, confidentiality 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.

Integrity is a fundamental basis to achieve sustainable development of an enterprise. The Group has formulated a set of anti-corruption policies and clear employee codes of conduct to prevent bribery and corruption. In addition, the Group also encourages various stakeholders, including suppliers, customers and employees to provide their comment on the Group's anti-corruption policies and measures, in order to optimize its anti-corruption management system. During the year, the Group did not receive any reports of bribery and corruption cases and there was no concluded legal cases regarding corrupt practices against the Group or our employees.

Care for Community and Society

As an enterprise citizen being responsible for the society, the Group proactively fulfills its due corporate responsibilities, with a view to actively participate in activities that help rural revitalization and requite our homeland. It also participated in "Thousand Enterprises Help Thousand Villages (千企幫千村)" events, donated books and computers to children and schools in disaster-stricken areas, poverty-stricken mountainous areas and poverty-stricken areas by joining the poverty alleviation activities through precise education, and made specific donations for poverty alleviation counties. Meanwhile, the Group established a friendly relationship with villages nearby and took part in the construction of beautiful villages by assisting in waste disposal and construction of public facilities. Fujian Sijia donated money and goods for various products, including schools in the towns, environmentally-friendly facilities and construction of towns and villages. Shanghai Sijia and Caojing worked together under enterprise-village partner assistance, where "Open Day" is organized every year for villagers to visit the working condition of an enterprise; financial support is provided to Caojing at the end of every year for poverty alleviation, major festive visits and events; job opportunities and priority shall be given to villagers where appropriate. It aims to promote community cultural exchanges and cooperative development with towns and industrial areas through the above initiatives. The Group also vigorously supports and encourages its employees to participate in voluntary services of community and advocates care for community, to make contributions to an inclusive community.

During the year, the Group donated a total amount of approximately RMB698,000 for charitable purpose.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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
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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Key Performance Indicators	Hong Kong Stock Exchange ESG Reporting Guide	Section/Remarks
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
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 2019.

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 6 and pages 7 to 16.

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, especially with the outbreak of COVID-19.
- Fluctuations in foreign currency exchange rate, inflation and fluctuations of interest rates would adversely affect the customers' spending sentiment and the Group's profit margin.

Operational risks

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

REPORT OF THE DIRECTORS

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

Regulatory risks

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

Financial risks

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

The 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.

REPORT OF THE DIRECTORS

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 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 67.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: 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 RMB317.5 million (2018: RMB229.7 million) as at 31 December 2019.

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 132.

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 2019 are set out in note 33 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 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 25.3% of the Group's total revenue and the sales attributable to the Group's largest customer were approximately 7.4% 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 38.8% of the Group's total cost of sales and the purchases attributable to the Group's largest supplier were approximately 16.6% 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 2019 from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Up to and as at the date of this report, the Company considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

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

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

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the heading "Related Party Transactions" in note 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 constitute competition directly or indirectly with the business of the Group for the year ended 31 December 2019.

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 2019, 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 2019, 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.

REPORT OF THE DIRECTORS

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

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

SHARE OPTION SCHEME

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

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

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

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

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

As at 31 December 2019, there were no outstanding share options granted.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2019 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 2019, 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 2019, 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%

REPORT OF THE DIRECTORS

Notes:

1. As at 31 December 2019, 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 2019, 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 2019, 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 2019, 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 2019, 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, the Group donated a total amount of approximately RMB698,000 for charitable purpose.

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 2019.

EVENTS AFTER THE REPORTING PERIOD

The details of event after the end of the reporting period of the Group are set out in note 43 to the financial statements.

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, 5 May 2020

INDEPENDENT AUDITOR'S REPORT



**TO THE SHAREHOLDERS OF
CHINA LONGEVITY GROUP COMPANY LIMITED**

(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 67 to 131, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 ("HKSA") 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 RMB125,263,000 as at 31 December 2019 and the Company's shares have been suspended for trading since 14 February 2013. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Property, plant and equipment

Refer to Note 18 to the consolidated financial statements

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of RMB364,821,000 as at 31 December 2019 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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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

Fong Tak Ching

Audit Engagement Director

Practising Certificate Number P06353

Hong Kong, 8 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	9	660,482	536,619
Cost of sales		(515,495)	(414,440)
GROSS PROFIT		144,987	122,179
Other income and gains	10	7,765	17,454
Selling and distribution costs		(23,058)	(16,480)
Administrative expenses		(70,578)	(76,895)
Other expenses		(1,781)	(2,181)
PROFIT FROM OPERATIONS		57,335	44,077
Fair value loss on investment properties		(460)	(200)
Gain on disposal of a subsidiary		587	—
Impairment of various assets		(7,615)	(5,727)
Finance costs	11	(5,600)	(7,048)
PROFIT BEFORE TAX	12	44,247	31,102
Income tax (expense)/credit	13	(3,799)	23
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		40,448	31,125
Other comprehensive income/(expenses) after tax:			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		1,953	6,139
Fair value gain on revaluation of property, plant and equipment		4,102	—
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		(2,262)	(6,063)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		44,241	31,201
EARNING PER SHARE (RMB cents)	17		
— Basic		4.74	3.65
— Diluted		4.74	3.65

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	18	364,821	408,627
Prepaid land lease payments		—	16,404
Right-of-use assets	19	39,240	—
Investment properties	20	35,710	14,640
Intangible assets	21	684	13,643
Deposits paid for acquisition of property, plant and equipment		236	717
Equity investments at fair value through other comprehensive income	22	4,140	4,140
Deferred tax assets	23	3,297	3,361
Total non-current assets		448,128	461,532
Current assets			
Inventories	24	115,160	106,637
Trade and bills receivables	25	117,415	89,704
Prepayments, deposits and other receivables	26	20,058	10,002
Due from ultimate holding company	35	—	263
Pledged bank deposits	27	57,415	50,260
Cash and cash equivalents	27	26,414	28,200
		336,462	285,066
Non-current assets classified as held for sale	28	—	4,537
Total current assets		336,462	289,603
Current liabilities			
Trade and bills payables	29	278,144	263,583
Lease liabilities	30	745	—
Contract liabilities	31	21,743	12,983
Other payables and accruals	32	47,752	55,105
Interest-bearing borrowings	33	89,729	105,000
Deferred income	34	330	360
Due to a related party	35	4,000	10,000
Due to directors	35	3,640	12,747
Finance lease payables		—	537
Tax payable		15,642	13,813
Total current liabilities		461,725	474,128
Net current liabilities		(125,263)	(184,525)
Total assets less current liabilities		322,865	277,007

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Lease liabilities	30	580	—
Deferred income	34	—	330
Deferred tax liabilities	23	4,078	2,711
Total non-current liabilities		4,658	3,041
NET ASSETS		318,207	273,966
Capital and reserves			
Issued capital	36	747	747
Reserves		317,460	273,219
TOTAL EQUITY		318,207	273,966

The consolidated financial statements on pages 67 to 131 were approved and authorised for issue by the board of directors on 8 May 2020 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 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	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
At 1 January 2019	747	566,403	28,994	123,131	(8,754)	8,133	(444,688)	273,966
Total comprehensive income for the year	—	—	—	—	(309)	4,102	40,448	44,241
Appropriation to statutory surplus reserve	—	—	—	5,643	—	—	(5,643)	—
At 31 December 2019	747	566,403	28,994	128,774	(9,063)	12,235	(409,883)	318,207

* 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 2019

	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	44,247	31,102
Adjustments for:		
Finance costs	5,600	7,048
Interest income	(387)	(298)
Depreciation of property, plant and equipment	35,639	33,316
Depreciation on right-of-use assets	2,529	—
Loss on disposals of property, plant and equipment	436	443
Amortisation of prepaid land lease payments	—	645
Amortisation of intangible assets	—	562
Recovery of bad debts	—	(7,850)
Release of deferred income	(360)	(360)
Fair value loss on investment properties	460	200
Gain on disposal of a subsidiary	(587)	—
Impairment of trade receivables, net	3,209	995
Impairment of inventories	4,037	4,732
Operating profit before working capital changes	94,823	70,535
Change in inventories	(12,560)	(29,680)
Change in trade and bills receivables	(31,214)	6,758
Change in prepayments, deposits and other receivables	(10,537)	2,713
Change in trade and bills payables	14,561	(3,080)
Change in contract liabilities	8,760	(967)
Change in other payables and accruals	(5,092)	(5,937)
Cash generated from operations	58,741	40,342
Income tax paid	(1,991)	(1,821)
Net cash generated from operating activities	56,750	38,521

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(17,879)	(25,714)
Additions of right-of-use assets	(1,300)	—
Additions of intangible assets	(134)	(200)
Proceeds from disposals of property, plant and equipment	230	—
(Increase)/decrease in pledged bank deposits	(7,155)	5,715
Proceeds received from disposal of non-current assets held for sale	—	11,950
Net cash inflow on disposal of a subsidiary	4,466	—
Payment of deposits for acquisition of property, plant and equipment	(117)	(340)
Repayment from/(advance to) ultimate holding company	263	(263)
Interest received	387	298
Net cash (used in)/generated from investing activities	(21,239)	(8,554)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	89,729	105,000
Repayment of bank borrowings	(105,000)	(130,000)
Repayment of lease liabilities	(1,439)	—
Repayment of finance lease payables	—	(3,666)
Repayment to a related party	(6,000)	—
(Repayment to)/advance from directors	(9,107)	1,645
Finance lease charges paid	—	(320)
Interest paid	(5,552)	(6,728)
Net cash used in financing activities	(37,369)	(34,069)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	28,200	31,930
Effect on exchange rate changes	72	372
Cash and cash equivalents at end of year	26,414	28,200
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	26,414	28,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 and conventional materials ("Material Products") and (ii) PVC elastic flooring product and Non-PVC floor products ("Floor Products") 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 RMB125,263,000 as at 31 December 2019 and the Company's shares have been suspended for trading since 14 February 2013. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 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 consolidated financial statements and amounts reported for the current year and prior years except as stated below.

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	39,490
Increase in lease liabilities	(2,173)
Decrease in property, plant and equipments	(7,876)
Decrease in prepaid land lease payments	(16,404)
Decrease in intangible assets	(13,093)
Decrease in prepayments, deposits and other receivables	(481)
Decrease in finance lease payables	537

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 31 December 2019 and low-value assets	(95)
Discounting	(118)
<hr/>	
Lease liabilities as at 1 January 2019	2,173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Consolidation *(continued)*

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

Foreign currency translation

(a) Functional and presentation currency

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

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

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

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

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

(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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

(c) Translation on consolidation *(continued)*

- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange fluctuation reserve.

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Machinery	10%
Land and buildings	2% - 60%

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension schemes *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

- (A) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (B) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the 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).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

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

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

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

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

Provisions and contingent liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 RMB19,000,000 as at 31 December 2019 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 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 33.

At 31 December 2019, 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 RMB208,000 (2018: RMB195,000) higher/lower, arising mainly as a result of higher/lower interest expense on bank borrowings and higher/lower interest income on bank balances.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group 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;
- external credit rating (if available);
- 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same 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.

(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 2019, the Group has certain concentration of credit risk as approximately RMB22,968,000 (2018: RMB14,961,000) out of the total trade receivables of approximately RMB117,115,000 (2018: RMB89,704,000) was due from the Group's largest debtor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

(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 2019 and 2018, 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.

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 2019

	Within one year or on demand RMB'000	In the second year RMB'000	Total RMB'000
Trade and bills payables	278,144	—	278,144
Other payables and accruals	47,752	—	47,752
Due to a related party	4,000	—	4,000
Due to directors	3,640	—	3,640
Lease liabilities	745	580	1,325
Future finance charges	68	37	105
Principal portion of borrowings	89,729	—	89,729
Interest portion of borrowings	3,265	—	3,265
	427,343	617	427,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2018

	Within one year or on demand <i>RMB'000</i>	In the second year <i>RMB'000</i>	Total <i>RMB'000</i>
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
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	450,476	—	450,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
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 and bills receivables	117,415	89,704
Financial assets included in prepayments, deposits and other receivables	4,566	2,265
Due from ultimate holding company	—	263
Pledged bank deposits	57,415	50,260
Cash and cash equivalents	26,414	28,200
	209,950	174,832
Financial liabilities:		
Financial liabilities at amortised cost:		
Trade and bills payables	278,144	263,583
Financial liabilities included in other payables and accruals	47,752	55,105
Lease liabilities	1,325	—
Finance lease payables	—	537
Due to a related party	4,000	10,000
Due to directors	3,640	12,747
Borrowings	89,729	105,000
	424,590	446,972

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2019 and 2018:

At 31 December 2019

Description	Fair value measurement using:			Total
	Level 1	Level 2	Level 3	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements:				
Investment properties				
Commercial – PRC	—	—	35,710	35,710

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. FAIR VALUE MEASUREMENTS (continued)

(a) Disclosures of level in fair value hierarchy at 31 December 2019 and 2018: (continued)

At 31 December 2018

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

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

Description	Investment properties 2019 RMB'000
At 1 January 2019	14,640
Transfer from Property, plant and equipment	21,530
Fair value loss recognised in profit and loss (#)	(460)
At 31 December 2019	35,710
# Include losses for assets held at end of reporting period	(460)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. FAIR VALUE MEASUREMENTS *(continued)*

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

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

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.

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

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

Key unobservable input used in level 3 fair value measurements is mainly the rental income per square meter (estimated based on market comparables with adjustment on various factors).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. FAIR VALUE MEASUREMENTS (continued)

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2019 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	14,310

Investment properties An office situated at No. 1 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB65 per month	Increase	21,400
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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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 in 2018. In 2019, Reinforced Materials and Conventional Materials are regrouped under (i) "Material Products" as Conventional Materials are no longer considered as significant component. PVC floor is renamed as (ii) "Flooring Products", due to the extension of scope to include Non-PVC floor.

Geographical information

	Revenue from external customers		Non-current assets	
	Year ended 31 December		As at 31 December	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC	450,287	353,467	440,691	454,031
Others	210,195	183,152	—	—
	660,482	536,619	440,691	454,031

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 (2018: 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 (2018: Nil).

9. REVENUE

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	660,482	536,619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. REVENUE (continued)

There is only one operating segment which is principally engaged in the design, development, manufacture and sale of (i) Material Products and (ii) Flooring Products 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.

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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Geographical markets		
PRC	450,287	353,467
United States	58,736	48,794
Russia	36,488	30,677
Others	114,971	103,681
Total	660,482	536,619

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Major products		
Material Products	622,252	531,276
Flooring Products	38,230	5,343
Total	660,482	536,619

The revenue was recognised at a point in time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. OTHER INCOME AND GAINS

	2019	2018
	RMB'000	RMB'000
Interest income	387	298
Government subsidies (<i>note</i>)	3,001	5,291
Gain on disposal of a subsidiary	587	—
Gross rental income	2,139	1,719
Recovery of bad debts	—	7,850
Reversal of allowance for receivables	369	—
Sundry income	1,282	2,296
	7,765	17,454

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 2019 and 2018.

11. FINANCE COSTS

	2019	2018
	RMB'000	RMB'000
Lease interest	138	—
Interest on bank loans	5,462	6,728
Finance leases charges	—	320
	5,600	7,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	RMB'000
Cost of inventories sold *	515,495	414,440
Depreciation of property, plant and equipment	35,639	33,316
Depreciation on right-of-use assets	2,529	—
Amortisation of prepaid land lease payments	—	645
Amortisation of intangible assets	—	562
Loss on disposals of property, plant and equipment	436	443
Staff costs (including directors' remuneration (note 14)):		
Wages and salaries	35,359	27,571
Retirement benefit scheme contributions	2,175	1,620
Staff welfare expenses	2,266	1,211
	39,800	30,402
Operating lease charges on land and buildings	—	1,565
Research and development costs	45,968	56,013
Exchange gain, net	(688)	(547)
Fair value loss on investment properties	460	200
Impairment of trade receivables, net	3,209	995
Impairment of inventories	4,037	4,732
Auditors' remuneration	1,234	1,317

* Cost of inventories sold includes RMB56,814,000 (2018: RMB48,562,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. INCOME TAX EXPENSE/(CREDIT)

	2019 RMB'000	2018 RMB'000
Current tax — the PRC		
Charge for the year	3,258	—
Under/(over)-provision in prior years	640	(359)
Deferred tax (note 23)	(99)	336
	3,799	(23)

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 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).

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

	2019 RMB'000	2018 RMB'000
Profit before tax	44,247	31,102
Tax at the applicable tax rate of 25% (2018: 25%)	11,062	7,776
Lower tax rate for specific province or enacted by local authority	(2,393)	(3,961)
Tax effect of income not taxable and expenses not deductible	(5,510)	(9,105)
Under/(over)-provision in prior years	640	(359)
Tax effect of tax losses not recognised	—	5,626
Income tax expense/(credit)	3,799	(23)

[#] The English name is for identification only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2019			
	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Executive directors				
Mr. Lin	—	1,012	81	1,093
Mr. Huang Wanneng	—	614	64	678
Mr. Jiang Shisheng	—	323	39	362
	—	1,949	184	2,133
Independent non-executive directors				
Mr. Lau Chun Pong	212	—	11	223
Mr. Lu Jiayu	120	—	—	120
Ms. Jiang Ping	60	—	—	60
	392	—	11	403
Subtotal for directors' emoluments	392	1,949	195	2,536
Senior management	—	2,998	194	3,192
Total	392	4,947	389	5,728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

	For the year ended 31 December 2018			
	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included 3 (2018: 4) directors, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2018: 1) highest paid individual are set out below:

	2019	2018
	RMB'000	RMB'000
Salaries and allowances	821	430
Retirement benefit scheme contributions	36	15
	857	445

The emoluments of the individual fall within the following band:

	Number of individuals	
	2019	2018
Nil — HK\$1,000,000	2	1

During the years ended 31 December 2019 and 2018, 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 2019 (2018: 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 RMB40,448,000 (2018: RMB31,125,000) and the weighted average number of approximately 852,612,000 (2018: 852,612,000) ordinary shares in issue during the year.

Diluted earning per share

Diluted earning per share for the years ended 31 December 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 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 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 and 1 January 2019	569,362	579,424	5,265	2,694	5,115	146	1,162,006
Additions	568	8,198	446	14	517	7,284	17,027
Disposals	(20)	(2,874)	—	(410)	(1,673)	—	(4,977)
Transfer to right-of-use assets	—	(8,312)	—	—	—	(1,402)	(9,714)
Transfer from CIP	—	143	—	—	—	(143)	—
Transfer to investment properties	(25,698)	—	—	—	—	—	(25,698)
Fair value gains on revaluation	5,469	—	—	—	—	—	5,469
At 31 December 2019	549,681	576,579	5,711	2,298	3,959	5,885	1,144,113
Accumulated depreciation and impairment							
At 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 and 1 January 2019	243,563	499,530	3,996	2,527	3,763	—	753,379
Charge for the year	20,097	14,691	560	38	253	—	35,639
Disposals	(11)	(2,368)	—	(389)	(1,543)	—	(4,311)
Transfer to right-of-use assets	—	(1,247)	—	—	—	—	(1,247)
Transfer to investment properties	(4,168)	—	—	—	—	—	(4,168)
At 31 December 2019	259,481	510,606	4,556	2,176	2,473	—	779,292
Carrying amount							
At 31 December 2019	290,200	65,973	1,155	122	1,486	5,885	364,821
At 31 December 2018	325,799	79,894	1,269	167	1,352	146	408,627

At 31 December 2019, certain buildings and plant and machinery with an aggregate carrying amount of approximately RMB257,899,000 (2018: RMB289,261,000) were pledged to secure bank loan facilities granted to the Group (note 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. LEASES AND RIGHT-OF-USE ASSETS

	2019 RMB'000
Disclosures of lease-related items:	
At 31 December	
Right-of-use assets	
— Machinery	8,383
— Land and buildings	30,857
	<hr/> 39,240
Lease commitments of short-term leases	<hr/> 67
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:	
— Within 1 year	813
— Between 2 and 5 years	617
	<hr/> 1,430
Depreciation charge of right-of-use assets	
— Machinery	895
— Land and buildings	1,634
	<hr/> 2,529
Lease interests	<hr/> 138
Expenses related to short-term leases	<hr/> 723
Total cash outflow for leases	<hr/> (1,529)
Additions to right-of-use assets	<hr/> 3,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. LEASES AND RIGHT-OF-USE ASSETS (continued)

The Group leases various land use rights and land and buildings. Lease agreements are typically made for fixed periods of 2 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

At 31 December 2019, leasehold lands with carrying amount of approximately RMB16,242,000 (2018: RMB16,885,000) were pledged to secure bank loan facilities granted to the Group (note 33).

20. INVESTMENT PROPERTIES

	2019	2018
	RMB'000	RMB'000
At beginning of year	14,640	14,840
Transfer from property, plant and equipment	21,530	—
Fair value loss on revaluation of investment properties	(460)	(200)
	<hr/>	<hr/>
At end of year	35,710	14,640

The estimated aggregate fair value of the investment properties as at 31 December 2019 was approximately RMB35,710,000 (2018: RMB14,640,000), 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 2019, investment properties with carrying amount of approximately RMB35,710,000 (2018:RMB14,640,000) were pledged to secure bank loan facilities granted to the Group (note 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. INTANGIBLE ASSETS

	Building use right	Software	Patent	Trademark	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost					
At 1 January 2018	14,016	2,114	50	550	16,730
Additions	200	—	—	—	200
At 31 December 2018 and 1 January 2019	14,216	2,114	50	550	16,930
Additions	—	—	—	134	134
Transfer to right-of-use assets	(14,216)	—	—	—	(14,216)
At 31 December 2019	—	2,114	50	684	2,848
Accumulated amortisation					
At 1 January 2018	561	2,114	50	—	2,725
Charge for the year	562	—	—	—	562
At 31 December 2018 and 1 January 2019	1,123	2,114	50	—	3,287
Transfer to right-of-use assets	(1,123)	—	—	—	(1,123)
At 31 December 2019	—	2,114	50	—	2,164
Carrying amount					
At 31 December 2019	—	—	—	684	684
At 31 December 2018	13,093	—	—	550	13,643

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investment in the PRC	4,140	4,140

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

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:

	Fair value change of investment properties RMB'000	Tax losses RMB'000	Accrued social fund RMB'000	Accrued sales rebate RMB'000	Unapproved accelerated depreciation and amortisation and impairment RMB'000	Others RMB'000	Total RMB'000
Deferred tax assets							
At 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 and 1 January 2019	615	—	775	1,500	407	64	3,361
Deferred tax credited/(charged) to profit or loss during the year (note 13)	115	—	—	—	—	(16)	99
Disposal of a subsidiary (note 38)	—	—	(163)	—	—	—	(163)
At 31 December 2019	730	—	612	1,500	407	48	3,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value change of revaluation of property, plant and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018, 31 December 2018 and 1 January 2019	2,711	2,711
Deferred tax charged to the consolidated other comprehensive income after tax during the year	1,367	1,367
<hr/>		
At 31 December 2019	4,078	4,078

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Tax losses	23,794	86,181

The Group also has tax losses arising in the PRC of approximately RMB23,794,000 (2018: RMB86,181,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. INVENTORIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Raw materials	53,183	54,587
Work in progress	11,238	10,047
Finished goods	50,739	42,003
	115,160	106,637

25. TRADE AND BILLS RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	125,308	94,688
Bills receivables	300	—
Provision for loss allowance	(8,193)	(4,984)
	117,415	89,704

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. TRADE AND BILLS RECEIVABLES (continued)

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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	113,371	84,111
More than 3 months but within 6 months	2,713	2,930
More than 6 months but within 1 year	38	376
More than 1 year	1,293	2,287
	117,415	89,704

Reconciliation of loss allowance for trade receivables:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At 1 January	4,984	3,989
Increase in loss allowance for the year	3,209	995
At 31 December	8,193	4,984

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. TRADE AND BILLS 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 2019						
Weighted average expected loss rate	0%	6%	66%	46%	81%	
Receivable amount (RMB'000)	107,648	7,506	1,752	1,424	7,278	125,608
Loss allowance (RMB'000)	—	467	1,160	651	5,915	8,193
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

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Advances to suppliers (note)	12,931	6,009
Prepaid sales tax and government surcharges	2,557	1,247
Prepaid expenses	4	481
Other receivables	4,566	2,265
	20,058	10,002

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cash and bank balances	83,829	78,460
Less: Pledged bank deposits	(57,415)	(50,260)
	<hr/>	<hr/>
Cash and cash equivalents	26,414	28,200

At the end of the reporting period, the Group's cash and bank balances denominated in RMB were approximately RMB77,693,000 (2018: RMB74,475,000). 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 2019, bank deposits of RMB57,415,000 (2018: RMB50,260,000) were pledged to secure the banking facilities granted to the Group.

28. NON-CURRENT ASSETS HELD FOR SALE

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
The classes of assets classified as held for sale are as follows:		
Property, plant and equipment	—	3,880
Prepaid land lease payments	—	657
	<hr/>	<hr/>
	—	4,537

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. NON-CURRENT ASSETS HELD FOR SALE (continued)

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. During the year ended 31 December 2019, the Group had completed the disposal of wholly-owned equity interest in Hubei Sijia Industrial Material Co., Ltd. # (湖北思嘉環保材料科技有限公司) (“Hubei Sijia”), which contain certain property, plant and equipment and prepaid land lease payments.

The English name is for identification only.

29. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	106,344	93,879
Bills payables	171,800	169,704
	278,144	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:

	2019 RMB'000	2018 RMB'000
Within 3 months	174,600	162,067
More than 3 months but within 6 months	103,333	99,515
More than 6 months but within 1 year	198	1,881
More than 1 year	13	120
	278,144	263,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. LEASE LIABILITIES

	Lease payments 2019 <i>RMB'000</i>	Present value of lease payments 2019 <i>RMB'000</i>
Within one year	813	745
In the second to fifth years, inclusive	617	580
	1,430	1,325
Less: Future finance charges	(105)	
Present value of lease obligations	1,325	1,325
Less: Amount due for settlement within 12 months (shown under current liabilities)		(745)
Amount due for settlement after 12 months		580

At 31 December 2019, the average effective borrowing rate was 4.75% to 9.31%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

31. CONTRACT LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>	As at 1 January 2018 <i>RMB'000</i>
Contract liabilities	21,743	12,983	13,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. CONTRACT LIABILITIES (continued)

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000
Contract assets (include in trade and bills receivables)	117,415	89,704	89,607

	2019 RMB'000	2018 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	6,690	7,374

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

	2019 RMB'000	2018 RMB'000
2019	—	12,983
2020	21,743	—
	21,743	12,983

Significant changes in contract liabilities during the years

	2019 RMB'000	2018 RMB'000
Increase due to operations in the year	98,678	94,889
Transfer of contract liabilities to revenue	(89,918)	(95,856)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. OTHER PAYABLES AND ACCRUALS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Accrued liabilities	16,941	22,105
Payroll payables	5,410	4,674
Payable for the acquisition of property, plant and equipment	21,825	23,430
Others	3,576	4,896
	47,752	55,105

33. INTEREST-BEARING BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	<i>RMB'000</i>	Effective interest rate (%)	Maturity	<i>RMB'000</i>
Bank loans — Secured	4.150%-6.175%	2019	<u>89,729</u>	5.22%-6.50%	2018	<u>105,000</u>
Repayable: Within one year or on demand			<u>89,729</u>			<u>105,000</u>

Notes:

- (i) The Group's bank borrowings are secured by:
- (a) mortgages over the Group's buildings and plant and machinery situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB257,899,000 (2018: RMB289,261,000);
 - (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 RMB16,242,000 (2018: RMB16,885,000); 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 RMB35,710,000 (2018: RMB14,640,000).
- (ii) The Group has breached certain financial covenants in respect of secured bank loans with an outstanding balance of RMB19,000,000 (2018: RMB38,000,000) with maturity of less than one year. The Group is in the process of negotiation with the bank on renewals of those bank loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. DEFERRED INCOME

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Government grants		
At 1 January	690	1,050
Released during the year	(360)	(360)
At 31 December	330	690
Current	330	360
Non-current	—	330
	330	690

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.

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Due from ultimate holding company		
Hopeland International Holdings Company Limited	—	263
Due to a related party		
Ms. Lin Hongting, the spouse of Mr. Lin	4,000	10,000
Due to directors		
Mr. Lin	—	9,377
Mr. Huang Wanneng	3,640	3,370
	3,640	12,747

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. SHARE CAPITAL

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Authorised:		
2,000,000,000 ordinary shares of HK\$0.001 each	1,760	1,760
Issued and fully paid:		
852,612,470 ordinary shares of HK\$0.001 each	747	747

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

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

Capital management

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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 <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	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
Total comprehensive expenses for the year	—	1,953	(3,020)	(1,067)
At 31 December 2019	877,157	(1,142)	(674,511)	201,504

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of a subsidiary

On 22 November 2019, the Group completed the disposal of the entire equity interest in Hubei Sijia, an indirect wholly owned subsidiary at a consideration of RMB4,549,000. A gain on disposal of approximately RMB587,000 was recognised during the year ended 31 December 2019, be calculated as follows:

	<i>RMB'000</i>
Net assets of Hubei Sijia at the date of disposal were as follows:	
Cash and cash equivalents	83
Non-current assets classified as held for sale	4,537
Deferred tax assets	163
Other payables and accruals	(743)
Tax payable	(78)
	<hr/>
Net assets disposed of	3,962
Gain on disposal of a subsidiary	587
	<hr/>
Total consideration	4,549
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Net cash flow arising on disposal	
Cash consideration received	4,549
Cash and cash equivalents of the subsidiary disposal of	(83)
	<hr/>
	4,466
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

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

	Lease liabilities RMB'000	Interest-bearing borrowings RMB'000	Due to a related party RMB'000	Due to directors RMB'000	Finance lease payables RMB'000	Total liabilities from financing activities RMB'000
At 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						
— additions	—	6,728	—	—	320	7,048
At 31 December 2018 and 1 January 2019	—	105,000	10,000	12,747	537	128,284
Changes in cash flows	(1,529)	(20,733)	(6,000)	(9,107)	—	(37,369)
Non-cash changes						
— recognition upon initial application of HKFRS 16	2,173	—	—	—	(537)	1,636
— new leases entered during the year	644	—	—	—	—	644
— remeasurement upon early termination of leases	(1,067)	—	—	—	—	(1,067)
— transferred from property, plant and equipment	966	—	—	—	—	966
— interest charged	138	5,462	—	—	—	5,600
At 31 December 2019	1,325	89,729	4,000	3,640	—	98,694

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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:

	2019	2018
	RMB'000	RMB'000
Within one year	2,828	1,996
In the second to fifth years, inclusive	6,854	5,618
Over 5 years	4,742	6,077
	14,424	13,691

(b) Capital commitments

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

	2019	2018
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	11,088	437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. CONTINGENT LIABILITIES

At 31 December 2019, the Group did not have any significant contingent liabilities (2018: 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, 20 and 27.

42. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, as at 31 December 2019, the ultimate shareholder and a family member of the ultimate shareholder have guaranteed bank loans made to the Group of approximately RMB66,000,000 (2018: RMB85,000,000).

43. EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 pandemic has brought about additional uncertainties to the global macroeconomy, which may impact the Group's financial performance for the first half of 2020. However, the degree of impact remains difficult to gauge at this early stage. The Group will remain vigilant over COVID-19 and assess its impact on the Group's financial position and operating results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

44. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2019 are as follows:

Company name	Place of incorporation/ registration	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\$208,240,000	100%	Manufacturing and selling special functional composites
Fujian Hausa Import and Export Co., Ltd. [#] (福建浩思進出口貿易有限公司) (Note iii)	PRC	RMB50,000,000	100%	Exporting products and trade agent

[#] The English names are for identification only

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
Non-current assets			
Investments in subsidiaries		89,340	89,340
Current assets			
Due from a subsidiary		117,479	120,852
Cash and cash equivalents		23	22
		117,502	120,874
Current liabilities			
Other payables and accruals		4,591	5,439
Due to a director		—	1,457
		4,591	6,896
Net current assets		112,911	113,978
Total assets less current liabilities		202,251	203,318
NET ASSETS		202,251	203,318
Capital and reserves			
Issued capital	36	747	747
Reserves	37(b)	201,504	202,571
TOTAL EQUITY		202,251	203,318

46. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on 8 May 2020.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
REVENUE	660,482	536,619	523,799	472,688	466,531
Gross profit	144,987	122,179	118,797	94,267	5,460
PROFIT/(LOSS) BEFORE TAX	44,247	31,102	31,497	18,802	(685,136)
PROFIT/(LOSS) FOR THE YEAR	40,448	31,125	28,396	22,252	(692,444)
Attributable to:					
Owners of the Company	40,448	31,125	28,396	22,252	(692,217)
Non-controlling interests	—	—	—	—	(227)
	40,448	31,125	28,396	22,252	(692,444)
Basic earnings/(loss) per share (RMB cents)	4.74	3.65	3.33	2.61	(81.19)

	As at 31 December				
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Total assets	784,590	751,135	783,283	765,148	801,806
Equity and liabilities					
Total liabilities	466,383	477,169	540,518	550,704	607,090
Total equity	318,207	273,966	242,765	214,444	194,716