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Sijia Group Company Limited

思嘉集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1863)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

Revenue increased by 91.2% to RMB480.5 million

Profit attributable to equity holders increased by 97.4% to RMB146.9 million

Basic earnings per share increased by 75.3% to RMB21.76 cents

UNAUDITED INTERIM RESULTS

The board of directors (the “Board”) of Sijia Group Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
REVENUE	3	480,507	251,263
Cost of sales		(255,341)	(142,422)
Gross profit		225,166	108,841
Other income and gains	3	2,268	368
Selling and distribution costs		(4,775)	(1,225)
Administrative expenses		(44,201)	(18,436)
Other expenses		(716)	(324)
Finance costs	4	(1,355)	(1,042)
PROFIT BEFORE TAX	5	176,387	88,182
Income tax expense	6	(29,454)	(13,744)
PROFIT FOR THE PERIOD		146,933	74,438
Attributable to:			
Owners of the Company		146,933	74,438
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Basic and diluted (RMB)	7	21.76 cents	12.41 cents

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
PROFIT FOR THE PERIOD		146,933	74,438
Exchange differences on translation of foreign operations		(3,604)	(37)
Other comprehensive income for the period, net of tax		(3,604)	(37)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		143,329	74,401
Attributable to:			
Owners of the Company		143,329	74,401

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

30 June 2010

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		92,681	79,204
Prepaid land lease payments		5,353	5,401
Intangible assets		5,259	298
Advance payments for property, plant and equipment		246,844	50,213
Total non-current assets		350,137	135,116
CURRENT ASSETS			
Inventories		47,300	29,448
Trade and notes receivables	8	139,433	86,364
Prepayments, deposits and other receivables		43,924	33,945
Cash and cash equivalents		702,819	184,987
Total current assets		933,476	334,744
CURRENT LIABILITIES			
Trade and bills payables	9	73,864	45,366
Other payables and accruals		16,314	16,763
Interest-bearing bank borrowings		47,500	35,500
Due to a director		–	624
Due to a related party		–	4,451
Tax payable		19,141	9,600
Total current liabilities		156,819	112,304
NET CURRENT ASSETS		776,657	222,440
TOTAL ASSETS LESS CURRENT LIABILITIES		1,126,794	357,556

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		3,125	3,375
Deferred tax liabilities		4,001	3,181
Total non-current liabilities		7,126	6,556
Net assets		1,119,668	351,000
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>10</i>	728	88
Reserves		1,118,940	350,912
Total equity		1,119,668	351,000

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the “Stock Exchange”.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required for a full set of financial statements, and should be read in conjunction with the Group’s accountants’ report included in the Prospectus.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s accountants’ report included in the Prospectus except for the adoption of new and revised standards, interpretations and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA for the first time for the current period as disclosed in note 1.2 below.

1.2 IMPACT OF NEW AND REVISED HKFRSs

The following new and revised HKFRSs, amendments and interpretations (“New HKFRSs”) are adopted for the first time for the current period’s condensed interim financial statements:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HKFRSs (Amendments)	<i>Improvements to HKFRSs 2009</i>

The adoption of these New HKFRSs has had no financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

1.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 Amendment	Amendments to HKFRS 1 <i>Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

Apart from the above, the HKICPA has issued the third batch of Improvements to HKFRSs in May 2010. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for annual periods beginning on or after 1 July 2010, amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised standards, amendments and interpretations upon initial application. So far, the Group considers that except for the adoption of HKFRS 9 which may result in changes in accounting policies, the other revised standards, amendments or interpretations are unlikely to have a significant impact on the Group's results of operations and financial position.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and there are no reportable operating segments.

All of the non-current assets of the Group were located in the PRC during the six months ended 30 June 2010 and 2009.

Geographical information

For the six months ended 30 June 2010

	PRC RMB'000	Non-PRC RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	<u>472,104</u>	<u>8,403</u>	<u>480,507</u>
Other segment information:			
Non-current assets	<u>350,137</u>	<u>–</u>	<u>350,137</u>

For the six months ended 30 June 2009

	PRC RMB'000	Non-PRC RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	244,888	6,375	251,263
Other segment information:			
Non-current assets	85,971	–	85,971

The revenue information is based on the location of the customers.

No revenue from transactions with a single customer amounted to more than 10% of the Group's total revenue.

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of valued-added tax and government surcharges, and after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of goods	480,507	251,263
Other income and gains		
Bank interest income	516	228
Government subsidies	1,668	126
Others	84	14
	2,268	368

4. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans	1,355	1,042

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	225,594	123,295
Depreciation	4,852	4,341
Amortisation of prepaid land lease payments	48	49
Amortisation of intangible assets	43	43
Research and development costs	21,160	15,156
Operating lease expenses	525	87
Loss on disposal of items of property, plant and equipment	481	300
Auditors' remuneration	1,026	4
Foreign exchange differences, net	180	9
Bank interest income	(516)	(228)

6. INCOME TAX

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.

The income tax expenses of the Group for the period ended 30 June 2010 and 2009 are analysed as follows:

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China		
Charge for the period	28,634	13,362
Deferred	820	382
Total tax charge for the period	29,454	13,744

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax is subject to corporate income tax ("CIT") at the rate of 16.5% for the period ended 30 June 2010 on the estimated assessable profits arising in Hong Kong during the period. No provision of income tax has been made as Sijia International Holding Limited ("Hong Kong Sijia") had no taxable income during the period.

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In this connection, Fujian Sijia Industrial Material Co., Ltd. ("Fujian Sijia") and Xiamen Grandsoo Industry & Trade Co., Ltd. ("Xiamen Grandsoo") have been subject to CIT at the rate of 25% since 2008.

Fujian Sijia was registered as a foreign-invested enterprise on 25 September 2002. Fujian Sijia was subject to CIT at a rate of 25% for the six months ended 30 June 2010 and 2009. Pursuant to the approval of the tax bureau, Fujian Sijia being a high-tech enterprise was levied at the reduced tax rate of 15% for the six months ended 30 June 2010 and 2009.

Xiamen Grandsoo was registered as a foreign-invested enterprise on 26 May 2006 and subject to CIT at a rate of 25% for the six months ended 30 June 2010 and 2009. Pursuant to the approval of the tax bureau, Xiamen Grandsoo is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the New Corporate Income Tax Law, a company is still able to enjoy the above mentioned tax holiday within a five-year transitional period from 1 January 2008. The company would be deemed to trigger the tax holiday from 1 January 2008 if it has not yet started to enjoy tax holiday at that time. Since Xiamen Grandsoo was under accumulative loss position and has not yet started to enjoy tax holiday as of 1 January 2008, its tax holiday was deemed to have started in 2008 regardless of whether it makes profit in 2008. Therefore, Xiamen Grandsoo was exempted from CIT for the six months ended 30 June 2009, and is subject to CIT rate of 12.5% for the six months ended 30 June 2010.

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the six months ended 30 June 2010 is based on the profit attributable to owners of the Company of RMB146,933,000 (six months ended 30 June 2009: RMB74,438,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2010 of 675,347,000 (six months ended 30 June 2009: 600,000,000).

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2010 includes the 100,000,000 ordinary shares in issue, 500,000,000 ordinary shares issued during the six months ended 30 June 2010 pursuant to the capitalisation issue as if the shares had been in issue throughout the six months ended 30 June 2010, 200,000,000 ordinary shares issued on 28 April 2010 in connection with the listing of the Company's ordinary shares on the Stock Exchange, and 28,831,000 ordinary shares issued on 26 May 2010 upon exercise of the Over-allotment Option described in the Prospectus ("Over-allotment Option") in connection with the Company's initial public offering.

The number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2009 was based on the 600,000,000 ordinary shares, representing the number of shares of the Company immediately after the capitalisation issue, as if the shares had been in issue throughout the six months ended 30 June 2009.

There were no potential dilutive ordinary shares in existence during the six months ended 30 June 2010 and 2009 and therefore, no diluted earnings per share amounts have been presented.

8. TRADE AND NOTES RECEIVABLES

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Trade receivables	139,433	86,364

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
1 to 30 days	104,466	44,124
31 to 60 days	29,975	36,709
61 to 90 days	2,032	5,445
91 to 360 days	2,960	86
	139,433	86,364

9. TRADE AND BILLS PAYABLES

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Trade payables	18,418	13,930
Bills payable	55,446	31,436
	73,864	45,366

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 1 month	27,817	19,061
1 to 2 months	8,695	8,949
2 to 3 months	15,313	5,821
3 to 6 months	17,870	11,535
6 to 12 months	4,169	–
	<u>73,864</u>	<u>45,366</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

10. SHARE CAPITAL

	<i>Notes</i>	<i>Number of shares</i>	<i>RMB'000</i>
Authorised			
Ordinary shares of HK\$0.001 each			
Upon incorporation	(i)	380,000,000	335
At 31 December 2009 and 1 January 2010		380,000,000	335
Increase in authorised share capital	(ii)	1,620,000,000	1,425
At 30 June 2010		<u>2,000,000,000</u>	<u>1,760</u>
Issued and fully paid:			
Upon incorporation	(i)	10,000	–
For the acquisition of the entire issued share capital of China Grandsoo Holdings Company Limited (“China Grandsoo”), issuing and allotting of ordinary shares of HK\$0.001 each, credited as fully paid	(iii)	99,990,000	88
At 31 December 2009 and 1 January 2010		100,000,000	88
Capitalisation issue	(iv)	500,000,000	439
New issue of shares	(v)	228,831,000	201
At 30 June 2010		<u>828,831,000</u>	<u>728</u>

Notes:

- (i) On 7 October 2009, the Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands and was authorised to issue up to 380,000,000 shares of HK\$0.001 each. On the same date, one subscriber share with the par value of HK\$0.001 was transferred to Hopeland International Holdings Company Limited (“Hopeland International”) and 9,999 shares with the par value of HK\$0.001 were further allotted and issued to Hopeland International.
- (ii) Pursuant to the written resolutions of all the shareholders passed on 15 January 2010, the authorised share capital of the Company was increased from HK\$380,000 to HK\$2,000,000 by the creation of an additional 1,620,000,000 shares.
- (iii) Pursuant to a resolution passed on 15 December 2009, the Company allotted and issued 99,990,000 shares with the par value of HK\$0.001, credited as fully paid, to Hopeland International in consideration of Hopeland International transferring the entire issued share capital of China Grandsoo to the Company as part of the Reorganisation.
- (iv) Pursuant to a resolution passed on 8 April 2010, a total of 500,000,000 new ordinary shares of HK\$0.001 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK\$500,000 (equivalent to approximately RMB439,000) from the share premium account, to the then existing shareholders of the Company in proportion to their respective shareholdings.
- (v) In connection with the Company’s initial public offering, 200,000,000 ordinary shares of HK\$0.001 each were issued at a price of HK\$3.28 on 28 April 2010 for a total cash consideration, before related issuance expenses, of HK\$656,000,000 (equivalent to approximately RMB576,558,000).

On 26 May 2010, 28,831,000 ordinary shares of HK\$0.001 each were allotted and issued upon the exercise of the Over-allotment Option at a price of HK\$3.28 for a total cash consideration, before related issuance expenses, of HK\$94,566,000 (equivalent to approximately RMB82,773,000).

11. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 22 July 2010 (the “Date of Grant”), the Company granted share options to entitle two executive directors of the Company to subscribe for a total of 14,000,000 ordinary shares with nominal value of HK\$0.001 per share at an exercise price of HK\$3.30 per share. The share option will be valid and effective for a term of five years commencing from the Date of Grant.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Sijia Group Company Limited (“the Company”) is principally engaged in the design, development, manufacture and sale of polymer processed high strength polyester fabric composite materials and other reinforced composite materials (“Reinforced Materials”) and conventional materials (“Conventional Materials”, and together with Reinforced Materials, collectively known as “Materials”). The Group has also expanded into the design, development, manufacture and sale of downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market and environmental protection market (“End Products”).

The Group is a leading integrated manufacturer of inflatable and waterproof products serving the outdoor leisure sports consumer market and environmental protection market.

During the period under review, the Group seized the opportunities brought by rapid expanding biogas tank environmental protection market while consolidating its position and market share in its Reinforced Materials and End Products for outdoor leisure sport consumer market. The Group is speeding up its business development in delivering Reinforced Materials and End Products, in particular the wader and protective clothing, inflatable and air tightness products. To sustain its competitive advantage, the Company further enhances its research and development to pursue technological innovation, adjusts its product mix to enhance profit margins, optimises its use of financial resources and refines its internal management through ERP integration.

Seizing market opportunities and enlarging production capacity

With significant improvement in living standard in the mainland China and ever increasing living standard in other overseas countries, the market continuously demands high-end Reinforced Materials which meet international quality and safety standards. In light of the huge market demand on Sijia’s product, the Group has seized the market opportunity and significantly increased its production capacity by way of technological improvements to current production lines as well as optimising production process and operation procedures. In addition, the Group has made advance payment to secure new production lines to add production capacities for its existing products and new products.

Enhancement of the research and development of new products

Since 2007, Sijia Group has proceeded to deliver downstream End Products by employing its self-produced Reinforced Materials, and the Group has continuously monitored the developing trend within the industry and the emerging new market requiring the use of Reinforced Materials. Our investment in research and development enable us to launch new products to capture market with immense opportunities. The Company has also continuously adjusted the product formula of the existing products to enhance physical properties and improved functionalities to further satisfy our customers. As at 30 June 2010, the Group has 49 patents registered in mainland China. Coupled with the strengthening of research and development team, the Company signed an exclusive agreement with a professor of Sichuan University on research and development consultations.

Refining of product mix to cope with market demand

To enhance the efficiency of our production facilities, the Group has adjusted its production schedule and has placed priority in producing more Reinforced Materials and End Products with higher profit margin than Conventional Materials. The proportion of Reinforced Materials and End Products in terms of total revenue has reached 89.1% for the first six months of 2010 (2009: 82.4%) which promoted the overall gross margin to 46.9% (2009: 43.3%).

Proactive market exploration leading to strong sales growth

In the first half of 2010, coupled with the immense business opportunities constantly emerging in the market, the marketing team of the Group has taken proactive role in further exploring new customers as well as focusing on retention of existing customers to ensure the fast growing pace of business of the Company in the coming years.

For the period under review, the Group has further expanded its sales network by setting up sales offices in Chengdu, Nanchang, Wuhan and Shanghai to strengthen its business coverage into more provinces in mainland China. Sales volume for the first half of 2010 has surpassed the average sales volume of same period last year.

Segments by Market

Given the diverse applications of our Reinforced Materials and End Products, our products are able to serve more than eleven markets including outdoor, sports, renewable energy, labour protection, construction, logistic, packaging, medical use, safety, advertising and daily supplies. The two major segments are outdoor leisure sports consumer segment and environmental protection segment.

Outdoor Leisure Sports Consumer Market

Sijia Group supplies both Reinforced Materials and End Products to serve the outdoor leisure sports consumer segment. As to Reinforced Materials, the Company sold the most in wader and protective garment materials, air tightness materials and inflatable materials, which accounted for 16.1%, 9.7% and 9.3% of total revenue respectively in the first half of 2010. As to End Products, the Company generated the most sales in waders and protective clothing and inflatable boats, which delivered 9.8% and 6.9% of total revenue respectively in the same period.

Environmental Protection Market

An impressive sales performance was achieved in the biogas tank business with sales up 15.3 times as we started the business in 2009. Sales gains were led by our strengths in research and development which create entry barrier, strong market demand and government encouragement coupled with its favourable policies.

Biogas is a form of energy that comes from living things, it is generally made from animal pig and cattle faeces. Farmer use biogas digesters to convert the faeces into methane gas, which is a type of biogas. As carbon emission levels are becoming of greater concern and as people realise the benefits of developing integrated energy supply options, then biogas becomes an increasingly attractive option.

The waste that fuels biogas tank/digester has already existed physically at hand and presented a greater environmental health threat if left untreated. In the case of livestock farms, there are sufficient supply of agricultural wastes, and the number of pigs is consistently very high. Biogas is potentially becoming a vital component in the energy portfolio of China.

Biogas tank products

Sijia Group also offers both Reinforced Materials and End Products to serve the environmental protection segment especially the rural biogas tank/digester market. Our Group started a small scale production with its Reinforced Materials and End Products in the year of 2009. For the first half of 2010, the production and marketing of biogas tank Reinforced Materials and End Products accounted for RMB34.3 million, or 7.1% and RMB39.2 million, or 8.2% of total revenue respectively (2009: RMB4.3 million, or 1.7% and RMB0.2 million, or 0.1%). Capitalising on our expertise in air tightness with feature of normal functioning under wide temperature range, and the favourable Chinese government policies in terms of heavy subsidies to uses of biogas tank, we have managed to accelerate the growth of our business in biogas tank.

FINANCIAL REVIEW

Financial Results

Revenue

Revenue for the period under review was RMB480.5 million, an increase of RMB229.2 million, or 91.2%, compared to revenue of RMB251.3 million for the same period last year. The increase in revenue was primarily due to the increase in sale of Reinforced Materials and End Products during the period.

During the period, the sales of Reinforced Materials increased RMB125.8 million, or 75.9%, to RMB291.6 million compared to RMB165.8 million for the same period last year. The sales of Reinforced materials increased the most in wader and protective garment materials, followed by biogas tank materials and air tightness materials. These increases were due primarily to the increase in sales volume and sales price of our those Reinforced Materials. On the other hand, the sale of Conventional Materials increased RMB8.3 million, or 18.7%, to RMB52.6 million compared to RMB44.3 million for the same period last year.

During the period, the sales of End Products increased RMB95.1 million, or 230.8%, to RMB136.3 million compared to RMB41.2 million for the same period last year. The increase was due primarily to the launch of wader and protective clothing and biogas tank from the second half of 2009.

The split of these revenue based on products compared to the first half of 2010 and 2009, is shown below:–

	For the six months ended 30 June			
	2010		2009	
	(RMB million)	%	(RMB million)	%
Reinforced Materials	291.6	60.7	165.8	66.0
Conventional Materials	52.6	10.9	44.3	17.6
End Products	136.3	28.4	41.2	16.4
	<u>480.5</u>	<u>100.0</u>	<u>251.3</u>	<u>100.0</u>

The split of these revenues based on geographically locations compared to 2010 and 2009, is shown below:–

	For the six months ended 30 June			
	2010		2009	
	(RMB million)	%	(RMB million)	%
PRC	472.1	98.3	244.9	97.5
Non-PRC	8.4	1.7	6.4	2.5
	<u>480.5</u>	<u>100.0</u>	<u>251.3</u>	<u>100.0</u>

Gross Profit and gross margin

Gross profit increased to RMB225.2 million for the six months ended 30 June 2010 (2009: RMB108.8 million). The gross margin increased 360 basis points to 46.9% for the six months ended 30 June 2010 (2009: 43.3%). The primary factor that caused the increase in gross margin was the continuous refinement of product mix to offer more Reinforced Materials and End Products which commanded higher gross profit margin as compared with that of Conventional Materials.

The split of these gross margin based on products compared to 2009, is shown below.

	2010	2009
	%	%
Reinforced Materials	44.4	42.3
Conventional Materials	16.6	17.9
End Products	<u>63.8</u>	<u>74.6</u>
	<u>46.9</u>	<u>43.3</u>

Selling and distribution costs

For the period under review, selling and distribution costs increased RMB3.6 million or 289.8% to RMB4.8 million, or 1.0% of revenue for the period under review, from RMB1.2 million, or 0.5% of revenue for the same period last year. The increase in selling and distribution costs was primarily due to increases in exhibition expenses and occurrence of marketing consultant fee as we increased our marketing efforts.

Administrative expenses

For the period under review, administrative expenses increased RMB25.8 million or 139.8% to RMB44.2 million, or 9.2% of revenue in the first half of 2010, from RMB18.4 million, or 7.3% of revenue for the same period last year. The increase in administrative expenses was primarily due to the occurrence of legal and professional fees for the global offering. In addition, research and development costs increased RMB6.0 million, or 39.5%, to RMB21.2 million, or 4.4% of revenue for the period under review, from RMB15.2 million, or 6.0% of revenue for the same period last year. The increase is related to the development of new products and improvement of current products.

Finance costs

Finance cost for the period under review was RMB1.4 million (2009: RMB1.0 million). This equates to 0.3% and 0.4% of revenue in the first half of 2010 and 2009 respectively.

Interest income

Interest income amounted to RMB0.5 million for the period under review (2009: RMB0.2 million).

Income Tax

For the period under review, the Company had an overall income tax expense of RMB29.5 million, or 16.7% of pre-tax income compared to the tax expense of RMB13.7 million, or 15.6% of pre-tax income.

Net Income

The Group generated profit attributable to owners of parent for the period under review of RMB147.0 million, or RMB21.76 cents per share, compared to profit attributable to owners of parent of RMB74.4 million, or RMB12.41 cents per share for the same period last year. The weighted average number of common shares outstanding at 30 June 2010 was 675,347,000 compared to 600,000,000 at 30 June 2009.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to RMB1,119.7 million, as compared to RMB351.0 million at 31 December 2009, an increase of 219.0%.

Financial Position

The Group's net gearing, expressed as a percentage of total interest-bearing liabilities to total assets, was at 3.9% as compared to 8.3% as at 31 December 2009.

Bank Borrowings

The Group had cash and bank balances of RMB702.8 million (31 December 2009: RMB185.0 million), most of which were denominated in Hong Kong dollars or Renminbi. As at 30 June 2010, the Group had interest-bearing bank borrowings of RMB50.6 million (31 December 2009: RMB38.9 million).

Working Capital

Total inventory was at RMB47.3 million as compared to RMB29.4 million as at 31 December 2009. The number of days of inventory was at 34 days (31 December 2009: 34 days).

Trade receivables turnover days was at 53 days (31 December 2009: 55 days). The Group strikes to exercise due care in managing credit exposure.

Trade payables turnover days was at 53 days (31 December 2009: 53 days).

Overall, the Group maintained a current ratio of 6.0 as at 30 June 2010 (31 December 2009: 3.0).

Capital Expenditure

During the six months ended 30 June 2010, the Group incurred capital expenditure of approximately RMB220.0 million, which was financed by the Group's internal resources and the proceeds of its initial public offering. As at 30 June 2010, the Group's future capital commitment entered into but not yet provided for was approximately RMB229.2 million, and will be paid out of the proceeds from its initial public offering and the Group's cashflow operation.

Capital Commitments and Contingent Liabilities

As at 30 June 2010, total capital commitments amounted to RMB229.2 million (31 December 2009: RMB50 million). There were no material contingent liabilities or off balance sheet obligations.

Human Resources

The Group employed a total of 680 employees (31 December 2009: 490 employees) in China and Hong Kong.

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improve the quality, competence and skills of all employees. It provides job related training and leadership development programs throughout the organisation. The Group continues to offer competitive remuneration packages and bonuses to eligible staff, based on the performance of the Group and the individual employee.

OUTLOOK

The first half of 2010 has been a busy and constructive period for our Group. The listing of the share of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has provided Sijia Group with the financial platform to accelerate the Group's investment programme in production capacities, research and development and sales network. Our Group's highly integrated operating model in serving more than eleven industries especially outdoor leisure sports consumer market and environmental protection market gives us sustainable competitive advantage over our competitors and we continue to invest to grow our Group into a leading manufacturer of high quality Reinforced Materials and End Products.

The first half of 2010 is benefiting from capacity enhancement and strong pricing of our Reinforced Materials and End Products, alongside with the speed of development of the new products including biogas tank, wader and protective clothing. With further capacities introduced in lamination, calendaring and coating production lines and factories expansion, for example we added new lines for TPU materials, international standard PVDF membrane structure materials and a number of End Products, we expected increases in production output. Strong order book, significant increase in output and continuous new product offerings are also expected to continue in second half of 2010.

Sijia Group has a robust balance sheet with no net debt and a business model which generates strong operating cash flows. Together with the funds from the initial public offerings, this has allowed us to undertake significant investment in expanding production capacities, enhancement of research and development capabilities and strengthening of sales networks for our Group, the benefit of which will realise during the rest of this year and in the years to come.

Business in the first six months of the 2010 has got off to a good start with year-on-year revenue up 91.2%. Our plan on capital expenditure is also well on track to achieve our targets. We have made a promising start to 2010 and thus look forward to the year with full of confidence.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company is committed to maintain a high standard of corporate governance with a view of enhancing the management efficiency of the Company as well as preserve the interests of the shareholders as a whole. In the opinion of the Board, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) during the reporting period.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

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. Having made specific enquiry of the Company’s directors, the directors confirmed that they have fully complied with the required standard as set out in the Model Code during the reporting period.

AUDIT COMMITTEE

The Audit Committee, comprises the three independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group’s unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 have been reviewed and approved by the Audit Committee, who is of the opinion that such accounts comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the period.

PURCHASE, SALE OR REDEMPTION OF SHARES

There has been no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries during the reporting period.

PUBLICATION OF THE INTERIM RESULTS AND REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkex.com.hk>) and the Company (<http://www.sijia.hk>). The interim report containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

By order of the Board
Sijia Group Company Limited
Lin Shengxiong
Chairman

Hong Kong, 25 August 2010

As at the date of this announcement, our executive Directors are Mr. Lin Shengxiong, Mr. Zhang Hongwang and Mr. Huang Wanneng, and our independent non-executive Directors are Mr. Chan Tsz Fu, Jacky, Mr. Cai Weican and Mr. Choi Tze Kit, Sammy.