



CHINA LONGEVITY GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1863



2020 Interim Report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Shengxiong (*Chairman*)

Mr. Huang Wanneng

Mr. Jiang Shisheng

Independent Non-executive Directors

Mr. Lau Chun Pong

Mr. Lu Jiayu

Ms. Jiang Ping

AUDIT COMMITTEE

Mr. Lau Chun Pong (*Chairman*)

Mr. Lu Jiayu

Ms. Jiang Ping

REMUNERATION COMMITTEE

Mr. Lu Jiayu (*Chairman*)

Ms. Jiang Ping

Mr. Lin Shengxiong

Mr. Lau Chun Pong

NOMINATION COMMITTEE

Ms. Jiang Ping (*Chairman*)

Mr. Lu Jiayu

Mr. Lau Chun Pong

COMPANY SECRETARY

Mr. Chow Yiu Wah, Joseph

AUTHORISED REPRESENTATIVES

Mr. Lin Shengxiong

Mr. Chow Yiu Wah, Joseph

INDEPENDENT AUDITORS

ZHONGHUI ANDA CPA Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 617, 6/F., Seapower Tower,

Concordia Plaza,

1 Science Museum Road,

Tsim Sha Tsui East,

Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

Royal Bank House — 3rd Floor

24 Shedden Road

Grand Cayman KY1-1110

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited

2103B, 21/F, 148 Electric Road

North Point

Hong Kong

STOCK CODE

1863

CORPORATE WEBSITE

<http://www.chinalongevity.hk>

INVESTOR RELATIONS CONTACT

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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.

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 and have an outstanding price-performance ratio. The products are used in a wide spectrum of public and household domains, including education, healthcare, commerce, sports, offices, industrial usage and transportation.

Revenue for the period under review was approximately RMB320.1 million, representing an increase of approximately RMB2.0 million, or 0.6%, compared to revenue of approximately RMB318.1 million for the same period last year. The increase was primarily attributable to the increase in demand for Flooring Products.

The Group’s products can be categorised into two types: (i) Material Products and (ii) Flooring Products. The Group generated most of its revenue from the Material Products which accounted for approximately 91.1% (30 June 2019: 95.7%) of total revenue. Local sales continued to be the Group’s major source of revenue, representing approximately 69% (30 June 2019: 67%) of the total revenue while export sales only accounted for approximately 31% (30 June 2019: 33%) of the total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June			
	2020		2019	
	(RMB million)	% of Total Revenue	(RMB million)	% of Total Revenue
Material Products	291.71	91.13	304.56	95.74
Flooring Products	28.39	8.87	13.57	4.26
	320.10	100.00	318.13	100.00

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

	For the six months ended 30 June	
	2020	2019
	(RMB million)	(RMB million)
PRC	221.13	213.26
Others	98.97	104.87
	320.10	318.13

For the period under review, drop stitch fabric, a new material was successfully developed and launched into the market in recent years. It has been widely used in fields such as outdoor water sports, entertainment and military industry. The new fabric products have already surpassed those of our domestic and overseas industry peers. Looking ahead, the Group plans to invent and develop more new products to retain its leading position in the industry.

The Group's Flooring Materials were used to manufacture negative pressure medical isolation wards for the prevention and control of the coronavirus outbreak in the PRC during the period under review. Furthermore, the newly developed products of 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 30 June 2020, the Group owned a total of 65 patents with respect to the Material Products, of which 38 patents on inventions, 22 patents on practical new models and 5 patents on software copyrights.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Products

For the period under review, the Group's revenue generated from Material Products amounted to approximately RMB291.7 million (30 June 2019: RMB304.6 million) which accounted for approximately 91.1% (30 June 2019: 95.7%) of the Group's total revenue, representing a decrease in sales of approximately 4.2%. The decrease in revenue was mainly due to the decrease in demand for outdoor leisure products as a result of the pandemic.

Flooring Products

For the period under review, the Group's revenue generated from the Flooring Products amounted to approximately RMB28.4 million (30 June 2019: RMB13.6 million) which accounted for approximately 8.9% (30 June 2019: 4.3%) of total revenue, representing an increase in sales of approximately 108.8%, which was mainly due to the gradual growth in brand influence as a result of market expansion.

FINANCIAL REVIEW

Financial Results

Revenue

The Group's revenue for the six months ended 30 June 2020 was approximately RMB320.1 million, representing an increase of approximately RMB2.0 million, or 0.6%, compared to revenue of approximately RMB318.1 million for the same period last year. For the period under review, the Group's major sales segments, namely, (1) Material Products reported revenue of approximately RMB291.7 million (30 June 2019: RMB304.6 million) and (2) Flooring Products recorded a revenue of approximately RMB28.4 million (30 June 2019: RMB13.6 million).

Gross Profit and Gross Margin

Gross profit was approximately RMB71 million for the period under review (30 June 2019: approximately RMB73 million), with the gross profit margin of approximately 22.2% (30 June 2019: 22.9%).

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

	For the six months ended	
	30 June	
	2020	2019
	%	%
Material Products	23.5	24.9
Flooring Products	9.3	5.5
Overall	22.2	22.9

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Costs

For the period under review, selling and distribution costs increased by approximately RMB0.2 million to approximately RMB10.1 million, or 3.2% of revenue for the period under review, from approximately RMB10 million, or 3.1% of revenue for the same period last year. The increase was mainly due to the patent royalty fees of the products.

Administrative Expenses

For the period under review, administrative expenses decreased by approximately RMB14.0 million or 30.5% to approximately RMB32.0 million. The decrease in administrative expenses was mainly due to a decrease in research and development and consultancy expenses.

Research and Development

For the period under review, research and development (the “R&D”) costs amounted to approximately RMB19.4 million, or 6.1% of revenue (30 June 2019: RMB29.1 million, or 9.1% of revenue). The Group believes that its on-going R&D efforts are critical in maintaining long-term competitiveness, retaining existing customers, enhancing its ability to attract new customers and developing new markets. The Group continues to dedicate resources to the R&D activities in its Fuzhou and Shanghai plants aiming to lower the cost of raw materials, streamline manufacturing processes, increase production capacities, develop high value-added new materials, and expand new application of the products and customer sales market.

Finance Costs

Finance costs for the period under review was approximately RMB3.4 million (30 June 2019: RMB3.0 million). The increase was mainly due to increase in interest-bearing bank borrowings.

Other Income and gains

Other income and gains amounted to approximately RMB32.8 million for the period under review (30 June 2019: approximately RMB3.8 million). The increase for the period was mainly due to recovery of bad debts of approximately RMB19 million and gain on dissolution of subsidiary of approximately RMB6.8 million (Note 18).

Income Tax

For the period under review, the Group had an overall income tax expense of approximately RMB1.8 million (30 June 2019: RMB0.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Period

For the period ended 30 June 2020, the Group recorded a profit attributable to owners of the Company approximately RMB44.5 million, or RMB5.22 cents for basic earnings per share. As at the same period last year, the Group recorded a profit attributable to owners of the Company of approximately RMB16.5 million, or RMB1.94 cents for basic earnings per share. The weighted average number of ordinary shares of 852,612,470 in issue during the period ended 30 June 2020 (30 June 2019: 852,612,470).

Dividends

The Board has resolved not to pay any interim dividend for the six months ended 30 June 2020 (30 June 2019: Nil).

Liquidity and Financial Resources

Total Equity

As at 30 June 2020, total equity amounted to approximately RMB362.7 million, representing an increase of 14%, compared to approximately RMB318.2 million as at 31 December 2019.

Financial Position

As at 30 June 2020, the Group had total current asset of approximately RMB364.1 million (31 December 2019: RMB336.5 million) and total current liabilities of approximately RMB444.9 million (31 December 2019: RMB461.7 million), with net current liabilities of approximately RMB80.8 million (31 December 2019: RMB125.3 million).

As at 30 June 2020, the Group's net gearing (expressed as a percentage of total interest-bearing liabilities to total assets) was at 20.0%, as compared to 11.6% as at 31 December 2019.

Cash and Cash Equivalents

As at 30 June 2020, the Group had cash and cash equivalents of approximately RMB45.0 million (31 December 2019: RMB26.4 million), most of which were denominated in Renminbi ("RMB").

Bank Borrowings

As at 30 June 2020, the Group had interest-bearing bank borrowings of approximately RMB167.1 million (31 December 2019: RMB89.7 million).

Contingent Liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Commitments

As at 30 June 2020, capital commitment of the Group amounted to approximately RMB14.7 million (31 December 2019: RMB11.1 million). The capital commitment will be funded partly by internal resources and partly by bank borrowings.

Pledge of Assets

As at 30 June 2020, the Group's buildings, plant and machinery of approximately RMB270.6 million (31 December 2019: RMB257.9 million), right-of-use assets of approximately RMB15.9 million (31 December 2019: RMB16.2 million), investment properties of approximately RMB35.7 million (31 December 2019: RMB35.7 million) and bank deposits of approximately RMB40.6 million (31 December 2019: RMB57.4 million) were pledged to banks to secure bank loans and general banking facilities granted.

Events After The Reporting Period

There were no significant events after the reporting period.

Human Resources

As at 30 June 2020, the Group employed a total of 474 employees (31 December 2019: 445 employees).

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

Exposure to fluctuations in exchange rates and related hedge

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

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

Save as disclosed above, there has been no material change in the development or future development of the Group's business and financial position, and no important event affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2019.

Material Acquisition or Disposals

Except for the dissolution of a subsidiary as disclosed in Note 18, there was no other material acquisition or disposal of subsidiaries by the Group during the six months ended 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

Facing the severe global pandemic 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 respond to the national policy of “adjusting economic structure; transforming traditional manufacturing industries into new and intelligent manufacturing industries”. It will adhere to the development principles of “stay on its original business, steady development, structure optimisation, continuous innovation, and achieve domestic and international circular economy”, and has implemented a series of adjustment measures for product mix:

1. stabilise the business development of new materials, and actively develop new products;
2. further develop special functional materials and Flooring Products for domestic and foreign major 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;
5. establish a technological innovation center for the development of new products for the Group;
6. set up a cultural center to strengthen the branding and develop a company culture for 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 state-of-the-art intelligent coating production lines to expand the sales scale of coating materials;
2. Fujian Sijia will increase its efforts to facilitate technical transformation, and has added a production line exclusively for handling orders from Decathlon, a French sports brand;
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, and contribute to the development of new industry in the country;

MANAGEMENT DISCUSSION AND ANALYSIS

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 flooring;
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;
6. Fujian Sijia will conduct the intelligent transformation of its production line to perk up its production efficiency;
7. increase the publicity of domestic and foreign professional exhibitions, meanwhile to expand the market shares of our inflatable boat materials in Europe and our flooring on global markets;
8. plan for the operation under the brand of 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, intelligent transformation of equipments, 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 undergraduates, postgraduates and doctoral students majoring in polymer materials 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 of the Company;
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 improving the demand for both of their physical and spiritual lives;
14. actively observe the corporate social responsibilities, proactively participate in activities to help villages thrive and pay back to the society, and support campaigns such as "Thousand Enterprises Helping Thousand Villages" and "Precision Poverty Alleviation by Education".

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	4	320,101	318,133
Cost of sales		(249,006)	(245,290)
GROSS PROFIT		71,095	72,843
Other income and gains	5	32,761	3,834
Selling and distribution costs		(10,116)	(9,950)
Administrative expenses		(31,953)	(45,960)
Other expenses		(12,015)	(671)
PROFIT FROM OPERATIONS		49,772	20,096
Finance costs	6	(3,445)	(3,024)
PROFIT BEFORE TAX	7	46,327	17,072
Income tax expense	8	(1,795)	(537)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		44,532	16,535
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		2,248	5,678
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		(2,312)	(5,738)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		44,468	16,475
EARNINGS PER SHARE (RMB cents)	10		
— Basic		5.22	1.94
— Diluted		5.22	1.94

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	374,524	364,821
Right-of-use assets		31,259	39,240
Investment properties		35,710	35,710
Intangible assets		684	684
Deposits paid for acquisition of property, plant and equipment		25,774	236
Equity investments at fair value through other comprehensive income		4,140	4,140
Deferred tax assets		3,263	3,297
Total non-current assets		475,354	448,128
Current assets			
Inventories		116,493	115,160
Trade and bills receivables	12	132,606	117,415
Prepayments, deposits and other receivables	13	29,358	20,058
Pledged bank deposits		40,592	57,415
Cash and cash equivalents		45,040	26,414
Total current assets		364,089	336,462
Current liabilities			
Trade and bills payables	14	233,443	278,144
Lease liabilities		465	745
Contract liabilities	15	6,893	21,743
Other payables and accruals	16	51,877	47,752
Interest-bearing borrowings	17	139,658	89,729
Deferred income		150	330
Due to a related party	21	—	4,000
Due to a director	21	3,800	3,640
Tax payable		8,565	15,642
Total current liabilities		444,851	461,725
Net current liabilities		(80,762)	(125,263)
Total assets less current liabilities		394,592	322,865

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Interest-bearing borrowings	17	27,420	—
Lease liabilities		419	580
Deferred tax liabilities		4,078	4,078
Total non-current liabilities		31,917	4,658
NET ASSETS		362,675	318,207
Capital and reserves			
Issued capital		747	747
Reserves		361,928	317,460
TOTAL EQUITY		362,675	318,207

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 2019 (audited)	747	566,403	28,994	123,131	(8,754)	8,133	(444,688)	273,966
Total comprehensive income for the year (unaudited)	—	—	—	—	(60)	—	16,535	16,475
At 30 June 2019 (unaudited)	747	566,403	28,994	123,131	(8,814)	8,133	(428,153)	290,441
At 1 January 2020 (audited)	747	566,403	28,994	128,774	(9,063)	12,235	(409,883)	318,207
Total comprehensive income for the year (unaudited)	—	—	—	—	(64)	—	44,532	44,468
At 30 June 2020 (unaudited)	747	566,403	28,994	128,774	(9,127)	12,235	(365,351)	362,675

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	(6,869)	40,673
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(39,606)	(11,248)
Proceeds from disposals of property, plant and equipment	4,031	137
Decrease in pledged bank deposits	16,823	1,201
Payment of deposits for acquisition of property, plant and equipment	(25,538)	(323)
Other investing cash flows	125	157
Net cash used in investing activities	(44,165)	(10,076)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	116,945	19,000
Repayment of bank borrowings	(39,596)	(38,000)
Repayment to a related party	(4,000)	—
Advance from/(repayment to) directors	160	(363)
Other financing cash flows	(3,886)	(3,369)
Net cash generated from/(used in) financing activities	69,623	(22,732)
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,589	7,865
Cash and cash equivalents at beginning of period	26,414	28,200
Effect on exchange rate changes	37	(52)
Cash and cash equivalents at end of period	45,040	36,013
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	45,040	36,013

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 period.

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

2. BASIS OF PREPARATION

The Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("Interim Financial Reporting") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Interim Financial Statements do not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's 2019 annual consolidated financial statements for the year ended 31 December 2019 ("2019 Annual Report"). The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in 2019 Annual Report.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. REVENUE

	Six months ended 30 June	
	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000
Sales of goods	320,101	318,133

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 periods. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

4. REVENUE (continued)

Disaggregation of revenue from contracts with customers:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Geographical markets		
The People's Republic of China (the "PRC")	221,135	213,264
Others	98,966	104,869
Total	320,101	318,133

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Major products		
Material products	291,712	304,566
Flooring Products	28,389	13,567
Total	320,101	318,133

The revenue was recognised at a point in time.

Information about major customers

No revenue from transactions with a single customer amounted to 10% or more of the Group's total sales for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interest income	125	194
Government subsidies (note)	2,525	2,347
Gross rental income	1,350	959
Gain on dissolution of a subsidiary	6,776	—
Reversal of allowance for receivables	2,024	—
Recovery of bad debts	19,018	—
Sundry income	943	334
	32,761	3,834

Note: Government subsidies are received and used for development of new products and implementation of environmental protection development programmes. These government subsidies are not attributable to any non-current assets and there are no other specific conditions attached to the subsidies. Therefore, the Group recognised the subsidies upon receipt during the six months ended 30 June 2020 and 2019.

6. FINANCE COSTS

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Lease interest	18	103
Interest on bank loans	3,427	2,921
	3,445	3,024

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Directors' remuneration	1,287	1,251
Depreciation of property, plant and equipment	18,024	17,580
Depreciation on right-of-use assets	915	—
Amortisation of intangible assets	—	288
Loss/(gain) on disposals of property, plant and equipment	11,570	(8)

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax — the PRC		
Charge for the period	1,762	575
Deferred tax	33	(38)
	1,795	537

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 six months ended 30 June 2020 and 2019.

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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

9. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the six months ended 30 June 2020 attributable to owners of the Company of approximately RMB44,532,000 (six months ended 30 June 2019: RMB16,535,000) and the weighted average number of approximately 852,612,000 (six months ended 30 June 2019: 852,612,000) ordinary shares in issue during the period.

Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2020 and 2019 is the same as the basic earnings per share as the Company did not have any dilutive potential ordinary shares during the periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment at a total cost of RMB36,564,000 (six months ended 30 June 2019: RMB5,074,000).

During the six months ended 30 June 2020, property, plant and equipment with a carrying amount of RMB15,601,000 (six months ended 30 June 2019: RMB129,000) were disposed of by the Group, resulting in a loss on disposals of RMB11,570,000 (six months ended 30 June 2019: gain on disposals of RMB8,000).

12. TRADE AND BILLS RECEIVABLES

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

12. 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:

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Within 3 months	112,328	113,371
More than 3 months but within 6 months	19,784	2,713
More than 6 months but within 1 year	3	38
More than 1 year	491	1,293
	132,606	117,415

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Advances to suppliers (note)	26,679	12,931
Prepaid sales tax and government surcharges	61	2,557
Prepaid expenses	—	4
Other receivables	2,618	4,566
	29,358	20,058

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. TRADE AND BILLS PAYABLES

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Trade payables	100,905	106,344
Bills payables	132,538	171,800
	233,443	278,144

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

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Within 3 months	166,624	174,600
More than 3 months but within 6 months	65,053	103,333
More than 6 months but within 1 year	1,131	198
More than 1 year	635	13
	233,443	278,144

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

15. CONTRACT LIABILITIES

During the six months ended 30 June 2020, certain customers agreed with the Group to settle trade receivables of RMB19,018,000 by the contract liabilities. Such amount of trade receivables were fully impaired in previous years, therefore, a recovery of bad debts is recognised and included in "other income and gains" during the current period.

16. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Accrued liabilities	16,608	16,941
Payroll payables	3,694	5,410
Payable for the acquisition of property, plant and equipment	18,783	21,825
Loan from a third party	10,000	—
Others	2,792	3,576
	51,877	47,752

17. INTEREST-BEARING BORROWINGS

During the period ended 30 June 2020, the Group obtained new bank loans of RMB116,945,000 as additional working capital (six months ended 30 June 2019: RMB19,000,000) and made repayments of bank loans of RMB39,596,000 (six months ended 30 June 2019: RMB38,000,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

18. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Dissolution of a subsidiary

On 13 January 2020, the Group completed the dissolution of Fujian Hausa Import and Export Co., Ltd. ("Fujian Hausa"), an indirect wholly owned subsidiary. A gain on dissolution of a subsidiary of approximately RMB6,776,000 was recognised during the period ended 30 June 2020, be calculated as follows:

RMB'000

Net assests/(liabilities) of Fujian Hausa at the date of dissolution were as follows:

Tax payable	(6,776)
Net liabilities as the date of dissolution	(6,776)
Gain on dissolution of a subsidiary	6,776
Total consideration	—

19. CAPITAL COMMITMENTS

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

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Property, plant and equipment		
Contracted but not provided for	14,700	11,088

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

20. CONTINGENT LIABILITIES

At 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

21. RELATED PARTY TRANSACTIONS

(a) Related party transactions

At 30 June 2020, the ultimate shareholder and a family member of the ultimate shareholder guaranteed bank loans made to the Group of approximately RMB127,577,000 (30 June 2019: RMB66,000,000).

(b) Outstanding balances with related parties

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Due to a related party		
Ms. Lin Hongting, the spouse of Mr. Lin	—	4,000
Due to a director		
Mr. Huang Wanneng	3,800	3,640

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

22. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.

23. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the board of directors on 27 August 2020.