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Sheen Tai Holdings Group Company Limited
順泰控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 01335)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 23.4% to approximately HK$164.7 million for the six months ended 30 June 2020 as compared with the corresponding period in 2019.
- Gross profit increased by approximately 13.0% to approximately HK$54.6 million for the six months ended 30 June 2020 as compared with the corresponding period in 2019.
- Gross profit margin increased by approximately 10.6% to approximately 33.1% for the six months ended 30 June 2020 as compared with the corresponding period in 2019.
- The Group recorded a profit attributable to equity shareholders of the Company of approximately HK$3.1 million for the six months ended 30 June 2020 as compared to a loss attributable to equity shareholders of the Company of approximately HK$0.2 million for the corresponding period in 2019.
- Average trade and bill receivables turnover days decreased from approximately 189.8 days for the year ended 31 December 2019 to approximately 153.4 days for the six months ended 30 June 2020.
- Average inventory turnover days for packaging materials increased from approximately 86.3 days for the year ended 31 December 2019 to approximately 103.7 days for the six months ended 30 June 2020.
- The Board approved the payment of an interim dividend of HK$0.01 per share for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

The board (the "Board") of directors (the "Directors") of Sheen Tai Holdings Group Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		HK$'000	*HK$'000*
	Note	***(Unaudited)***	*(Unaudited)*
Revenue	*4*	**164,719**	214,908
Cost of sales		**(110,124)**	(166,615)
Gross profit		**54,595**	48,293
Other income	*5*	**6,050**	18,611
Other gains and losses, net	*6*	**(1,987)**	(14,042)
Distribution costs		**(12,175)**	(8,591)
Impairment losses on trade and other receivables		**(10,715)**	—
Administrative expenses		**(31,247)**	(37,796)
Other operating expenses		**(1,301)**	(1,024)
Profit from operations		**3,220**	5,451
Finance costs	*7*	**(2,556)**	(3,802)
Profit before tax		**664**	1,649
Income tax credit/(expense)	*8*	**827**	(1,891)
Profit/(loss) for the period	*9*	**1,491**	(242)
Attributable to:			
Equity shareholders of the Company		**3,079**	(242)
Non-controlling interests		**(1,588)**	—
		1,491	(242)
Earnings/(loss) per share			
Basic (HK cents)	*11*	**0.126**	(0.010)
Diluted (HK cents)		**0.126**	(0.010)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Profit/(loss) for the period	**1,491**	(242)
Other comprehensive loss:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(13,747)**	(1,953)
Other comprehensive loss for the period, net of tax	**(13,747)**	(1,953)
Total comprehensive loss for the period	**(12,256)**	(2,195)
Attributable to:		
Equity shareholders of the Company	**(10,162)**	(2,195)
Non-controlling interests	**(2,094)**	—
	(12,256)	(2,195)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Note	At 30 June 2020 HK$'000 (Unaudited)	At 31 December 2019 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*12*	**379,513**	401,534
Right-of-use assets	*13*	**44,420**	46,069
Intangible assets		**902**	1,121
Other non-current assets		**2,519**	2,050
Contract assets		**68,507**	59,398
Deferred tax assets		**3,747**	2,183
Total non-current assets		**499,608**	512,355
Current assets			
Financial assets at fair value through profit or loss ("FVTPL")		**1,457**	1,696
Inventories		**76,251**	62,863
Trade and other receivables	*14*	**199,831**	238,312
Current tax assets		**2,922**	2,977
Bank and cash balances		**243,327**	165,438
Total current assets		**523,788**	471,286
Current liabilities			
Trade and other payables	*15*	**146,876**	107,311
Contract liabilities		**1,161**	1,950
Lease liabilities		**3,062**	2,708
Bank borrowings		**54,808**	69,902
Deferred government grants		**257**	262
Current tax liabilities		**7,947**	7,926
Total current liabilities		**214,111**	190,059
Net current assets		**309,677**	281,227
Total assets less current liabilities		**809,285**	793,582

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Note	**At 30 June 2020** **HK$'000** **(Unaudited)**	At 31 December 2019 HK$'000 (Audited)
Non-current liabilities			
Lease liabilities		**14,283**	16,203
Deferred tax liabilities		**6,223**	5,790
Deferred government grants		**5,697**	5,938
Total non-current liabilities		**26,203**	27,931
Net assets		**783,082**	765,651
Capital and reserves			
Share capital	*16*	**6,085**	6,085
Reserves		**750,983**	759,566
Equity attributable to equity shareholders of the Company		**757,068**	765,651
Non-controlling interests		**26,014**	—
Total equity		**783,082**	765,651

1. BASIS OF PREPARATION

These condensed 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").

These condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019. The accounting policies (including the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019.

2. 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 Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019. A number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

3. FAIR VALUE MEASUREMENTS

Except as disclosed below, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The following table shows the carrying amounts and fair value of financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value of the carrying amount is a reasonable approximation of fair value. Further, for the current period the fair value disclosure of lease liabilities is also not required.

(a) Disclosures of level in fair value hierarchy at 30 June 2020:

Description	**Fair value measurements as at 30 June 2020: (unaudited)**			**Total 2020**
	Level 1	**Level 2**	**Level 3**	
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurements:				
Financial assets:				
Financial assets at FVTPL				
— Listed equity securities	—	—	**1,457**	**1,457**

Description	Fair value measurements as at 31 December 2019: (audited)			Total 2019
	Level 1	Level 2	Level 3	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements:				
Financial assets:				
Financial assets at FVTPL				
— Listed equity securities	1,696	—	—	1,696

If one or more of the significant inputs are not based on observable market data, the instruments are included in level 3. The equity securities were transferred from level 1 to level 3 due to suspension of trading. The fair value was referenced to latest transaction price with an adjustment of discount for lack of marketability and market multiple.

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

Equity securities	Financial assets at FVTPL *HK$'000*
At 1 January 2020	—
Total gains or losses recognised in profit or loss (#)	(239)
Transfer from level 1	1,696
At 30 June 2020	1,457
(#) Include gains or losses for assets held at end of reporting period	(239)

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in other gains and losses, net in the consolidated statement of profit or loss.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2020:

The Group's financial manager is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial manager reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial manager and the Board of Directors at least twice a year.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value as at 30 June 2020 *HK$'000*
Listed equity securities classified as financial assets at FVTPL	Market approach	discount for lack of marketability	20.6%	Decrease	1,457
		market multiple	7.8%-9.1%	Increase	

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

Revenue represents the sales value of goods sold less returns, discounts, value added taxes and other sales taxes and rendering of services. The amount of each significant category of revenue during the period is as follows:

	Six months ended 30 June			
	2020		2019	
	HK$'000	*%*	*HK$'000*	*%*
	(Unaudited)		*(Unaudited)*	
Manufacturing and sales of BOPP films				
— Cigarette films	**110,886**	**67%**	117,059	54%
— Non-cigarette-related films	**24,448**	**15%**	57,965	28%
Sub-total	**135,334**	**82%**	175,024	82%
Sales of sub-processing cigarette films	**651**	**—**	5,103	2%
Properties development and related services	**1,721**	**1%**	5,332	2%
Generation of photovoltaic power	**27,013**	**17%**	27,760	13%
Cloud-related business	**—**	**—**	1,689	1%
Total	**164,719**	**100%**	214,908	100%

In the following table, revenue is disaggregated by primary geographical market and timing of revenue recognition.

For the six months ended 30 June (unaudited)	Manufacturing and sales of BOPP films		Sales of sub-processing cigarette films		Properties development and related services		Generation of photovoltaic power		Cloud-related business		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Primary geographical markets												
Mainland China	**135,334**	175,024	**651**	5,103	**1,721**	5,332	**27,013**	27,760	**—**	1,689	**164,719**	214,908
Timing of revenue recognition												
Products transferred at a point in time	**135,334**	175,024	**651**	5,103	**1,721**	5,332	**—**	—	**—**	—	**137,706**	185,459
Products and services transferred over time	**—**	—	**—**	—	**—**	—	**27,013**	27,760	**—**	1,689	**27,013**	29,449
Total	**135,334**	175,024	**651**	5,103	**1,721**	5,332	**27,013**	27,760	**—**	1,689	**164,719**	214,908

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Receivables, which are included in "Trade and other receivables"	**117,306**	157,439
Contract assets	**68,507**	59,398
Contract liabilities	**(1,161)**	(1,950)

(b) Segment reporting

The Group has five operating segments as follows:

- Manufacturing and sales of BOPP films: this segment engages in manufacturing and sales of cigarette packaging films and non-cigarette-related packing films (e.g. films for packing straws, food, cassettes and stationery tapes);

- Sales of sub-processing cigarettes films: this segment engages in trading of sub-processing cigarette films;

- Properties development and related services: this segment engages in development and sales of residential properties and providing property management services;

- Generation of photovoltaic power: this segment engages in generating and sales of electricity; and

- Cloud-related business: this segment engaged in provision of development of cloud computing related software, outsourcing cloud platforms and providing cloud computing solutions and related services.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

(i) Segment results, assets and liabilities

Information about reportable segment profit or loss, assets and liabilities is as follows:

	Six months ended 30 June (unaudited)											
	Manufacturing and sales of BOPP films		Sales of sub-processing cigarette films		Properties development and related services		Generation of photovoltaic power		Cloud-related business		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**135,334**	175,024	**651**	5,103	**1,721**	5,332	**27,013**	27,760	**—**	1,689	**164,719**	214,908
Inter segment revenue	**2,708**	604	**—**	—	**—**	—	**—**	—	**—**	—	**2,708**	604
Reportable segment gross profit/(loss)	**36,331**	27,844	**363**	3,829	**212**	(1,707)	**17,701**	17,669	**(12)**	658	**54,595**	48,293
Reportable segment profit/(loss) before tax	**(97)**	7,423	**(773)**	(4,849)	**1,226**	(4,238)	**8,112**	14,525	**632**	(847)	**9,100**	12,014
Interest income from bank deposits	**28**	50	**34**	17	**140**	72	**11**	7	**6**	25	**219**	171
Interest expense	**1,962**	2,640	**150**	714	**—**	—	**422**	448	**—**	—	**2,534**	3,802
Depreciation and amortisation	**6,630**	7,585	**1,140**	1,467	**31**	164	**8,033**	8,331	**173**	777	**16,007**	18,324
Other material non-cash item:												
Impairment/(reversal of impairment) of trade and other receivables	**10,482**	—	**—**	—	**(38)**	—	**—**	—	**—**	—	**10,444**	—
As at 30 June (unaudited)/ 31 December (audited)												
Reportable segment assets	**269,843**	291,897	**97,481**	73,120	**186,402**	190,751	**405,295**	401,567	**22,710**	9,092	**981,731**	966,427
Reportable segment liabilities	**183,126**	144,259	**21,335**	35,334	**6,727**	10,370	**24,390**	23,391	**3,217**	4,484	**238,795**	217,838

(ii) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Profit/(loss)		
Reportable segment profit before tax	**9,100**	12,014
Net realised and unrealised loss on investments in equity securities	**(239)**	(14,166)
Dividend income from equity securities	**—**	13,525
Impairment of unallocated other receivables	**(271)**	—
Unallocated head office and corporate expenses	**(7,926)**	(9,724)
Consolidated profit before tax	**664**	1,649

5. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Government grants *(Note)*	**1,221**	1,841
Interest income on bank deposits	**219**	173
Dividend income from equity securities	**—**	13,525
Loan interest income	**2,995**	—
Sales of scrap materials	**1,282**	2,653
Sundry income	**333**	419
	6,050	18,611

Note: Government grants of HK$216,000 were granted from the Employment Support Scheme and Subsidy Scheme to the Group under the Anti-epidemic Fund of the Hong Kong Government, which aim to retain employment and combat COVID-19. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertakes not to make redundancies by 31 August 2020.

Other government grants mainly related to the subsidy received from the local government authority for the acquisition of land and buildings and various achievements of the Group.

6. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net foreign exchange (losses)/gains	**(1,314)**	102
Net realised and unrealised loss on investments in equity securities	**(239)**	(14,166)
Write off of property, plant and equipment	**(62)**	(3)
Gain on disposal of property, plant and equipment	**78**	25
Others	**(450)**	—
	(1,987)	(14,042)

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Interest expense on lease liabilities	**628**	499
Interest on bank borrowings	**1,928**	3,303
Total borrowing costs	**2,556**	3,802

8. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Current tax — People's Republic of China Enterprise Income Tax ("PRC EIT")		
Provision for the period	**1,388**	2,031
Overprovision in prior periods	**(1,062)**	(1,344)
	326	687
Deferred tax	**(1,153)**	1,204
	(827)	1,891

(i) 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 these jurisdictions.

(ii) No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the period (six months ended 30 June 2019: Nil).

Under the two-tiered profits tax regime, profits tax rate for the first HK$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate at 16.5%.

(iii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") which became effective on 1 January 2008 and the PRC's statutory Corporate Income Tax rate is 25%.

Pursuant to the rules and regulations applicable to advanced technology enterprises established in the PRC, Jiangsu Sheen Colour Science Technology Co., Ltd. and Qingdao Ener Packaging Technology Co., Ltd. are subject to PRC corporate income tax at a preferential tax rate of 15% (six months ended 30 June 2019: 15%) for the period ended 30 June 2020.

Entities engaged in qualified power generating projects, are eligible for a corporate income tax exemption for the first year to the third year, and a 50% reduction for the fourth year to the sixth year starting from the year in which the entities first generate operating income (the "3+3 tax holiday"). Xuzhou Sheentai New Energy Power Generation Co., Ltd. (an indirect wholly-owned subsidiary of the Group) obtained the "Notification of Corporate Income Tax ("CIT") 3+3 tax holiday" in 2016 and was entitled to the 3+3 tax holiday retrospectively from 2015 to 2020.

Entities engaged in software related business are eligible for a corporate income tax exemption for the first year to second year, and a 50% reduction for the third year to the fifth year starting from the year in which the entities first generate operating income (the "2+3 tax holiday"). Xuyi Guangcai Information Technology Co., Ltd. (an indirect wholly-owned subsidiary of the Group) obtained the "Notification of CIT 2+3 tax holiday" in 2017 and was entitled to 2+3 tax holiday retrospectively from 2016 to 2020.

(iv) According to the New Tax Law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Under the tax arrangement between the Mainland of China and Hong Kong Special Administrative Region and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds a 25% equity interest or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%. The withholding tax rate applicable to the Group is 5%.

(v) According to the New Tax Law and its implementation rules, where the research and development expenses incurred by an enterprise in research and development activities do not form intangible assets and are included in the current period's profit or loss, 50% of such research and development expenses shall be deducted from the taxable income amount of the period; where intangible assets are formed, pretax amortisation shall be made based on 150% of the costs of the intangible assets.

9. PROFIT/(LOSS) FOR THE PERIOD

The Group's profit/(loss) for the period is stated after charging/(crediting) the following:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Amortisation of intangible assets (included in cost of sales)	**200**	313
Depreciation of:		
— Property, plant and equipment	**17,332**	20,839
— Right-of-use assets	**2,082**	1,140
Write off of property, plant and equipment	**62**	3
Gain on disposal of property, plant and equipment	**(78)**	(25)

10. DIVIDENDS

On 31 August 2020, the Board declared an interim cash dividend at HK$0.01 per share (six months ended 30 June 2019: Nil), totalling approximately HK$24,341,000 (six months ended 30 June 2019: Nil).

11. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the profit/(loss) for the period attributable to owners of the Company of approximately HK$3,079,000 (six months ended 30 June 2019: HK$242,000) and the weighted average number of ordinary shares of 2,434,136,000 (six months ended 30 June 2019: 2,441,601,000) in issue during the period.

Diluted earnings/(loss) per share

As the Company's share options as at 30 June 2020 and 2019 do not give rise to any dilutive effect to the earnings/(loss) per share, diluted earnings/(loss) per share was the same as the basic earnings/(loss) per share for the six months ended 30 June 2020 and 2019.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of approximately HK$2,882,000 (six months ended 30 June 2019: HK$3,536,000).

13. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group entered into a new lease agreement for an office for 2 years. The Group makes fixed payments during the contract period. On lease commencement, the Group recognised a right-of-use asset and lease liability of approximately HK$1,298,000 (six months ended 30 June 2019: HK$354,000).

14. TRADE AND BILLS RECEIVABLES

The ageing analysis of trade and bills receivables, based on the invoice date, and net of allowance, is as follows:

	At 30 June 2020		At 31 December 2019	
	Trade receivables	**Bills receivable**	Trade receivables	Bills receivable
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
	(Unaudited)	***(Unaudited)***	*(Audited)*	*(Audited)*
Unbilled *(Note)*	**31,321**	**—**	27,540	—
Less than 30 days	**24,703**	**12,561**	54,699	32,654
31 — 90 days	**31,752**	**—**	34,016	—
91 — 180 days	**6,117**	**—**	6,415	—
181 — 365 days	**10,346**	**—**	1,196	—
Over 365 days	**506**	**—**	919	—
	104,745	**12,561**	124,785	32,654

Note: As at 30 June 2020 and 31 December 2019, the amount represents unbilled tariff adjustment receivables of solar power plants registered in the Renewable Energy Tariff Subsidy Catalogue.

15. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables, based on invoice date, is as follows:

	At 30 June 2020		At 31 December 2019	
	Trade payables	**Bills payable**	Trade payables	Bills payable
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
	(Unaudited)	***(Unaudited)***	*(Audited)*	*(Audited)*
Due within 1 month or on demand	**11,309**	**21,923**	12,642	22,350
Due after 1 month but within 3 months	**12,689**	**—**	7,740	—
Due after 3 months but within 6 months	**7,133**	**—**	4,699	—
Due more than 6 months	**15,244**	**—**	13,423	—
	46,375	**21,923**	38,504	22,350

16. SHARE CAPITAL

	At 30 June 2020		At 31 December 2019	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
	(Unaudited)	***(Unaudited)***	*(Audited)*	*(Audited)*
Authorised:				
Ordinary shares of HK$0.0025 each	**8,000,000**	**20,000**	8,000,000	20,000
Issued and fully paid:				
Ordinary shares of HK$0.0025 each				
At beginning of period/year	**2,434,136**	**6,085**	2,455,248	6,138
Repurchase of shares *(Note)*	—	—	(21,112)	(53)
At end of period/year	**2,434,136**	**6,085**	2,434,136	6,085

Note:

During the year ended 31 December 2019, the Company repurchased on the Stock Exchange a total of 21,112,000 shares of HK$0.0025 each of the Company, at an aggregate consideration after expenses of approximately HK$4,291,000, which were cancelled during the year ended 31 December 2019. The nominal value of the cancelled shares was credited to capital redemption reserve and the aggregate consideration paid was debited to the share premium of the Group.

17. CAPITAL COMMITMENTS

The Group did not have any significant capital commitments at 30 June 2020 (at 31 December 2019: Nil).

18. MATERIAL RELATED PARTY TRANSACTIONS

For the six months ended 30 June 2020 and 2019, transactions with the following parties are considered to be related party transactions:

Mr. Guo Yumin	Director and the ultimate controlling party of the Company
Ms. Xia Yu	Director of the Company
Cheng Jun Group Limited	Owned by Mr. Guo Yumin
Union Winful Limited	Owned by Mr. Guo Yumin
Xuzhou Ruilong Real Estate Development Co., Ltd. *(Note)*	Owned by Mr. Guo Yumin
Hong Kong Rising Star Group Holdings Limited	Owned by Mr. Guo Yumin
Hong Kong Sheen Dragon Investment Company Limited	Owned by Mr. Guo Yumin
Sheen Dragon Properties Limited	Owned by Mr. Guo Yumin
Xuzhou Lvzhou Property Management Co., Ltd. *(Note)*	Owned by Mr. Guo Yumin

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees, is as follows:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Short-term employee benefits	**1,142**	2,733
Post-employment benefits	**79**	147
Equity compensation benefits	**11**	395
	1,232	3,275

(b) Other related party transactions

In addition to those related party transactions disclosed in note 18(a) to the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period:

	Six month ended 30 June 2020 (Unaudited)		
	Rental expenses	**Repayment to related parties**	**Repayment received from related parties**
	HK$'000	***HK$'000***	***HK$'000***
Xuzhou Ruilong Real Estate Development Co., Ltd.	655	—	—
Cheng Jun Group Limited	—	10	—
Union Winful Limited	—	2	—
Sheen Dragon Properties Limited	—	3	—
Hong Kong Rising Star Group Holdings Limited	—	5	—
Hong Kong Sheen Dragon Investment Company Limited	—	5	—
Mr. Guo Yumin	—	760	(143)
Ms. Xia Yu	—	—	(80)
	655	785	(223)

	Six month ended 30 June 2019 (Unaudited) Repayment of borrowings *HK$'000*
Xuzhou Ruilong Real Estate Development Co., Ltd.	830
Mr. Guo Yumin	577
	1,407

(c) Balances with related parties

At 30 June 2020 and 31 December 2019, the Group had the following balances with related parties:

	Note	**At 30 June 2020** ***HK$'000*** ***(Unaudited)***	At 31 December 2019 *HK$'000* *(Audited)*
Due from related companies			
— Cheng Jun Group Limited	*(i)*	**10**	—
— Union Winful Limited	*(i)*	**2**	—
— Sheen Dragon Properties Limited	*(i)*	**547**	544
— Hong Kong Rising Star Group Holdings Limited	*(i)*	**5**	—
— Hong Kong Sheen Dragon Investment Company Limited	*(i)*	**5**	—
Due from a director and ultimate controlling party			
— Mr. Guo Yumin	*(i)*	**1,189**	572
Due from a director			
— Ms. Xia Yu	*(i)*	**—**	80
Due to a related company			
— Xuzhou Lvzhou Property Management Co., Ltd.	*(i)*	**(126)**	(128)
		1,632	1,068

(i) The amounts due from/(to) related companies and directors are interest-free and expected to be recovered within one year.

19. CONTINGENT LIABILITIES

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

20. APPROVAL OF FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 August 2020.

OVERVIEW

The COVID-19 pandemic has posed unprecedented challenges to individuals and businesses around the world. One of our factories located in Huai An city, China, shutted down for more than a month and the performance of which was still weakened compared to the corresponding period in 2019, although active measures including but not limited to engaging new products have been taken by the Board. Orders from outside customers declined significantly as well. During the Period, our revenue dropped around HK$50.2 million from approximately HK$214.9 million comparing with the corresponding period of the last year. With the benefit of the costs of polypropylene declined drastically during the Period, which is one of the main raw materials of BOPP films, the Group had taken an aggressive strategy to expand productivity of BOPP films during the Period, which in turn brought significant profits to the Group. However, after other BOPP manufacturers have gradually restarted production since late April, the competition returned and hence further deteriorated our profit in this segment. The performance of our cloud business did not reach our expectation, and the Board will further discuss possible strategies for our cloud business and take more prudent and conservative manner taking into account the market conditions for the interest of shareholders. The impact on power generation was far less severe compared with aforesaid segments and maintained stable, which brought considerable profit to the Company. As a result, a profit amounting to approximately HK$1.5 million was recorded for the Period.

RESULTS OF OPERATION

REVENUE

The principal activities of the Group include manufacturing and sales of BOPP films, sales of sub-processing cigarette films, properties development, generation of photovoltaic power and cloud-related business. Our revenue represents the sales of goods sold excluding returns, discounts and value added taxes and other sales taxes. Details of financial information of each segment can be found below:

Manufacturing and sales of BOPP films

For the Period, revenue generated from this segment dropped from approximately HK$ 175.0 million to approximately HK$ 135.3 million. However, cost of polypropylene declined drastically from approximately RMB10,000/MT in January to approximately RMB6,500/MT in March and April. The raw material price gradually recovered in May and June and competition turned worse due to pandemic.

Sales of sub-processing cigarette films

For the Period, the Company recorded a total of approximately HK$0.6 million revenue in this segment (for the six months ended 30 June 2019: HK$5.1 million) primarily due to shut down of factories from pandemic and decrease in demand of external main customers.

Properties development and related services

For the Period, the Company recorded a total of approximately HK$1.7 million revenue from sales of remaining inventory storeroom and car park spots.

Generation of photovoltaic power

With the support of the government, it is believed that clean energy will still be the best choice in future development of energy consumption industry. Our operation mainly relies on local weather condition and protected by a long-term contract. Revenue generated from this segment slightly decreased by HK$0.8 million from approximately HK$27.8 million for the six months ended 30 June 2019 to approximately HK$27.0 million for the Period.

GROSS PROFIT

Gross profit increased by approximately HK$6.3 million, or 13.0% from approximately HK$48.3 million for the six months ended 30 June 2019 to approximately HK$54.6 million for the Period. Gross profit margin increased by 10.6% from approximately 22.5% for the six months ended 30 June 2019 to approximately 33.1% for the Period. Such increase was mainly resulted from reduction in cost of goods sold.

DISTRIBUTION COST

Our distribution cost consists primarily of staff costs, advertising and promotional expenses, delivery and custom duties, business development expenses, travelling expenses and others. Distribution cost increased by approximately HK$3.6 million from approximately HK$8.6 million for the six months ended 30 June 2019 to approximately HK$12.2 million for the Period. Such increase was driven by increase in numbers of remote customers as well as the increase of the investment in engaging customers.

ADMINISTRATIVE COST

Administrative expenses primarily consist of the administrative staff salaries, office-related expenses, depreciation of office buildings and equipment, travel expenses. The Group continued to adhere to a strict cost discipline regime during the Period, with the aim of creating a low-cost, high-efficiency operational environment. Our administrative expenses decreased by approximately HK$6.6 million from approximately HK$37.8 million for the six months ended 30 June 2019 to approximately HK$31.2 million for the Period.

FINANCE COST

During the Period, the Group incurred finance costs of approximately HK$2.6 million (six months ended 30 June 2019: approximately HK$3.8 million). The decrease was primarily due to the decrease of bank borrowings.

PROFIT ATTRIBUTED TO THE SHAREHOLDERS OF THE COMPANY

As a result of the foregoing factors, profit attributed to the shareholders of the Company for the Period was approximately HK$3.1 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's primary uses of cash are to fund its working capital requirements, purchase of property, plant and equipment and loan repayment and related interest expense. As at the date of this announcement, the Group has funded its operations principally with the cash generated from its operations, bank borrowings and shareholder contributions. In the future, the Group believes that its liquidity requirements will be satisfied with a combination of cash flows generated from its operating activities, bank loans, other borrowings and other funds raised from the capital markets from time to time. As of 30 June 2020, the Group had cash and cash equivalents in a total of approximately HK$243.3 million. For the six months ended 30 June 2020, the Group's net cash inflow of operating activities, net cash outflow of investment activities and net inflow of financing activities amounted to approximately HK$76.2 million, HK$2.6 million and HK$11.2 million, respectively.

BORROWING AND GEARING RATIO

As at 30 June 2020, all the interest-bearing bank loans were denominated in RMB, while cash and cash equivalents were primarily held in RMB, HKD and USD. The gearing ratio of the Group, which was calculated as total interest-bearing bank loans divided by total equity as at the end of the relevant period, increased from approximately -12.5% as at 31 December 2019 to -24.1% as at 30 June 2020.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

The Group is exposed to currency risk primarily through sales and purchases made by the PRC subsidiaries which give rise to receivables, payables, cash balances and bank loans that are denominated in USD. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

As the functional currency for all subsidiaries in the PRC are RMB, the aforesaid subsidiaries are not exposed to any currency risk due to the exchange rate movement of RMB. For subsidiaries incorporated outside of the PRC, they have no material financial assets and liabilities denominated in RMB. Accordingly, the Group's exposure to RMB risk is insignificant.

CAPITAL EXPENDITURE

During the Period, the Group's total capital expenditure amounted to approximately HK$2.9 million. The capital expenditure was mainly incurred in the construction of a fire fighting project.

CHARGE ON ASSETS

As at 30 June 2020, the Group had pledged its lease prepayments, machinery, and building held for own use with net book value of approximately HK$104.1 million and trade receivables of approximately HK$37.5 million for the purpose of securing loans with carrying value of approximately HK$36.1 million.

SUBSEQUENT EVENTS

There were no subsequent events occurred after the Period and up to the date of this announcement.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS

On 28 April 2020, Sheen China Group Holdings Inc. (順華集團控股有限公司) ("Sheen China"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Holotek Technology (Zhuhai) Co. Ltd. (中豐田光電科技(珠海)有限公司), pursuant to which Sheen China agreed to sell, and Holotek Technology (Zhuhai) Co. Ltd conditionally agreed to purchase, 30% equity interest in Qingdao Ener Packaging Technology Co., Limited (青島英諾包裝科技有限公司) at the Consideration of RMB27,000,000. The above disposal was completed on 18 May 2020. For further details, please refer to the announcement of the Company dated 28 April 2020.

On 30 May 2020, Sheen China and WF Sinco Limited entered into a share purchase agreement (which is further supplemented by the first supplemental agreement dated 16 July 2020 and second supplemental agreement dated 22 July 2020) pursuant to Sheen China conditionally agreed to sell, and WF Sinco Limited conditionally agreed to purchase, the entire issued share capital of Sheen China (Hong Kong) Limited (順華(香港)有限公司), which is wholly-owned by Sheen China, at a consideration of RMB67,000,000 or an equivalent amount in Hong Kong dollars, subject to the approval of the shareholders of the Company at the forthcoming extraordinary general meeting of the Company. For further details, please refer to the announcement of the Company dated 29 July 2020.

Save for disclosed above and in this announcement, there were no material acquisitions or disposals of subsidiaries, associated companies and joint ventures during the Period.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened (as at 31 December 2019: nil).

HUMAN RESOURCES

As at 30 June 2020, the Group had 242 employees (as at 30 June 2019: 249 employees). The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and results performance of the Group. The Group provides external and internal training programs to its employees. The Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance.

INTERIM DIVIDEND

The Board approved the payment of an interim dividend of HK$0.01 per share for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil) to the shareholders whose names appear on the register of members of the Company on 25 September 2020, being the record date for determining entitlements of the shareholders of the Company to the approved interim dividend. The approved interim dividend will be payable on or around 9 October 2020. For determining entitlement to the interim dividend, the register of members of the Company will be closed from 24 September 2020 to 25 September 2020, both days inclusive. In order to qualify for the approved interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 23 September 2020.

PROSPECTS

While the COVID-19 pandemic remains fluid and rapidly evolving, the Group will remain vigilant and closely monitor its development. The Group will continue to adopt appropriate measures to safeguard the interest of employees and business operations, and at the same time maintain full service commitment to our customers. By leveraging our financial strength and strong cash position, we will continue to seek appropriate opportunities to meet our objectives in expanding our business in order to deliver long-term value appreciation.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not sell or repurchase any of the Company's listed securities during the six months ended 30 June 2020.

CORPORATE GOVERNANCE CODE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously adhere to the principles of good corporate governance in upholding the shareholders' interests and devote maximum effort to identifying and formalizing best practice.

The Group's corporate governance practices are based on the principles and the code provisions in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules.

The Board considered that the Company had complied with the code provisions of the Code during the Period except for the deviations from code provisions A.2.1 of the Code as stated below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the six months ended 30 June 2020, there has been no chief executive in the Company. Mr. Guo Yumin acted as the chairman of the Board and is responsible for the overall management and formulation of business strategy of the Group.

The Board does not have the intention to fill the position of the chief executive of the Company at present and believes that the absence of the chief executive will not have adverse effect to the Company, as decisions of the Company will be made collectively by the executive Directors. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to perform the role of chief executive. Appointment will be made to fill the post to comply with code provision A.2.1 of the Code if necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors' securities transactions during the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") with terms of reference aligned with the provisions of the Code for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Dai Tin Yau, as its chairman, Ms. Fan Qing and Mr. Chan Yin Lam.

The interim financial results of the Group for the six months ended 30 June 2020 is unaudited but has been reviewed by the Audit Committee.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float during the six months ended 30 June 2020 as required under the Listing Rules.

On behalf of the Board
Sheen Tai Holdings Group Company Limited
Guo Yumin
Chairman

Hong Kong, 31 August 2020

As at the date of this announcement, the executive Directors are Mr. Guo Yumin, Ms. Xia Yu and Mr. Zeng Xiangyang and the independent non-executive Directors are Ms. Fan Qing, Mr. Dai Tin Yau and Mr. Chan Yin Lam.