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CHINA LONGEVITY GROUP COMPANY LIMITED

中國龍天集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1863)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018
AND
CONTINUAL SUSPENSION OF TRADING**

The board of directors (the “Board”) of China Longevity Group Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017. The interim results had been reviewed by the audit committee of the Company and approved by the Board.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
REVENUE	4	260,939	245,065
Cost of sales		<u>(204,963)</u>	<u>(195,489)</u>
GROSS PROFIT		55,976	49,576
Other income and gains	5	2,747	5,343
Selling and distribution costs		(6,101)	(6,343)
Administrative expenses		(32,115)	(30,409)
Other expenses		<u>(2,369)</u>	<u>(838)</u>
PROFIT FROM OPERATIONS		18,138	17,329
Impairment of trade receivables		(175)	(899)
Finance costs	6	<u>(3,844)</u>	<u>(4,043)</u>
PROFIT BEFORE TAX	7	14,119	12,387
Income tax expense	8	<u>(2,356)</u>	<u>(2,147)</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		11,763	10,240
Other comprehensive income after tax:			
<i>Items that may not be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		1,339	(5,148)
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of non-PRC operations		<u>(1,265)</u>	<u>5,451</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>11,837</u>	<u>10,543</u>
EARNINGS PER SHARE (RMB cents)	10		
— Basic		<u>1.38</u>	<u>1.20</u>
— Diluted		<u>1.38</u>	<u>1.20</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
	Notes		
Non-current assets			
Property, plant and equipment		419,975	428,618
Prepaid land lease payments		16,739	17,049
Investment properties		14,840	14,840
Intangible assets		13,689	14,005
Deposits paid for acquisition of property, plant and equipment		640	581
Equity investments at fair value through other comprehensive income		4,140	4,140
Deferred tax assets		3,736	3,697
Total non-current assets		473,759	482,930
Current assets			
Inventories		104,781	81,689
Trade receivables	11	70,652	89,607
Prepayments, deposits and other receivables		11,965	12,715
Due from ultimate holding company		253	—
Pledged bank deposits		50,003	55,975
Cash and cash equivalents		35,539	31,930
		273,193	271,916
Non-current assets classified as held for sale		4,537	28,437
Total current assets		277,730	300,353
Current liabilities			
Trade and bills payables	12	270,166	266,663
Contract liabilities		21,345	13,950
Other payables and accruals		55,424	84,846
Interest-bearing borrowings	13	105,000	130,000
Deferred income		360	360
Due to a related party		10,000	10,000
Due to directors		12,289	11,102
Finance lease payables		2,084	3,666
Tax payable		16,900	15,993
Total current liabilities		493,568	536,580
Net current liabilities		(215,838)	(236,227)
Total assets less current liabilities		257,921	246,703

	As at 30 June 2018 (Unaudited) <i>RMB'000</i>	As at 31 December 2017 (Audited) <i>RMB'000</i>
<i>Notes</i>		
Non-current liabilities		
Finance lease payables	98	537
Deferred income	510	690
Deferred tax liabilities	2,711	2,711
Total non-current liabilities	3,319	3,938
NET ASSETS	254,602	242,765
Capital and reserves		
Issued capital	747	747
Reserves	253,855	242,018
	254,602	242,765
TOTAL EQUITY	254,602	242,765

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 7 October 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company acts as an investment holding company.

In the opinion of the directors of the Company (the “Directors”), as at the date of issue of these condensed consolidated interim financial statements (“Interim Financial Statements”), Hopeland International Holdings Company Limited (“Hopeland International”) is the Company’s immediate and ultimate holding company and Mr. Lin Shengxiong (“Mr. Lin”), the Chairman and an executive director, is the ultimate controlling party. Hopeland International does not produce financial statements available for public use.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) and have been suspended for trading since 14 February 2013.

The Group was principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials (“Reinforced Materials”), (ii) conventional materials (“Conventional Materials”) and (iii) PVC elastic flooring products (“PVC Floor”) during the period under review.

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 annual consolidated financial statements for the year ended 31 December 2017 (“2017 Annual Report”). The accounting policies and methods of computation used in the preparation of Interim Financial Statements are consistent with those used in 2017 Annual Report except as stated below.

(a) 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.

(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 investment.

(b) *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.

(c) Revenue from contracts with customers

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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.

These Interim Financial Statements have been prepared under the historical cost convention, except for the investment properties and equity investments at fair value through other comprehensive income 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.

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 2018. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; 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 Interim Financial Statements and amounts reported for the current and prior periods except as stated below.

A. HKFRS 9 (2014) “Financial Instruments”

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

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

	31 December 2017 RMB’000
Decrease in available-for-sale investments	(4,140)
Increase in equity investments at fair value through other comprehensive income	<u>4,140</u>

B. HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the Interim Financial Statements as follows:

	31 December 2017 RMB’000
Decrease in other payables and accruals	(13,950)
Increase in contract liabilities	<u>13,950</u>

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 AND SEGMENT INFORMATION

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	260,939	245,065

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

Disaggregation of revenue from contracts with customers:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Geographical information		
The People's Republic of China (the "PRC")	168,642	167,434
Others	92,297	77,631
Total	260,939	245,065

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Major products		
Reinforced Materials	254,601	236,365
Conventional Materials	6,255	8,700
PVC Floor	83	—
Total	260,939	245,065

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 2018 (30 June 2017: Nil).

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	(Unaudited) RMB'000	(Unaudited) RMB'000
Bank interest income	109	94
Government subsidies (<i>note</i>)	541	4,279
Rental income	466	488
Dividend income from equity investments at fair value through other comprehensive income	67	—
Reversal of allowance for receivables	1,395	431
Sundry income	169	51
	<u>2,747</u>	<u>5,343</u>

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 2018 and 2017.

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited) RMB'000	(Unaudited) RMB'000
Interest on bank loans	3,668	4,043
Interest on finance leases	176	—
	<u>3,844</u>	<u>4,043</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is stated at after charging:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Directors' remuneration	1,197	1,193
Depreciation of property, plant and equipment	16,722	18,803
Amortisation of prepaid land lease payments	310	323
Amortisation of intangible assets	316	—
Loss on disposals of property, plant and equipment	1	540
Impairment of property, plant and equipment	—	4,732
	<u> </u>	<u> </u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax — the PRC		
Charge for the period	2,395	1,993
Deferred tax	(39)	154
	<u> </u>	<u> </u>
	<u>2,356</u>	<u>2,147</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which the group entities 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 been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2018 and 2017.

Pursuant to the approval of the tax bureau, in accordance with the Enterprises 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") (six months ended 30 June 2017: Fujian Sijia) are subject to the tax rates for being a high-tech enterprise, levied at the tax rate of 15% for the period (six months ended 30 June 2017: 15%). Other subsidiaries are subject to a enterprises income tax rate of 25% during the period according to the Enterprises Income Tax Law of the PRC (six months ended 30 June 2017: 25%).

9. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

Earnings per share	Six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	<u>11,763</u>	<u>10,240</u>
Number of shares	Six months ended 30 June	
	2018	2017
Weighted average number of ordinary shares in issue during the period used in the earnings per share calculation	<u>852,612,470</u>	<u>852,612,470</u>

Diluted earnings per share for the six months ended 30 June 2018 and 2017 is the same as the basic earnings per share as the Company had no dilutive potential ordinary shares in issue during the periods.

11. TRADE RECEIVABLES

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

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 3 months	65,777	80,502
More than 3 months but within 6 months	1,735	4,707
More than 6 months but within 1 year	1,413	3,984
More than 1 year	<u>1,727</u>	<u>414</u>
	<u>70,652</u>	<u>89,607</u>

12. TRADE AND BILLS PAYABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade payables	100,446	76,874
Bills payables	169,720	189,789
	<u>270,166</u>	<u>266,663</u>

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 3 months	177,959	156,485
More than 3 months but within 6 months	90,813	108,357
More than 6 months but within 1 year	1,305	1,540
More than 1 year	89	281
	<u>270,166</u>	<u>266,663</u>

13. INTEREST-BEARING BORROWINGS

During the period under review, the Group did not obtain any new bank loans (six months ended 30 June 2017: obtained new bank loans of RMB92,000,000 as additional working capital) and made repayments of bank loans of RMB25,000,000 (six months ended 30 June 2017: RMB102,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is one of the recognised industry leaders in the People's Republic of China (the "PRC") in providing reinforced new materials for a wide spectrum of industries, such as modern transportation, construction, renewable energy, agriculture, healthcare, sports, outdoor leisure and daily supplies. The management team of the Group has vast experience in proprietary technology, product innovation and marketing. With the experienced management team, the Group implemented a market – focused strategy. The Group also engaged in the manufacturing and sales of novel products developed by the research and development ("R&D") team and academic institutions. Various novel products and production techniques of the Group possess independent intellectual property rights and national patents on technology.

The Group's reinforced materials (the "Reinforced Materials") business, located in Fuzhou and Shanghai, utilizes self-developed facilities and techniques, which has acquired national patents on innovation, to produce new materials, including drop stitch fabric, architectural membrane, waterproofing membrane, marquees materials, air tightness materials, inflatable boats materials and inflatable materials. Such materials exhibit nine characteristics, including high tensile strength, anti-tearing, anti-stripping, flame retardancy, anti-bacteria, anti-corrosive, durable, low temperature resistance and sunlight resistance. Given the diversified applications of the Reinforced Materials and end-use products, the Group's products can be applied in fifteen major markets including outdoor, sports, renewable energy, protection, construction, logistic, packaging, medical use, safety, advertising and daily supplies.

The operations of the Group's PVC elastic flooring product ("PVC Floor") business was started during the period under review and are based in Fuzhou. The product is the world's only renewable new type of lightweight decorative material for flooring. It has become the first choice for floor decorative materials throughout countries in Europe, America, as well as Japan and Korea due to its outstanding features and eco-friendly properties. PVC flooring material is eco-friendly, remarkably abrasion resistant, highly elastic and shock resistant, fire-resistant and flame retardant, low maintenance, waterproof and moisture-proof, providing extremely high quality-to-price ratio, and may be broadly used in a wide variety of fields including education, medicine, commerce, sports, office environments, industrial use, transport, and everyday household items.

Revenue for the period under review was approximately RMB260.9 million, representing an increase of approximately RMB15.8 million, or 6.5%, compared to revenue of approximately RMB245.1 million for the same period last year. The increase was primarily attributable to the increase in demand for Reinforced Materials.

Due to the halt in manufacturing the End Products, the Group entered into two sale and purchase agreements to dispose of certain property, plant and equipment, and prepaid land lease payments of a subsidiary, Hubei Sijia Industrial Material Company Limited, to two independent third parties at a total consideration of RMB28,437,000 in prior years. During the period under review, one sale and purchase agreement was completed and the other one has yet to be completed at 30 June 2018 pending the approval from the relevant PRC Government authority. We expect this disposal will be completed by end of 2018. The assets of approximately RMB4,537,000 relating to the incomplete transaction have been classified as non-current assets held for sale as shown in the condensed consolidated financial statements.

The Group's products can be categorised into three types: (i) Reinforced Materials, (ii) conventional materials ("Conventional Materials") and (iii) PVC Floor. The Group generated most of its revenue from the Reinforced Materials which accounted for approximately 97.57% (30 June 2017: 96.50%) of total revenue. Local sales continued to be the Group's major source of revenue, representing approximately 65% (30 June 2017: 68%) of the total revenue while export sales only accounted for approximately 35% (30 June 2017: 32%) of the total revenue.

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

	For the six months ended 30 June			
	2018		2017	
	<i>(RMB million)</i>	<i>% of Total Revenue</i>	<i>(RMB million)</i>	<i>% of Total Revenue</i>
Reinforced Materials	254.60	97.57	236.40	96.50
Conventional Materials	6.26	2.40	8.70	3.50
PVC Floor	0.08	0.03	—	—
	<u>260.94</u>	<u>100.00</u>	<u>245.10</u>	<u>100.00</u>

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

	For the six months ended 30 June	
	2018	2017
	<i>(RMB million)</i>	<i>(RMB million)</i>
PRC	168.64	167.50
Others	<u>92.30</u>	<u>77.60</u>
	<u>260.94</u>	<u>245.10</u>

Reinforced Materials

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

As at 30 June 2018, the Group owned a total of 49 patents of which 34 on invention and 10 on practical new models and 5 on software copyright.

For the period under review, the Group's revenue generated from Reinforced Materials amounted to approximately RMB254.6 million (30 June 2017: RMB236.4 million) which accounted for approximately 97.6% (30 June 2017: 96.5%) of the Group's total revenue, representing an increase in sales of approximately 7.7%. An increase in revenue generated from Reinforced Material is mainly attributable to the increase in demand for the high-end new product, especially in drop stitch fabric. The Group achieved revenue from sale of drop stitch fabric of approximately RMB69 million (30 June 2017: RMB58 million). This revenue was accounted for 26.5% (30 June 2017: 23.6%) of the Group's total revenue for the period under review with a gross profit margin of approximately 49%, representing an increase of 19% as compared with the revenue in the same period in 2017.

Conventional Materials

For the period under review, the Group's revenue generated from the Conventional Materials amounted to approximately RMB6.3 million (30 June 2017: RMB8.7 million) which accounted for approximately 2.4% (30 June 2017: 3.5%) of total revenue, representing a decrease in sales of approximately 28.0%, which was mainly due to the structural adjustment of Conventional Materials to Reinforced Materials.

PVC Floor

During the period under review, the Group has commenced trial manufacture of PVC Floor and generated revenue of approximately RMB83,000, which accounted for approximately 0.03% of the total revenue (30 June 2017: Nil).

FINANCIAL REVIEW

Financial Results

Revenue

The Group's revenue for the six months ended 30 June 2018 was approximately RMB260.9 million, representing an increase of approximately RMB15.9 million, or 6.5%, compared to revenue of approximately RMB245.1 million for the same period last year. For the period under review, the Group's major sales segments, namely, (1) Reinforced Materials reported revenue of approximately RMB254.6 million (30 June 2017: RMB236.4 million), (2) Conventional Materials recorded a revenue of approximately RMB6.3 million (30 June 2017: RMB8.7 million), and (3) PVC Floor generated a revenue of approximately RMB0.1 million (30 June 2017: Nil) from its new products, PVC flooring materials.

Gross Profit and Gross Margin

Gross profit was approximately RMB56 million for the period under review (30 June 2017: approximately RMB49.6 million), with the gross profit margin of approximately 21.5% (30 June 2017: 20.2%). The increase in gross profit margin was mainly due to decrease in cost of sales resulting from decrease in depreciation charges on the property, plant and equipment.

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

	For the six months ended 30 June	
	2018	2017
	%	%
Reinforced Materials	21.9	20.9
Conventional Materials	4.9	2.0
PVC Floor	(5.0)	—
Overall	<u>21.5</u>	<u>20.2</u>

Selling and Distribution Costs

For the period under review, selling and distribution costs decreased by approximately RMB0.2 million or 3.8% to approximately RMB6.1 million, or 2.3% of revenue for the period under review, from approximately RMB6.3 million, or 2.6% of revenue for the same period last year. The decrease was mainly due to optimisation of sales cost structure.

Administrative Expenses

For the period under review, administrative expenses increased by approximately RMB1.7 million or 5.6% to approximately RMB32.1 million. The increase in administrative expenses was mainly due to an increase in research and development cost.

Research and Development

For the period under review, research and development (the “R&D”) costs amounted to approximately RMB22.4 million, or 8.6% of revenue (30 June 2017: RMB16.3 million, or 6.7% of revenue). The Group believes that its on-going R&D efforts are critical in maintaining long-term competitiveness, retaining existing customers, enhancing its ability to attract new customers and developing new markets. The Group continues to dedicate resources to the R&D activities in its Fuzhou and Shanghai plants aiming to lower the cost of raw materials, streamline manufacturing processes, increase production capacities, develop high value-added new materials, and expand new application of the products and customer sales market.

Impairments of assets

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

For the period under review, impairments have been recognised in respect of:

- (i) property, plant and equipment in the amount of RMBNil (30 June 2017: RMB4.7 million) based on the review carried out by the Directors at 30 June 2018; and
- (ii) trade receivables in the amount of RMB0.2 million (30 June 2017: RMB0.9 million) due to long outstanding.

Finance Costs

Finance costs for the period under review was approximately RMB3.8 million (30 June 2017: RMB4.0 million). The decrease was mainly due to decrease in interest-bearing bank borrowings.

Interest Income

Interest income amounted to approximately RMB0.1 million for the period under review (30 June 2017: approximately RMB0.1 million).

Income Tax

For the period under review, the Group had an overall income tax expense of approximately RMB2.4 million (30 June 2017: RMB2.1 million).

Profit for the Period

For the period ended 30 June 2018, the Group recorded a profit attributable to owners of the Company approximately RMB11.8 million, or RMB1.38 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 RMB10.2 million, or RMB1.20 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 2018 (30 June 2017: 852,612,470).

Dividends

The Board has resolved not to pay any interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

Liquidity and Financial Resources

Total Equity

As at 30 June 2018, total equity amounted to approximately RMB254.6 million, representing an increase of 4.9%, compared to approximately RMB242.8 million as at 31 December 2017.

Financial Position

As at 30 June 2018, the Group had total current asset of approximately RMB277.7 million (31 December 2017: RMB300.4 million) and total current liabilities of approximately RMB493.6 million (31 December 2017: RMB536.6 million), with net current liabilities of approximately RMB215.8 million. (31 December 2017: RMB236.2 million)

As at 30 June 2018, the Group's net gearing (expressed as a percentage of total interest-bearing liabilities to total assets) was at 14.3%, as compared to 17.1% as at 31 December 2017.

Cash and Cash Equivalents

As at 30 June 2018, the Group had cash and cash equivalents of approximately RMB35.5 million (31 December 2017: RMB31.9 million), most of which were denominated in Renminbi ("RMB").

Bank Borrowings

As at 30 June 2018, the Group had interest-bearing bank borrowings of approximately RMB105 million (31 December 2017: RMB130 million).

Contingent Liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

Capital Commitments

As at 30 June 2018, capital commitment of the Group amounted to approximately RMB0.6 million (31 December 2017: RMB0.7 million). The capital commitment will be funded partly by internal resources and partly by bank borrowings.

Pledge of Assets

As at 30 June 2018, the Group's buildings, plant and machinery of approximately RMB308.7 million (31 December 2017: RMB320.3 million), leasehold land of approximately RMB17.2 million (31 December 2017: RMB17.5 million), investment properties of approximately RMB14.8 million (31 December 2017: RMB14.8 million) and bank deposits of approximately RMB50.0 million (31 December 2017: RMB56.0 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 2018, the Group employed a total of 402 employees (31 December 2017: 307 employees).

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

Exposure to fluctuations in exchange rates and related hedge

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

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

Save as disclosed above, there has been no material change in the development or future development of the Group’s business and financial position, and no important event affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2017.

PROSPECT

Facing the continuing downturn of general economy and the slowing down of China’s economy, coupled with the stringent domestic environmental protection system ever, the new material industry is being exposed to the difficult situation between the increasingly improved upstream cost and the reluctance of downstream customers to accept the rise in price. As such, the Group will actively respond to the national policy of “adjusting economic structure; transforming traditional manufacturing industries into new manufacturing industries”, and adhere to the development principles of “stay on its original business, steady development, structure optimisation and continuous innovation”, while readjusting product mix in a timely manner, improving product quality, focusing on brand cultivation, precisely implementing market positioning based on quality reform and weeding out low-end products, with a series of adjustment measures put into effect:

1. to stabilise the business development of new materials, and to actively develop new products;
2. to further acquire new clients for the existing products at home and abroad, strengthen the market development in Southeast Asia and Latin America, and expand the Group’s market share;
3. to research and develop the technology of the PVC floor material project with efforts of the research and development team, extend the industry chain of the Group, optimize the product portfolio and diversify the product category. The product is a new light floor decoration material, with polyvinyl chloride, an environment-friendly non-toxic renewable resource, as its principal raw material, it is the only renewable ground decoration material. At present, PVC Floor is widely and increasingly used in the industries such as education, commerce, sports, office, transportation and home system with a strong vitality and market popularity;

4. to establish more stable and reasonable strategic cooperation relationship with suppliers, so as to significantly decrease the procurement costs; and
5. all staff of the Group should participate in the optimisation in internal control in relation to different areas, such as procurement, production, sales, and finance, in order to enhance the operation efficiency of the Group.

Regarding the suspension of trading in the shares of the Company on the Stock Exchange of Hong Kong Limited (“the Stock Exchange”), as detailed in the Company’s announcement dated 1 August, 2018, the Company is working toward the fulfilment of the resumption conditions imposed by the Stock Exchange with its professional advisers. Further announcements will be made from time to time to keep the shareholders of the Company updated with the latest development of the resumption.

Looking forward, once the Group is successful in applying for the resumption of trading of its shares on the Stock Exchange, the Group will upgrade its business and operation by capitalising on its innovative technologies and its professional technical team, which is well-recognised both in domestic and foreign industries:

1. The Group will get involved in the soft-texture reinforced material industry, and focus on the business development of PVC flooring, TPU materials and materials associated with PVC, TPU and EUA;
2. Fuzhou plants will continue to deepen the research and development of new functions and frontier of drop stitch fabric, expedite the technology update and domestic and overseas market development of enhanced drop stitch fabric, plain-weaved drop stitch fabric, and expand the PVC flooring material production line and create economics of scales;
3. The Group will increase efforts on protecting the new technology, new process and other intellectual properties, apply more patents for independent inventions, establish as one of the most innovative technology development enterprise in the industry, and create values for the shareholders of the Company; and
4. The Group will continue to strengthen the cooperation with technical experts in Europe and America and further expand the market share in the international market.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board has established procedures on corporate governance that comply with the requirements of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules. The Board has reviewed and taken measures to adopt the CG Code as the Company’s code of corporate governance practices. During the six-month period ended 30 June 2018, the Company has complied with the code provisions under the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 the standard for securities transactions by Directors. The Company has made specific enquiries to all the Directors and all the Directors have confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares during the six months ended 30 June 2018.

MATERIAL ACQUISITION OR DISPOSALS

There was no material acquisition or disposal of subsidiaries by the Group during the six months ended 30 June 2018.

AUDIT COMMITTEE

The Audit Committee, comprises three independent non-executive Directors, has reviewed with the 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 financial statements for the six months ended 30 June 2018 have been reviewed by the audit committee, who is of the opinion that such accounts have complied with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended since 14 February 2013 and will remain suspended until further notice.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.chinalongevity.hk>). The 2018 interim report of the Company will be despatched to the shareholders of the Company and will be available on the same websites in due course.

By Order of the Board
China Longevity Group Company Limited
Lin Shengxiong
Chairman

Hong Kong, 29 August 2018

As at the date of this announcement, the Board of the Company comprises three Executive Directors, namely, Mr. Lin Shengxiong, Mr. Huang Wanneng and Mr. Jiang Shisheng; three Independent Non-Executive Directors, namely, Mr. Lau Chun Pong, Mr. Lu Jiayu and Ms. Jiang Ping.