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SHENGLONG SPLENDECOR INTERNATIONAL LIMITED

盛龍錦秀國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8481)

**MAJOR TRANSACTION –
CONSTRUCTION CONTRACT**

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 4 to 16 of this circular.

The transaction being the subject matter of this circular has been approved by written shareholders’ approval pursuant to the GEM Listing Rules and this circular is being despatched to the Shareholders for information only.

14 February 2020

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors
“Company”	Shenglong Splendecor International Limited (盛龍錦秀國際有限公司) (stock code: 8481), a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on GEM of the Stock Exchange
“Consideration”	a sum of RMB54,000,000 (equivalent to approximately HK\$60,102,000), subject to adjustments in connection with changes (if any) in the relevant construction works
“Construction Contract”	the Construction Contract dated 20 December 2019 entered into between Shenglong Decoration and Zhejiang Zhongda in relation to, among other things, the construction works of the Factory Premises, Office Building and Staff Quarters situated at the Land
“Director(s)”	director(s) of the Company
“Factory Premises”	the factory premises to be constructed on the Land, with a total construction area of 18,537.20 sq. metres and comprising one block of factory building
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Group”	the Company and its subsidiaries or where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Land”	the piece of land located at Yangdai Village, Jinnan Street, Lin'an District, Hangzhou City, Zhejiang Province, the PRC

DEFINITIONS

“Latest Practicable Date”	8 February 2020, being the latest practical date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing”	the listing of the Shares on GEM of the Stock Exchange commencing on 17 July 2017
“Mr. Sheng”	Mr. Sheng Yingming, an executive Director, the chairman of the Board, the chief executive officer of the Company and a Shareholder
“Mr. Yu”	Mr. Yu Zemin, a former executive Director and currently the vice general manager of the Company
“Office Building”	the office building to be constructed on the Land, with a total construction area of 7,050.32 sq. metres and comprising one block of office building
“PRC”	the People’s Republic of China which, for the purposes of this circular only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Reorganisation”	the corporate reorganisation of the Group in preparation for the Listing, details of which are set out in the paragraphs headed “Reorganisation” under the section headed “History, Development and Reorganisation” in the prospectus of the Company dated 30 June 2017
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shangguafan Factory”	the production site of the Group located in Shangguafan, Lin’an District, Hangzhou City, Zhejiang Province, the PRC
“Shareholder(s)”	holder(s) of the Shares
“Shares”	shares of the Company
“Shenglong Decoration”	Zhejiang Shenglong Decoration Material Co., Ltd* (浙江盛龍裝飾材料有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Site Formation Consideration”	a sum of RMB6,600,000 (equivalent to approximately HK\$7,345,800), subject to adjustments in the actual construction works
“Site Formation Contract”	the site formation contract entered into between Shenglong Decoration and Zhejiang Zhongda on 12 September 2019 in relation site formation and retaining wall works at the Land
“sq. metres”	square metres
“Staff Quarters”	the staff quarters to be constructed on the Land, with a total construction area of 9,610.35 sq. metres and comprising one block of staff quarters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Yangdai Factory”	the production site of the Group located in Yangdai, Lin'an District, Hangzhou City, Zhejiang Province, the PRC
“Zhejiang Zhongda”	Zhejiang Zhongda Construction Engineering Co., Ltd.* (浙江中大建设工程有限公司), a company incorporated in the PRC with limited liability

For illustration purposes, amounts in RMB in this circular have been translated into HK\$ at an exchange rate of RMB1.00=HK\$1.113.

* For identification purposes only

LETTER FROM THE BOARD



SHENGLONG

盛 龍

SHENGLONG SPLENDECOR INTERNATIONAL LIMITED

盛龍錦秀國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8481)

Executive Directors:

Mr. Sheng Yingming (*Chairman,
Chief Executive Officer*)

Ms. Sheng Sainan

Mr. Fangxu

Mr. Tan Chee Kiang

Registered office:

P.O. Box 1350 Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Independent non-executive Directors:

Mr. Ma Lingfei

Mr. Tso Ping Cheong Brian

Ms. Huang Yueyuan

*Headquarters and principal place of business
in the PRC:*

No. 8 Shangguafan Road
Jinnan Street
Lin'an District, Hangzhou City
Zhejiang Province, the PRC

Principal place of business in Hong Kong:

27th Floor, Henley Building
5 Queen's Road Central
Central, Hong Kong

14 February 2020

To the Shareholders,

Dear Sir and Madam,

MAJOR TRANSACTION – CONSTRUCTION CONTRACT

INTRODUCTION

Reference is made to the announcement of the Company dated 20 December 2019 in relation to the entering of a Construction Contract dated 20 December 2019 between Shenglong Decoration and Zhejiang Zhongda in respect of the construction of the Factory Premises, Office

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Building and the Staff Quarters situated at the Land at the aggregate Consideration of RMB54,000,000 (equivalent to approximately HK\$60,102,000), subject to adjustments in connection with changes (if any) in the relevant construction works.

The purpose of this circular is to provide you with, among other things, further information on the Construction Contract and other information as required under the GEM Listing Rules.

SITE FORMATION CONTRACT

On 12 September 2019, Shenglong Decoration, an indirect wholly-owned subsidiary of the Company, entered into the Site Formation Contract with Zhejiang Zhongda in relation to the site formation and retaining wall works situated at the Land at the Site Formation Consideration of RMB6,600,000 (equivalent to approximately HK\$7,345,800), subject to adjustments in the actual construction works. The Site Formation Consideration was determined after arm's length negotiations between Shenglong Decoration and Zhejiang Zhongda, with reference to (i) the local market conditions, (ii) the scope and complexity of the construction works, and (iii) the material used and the size of the construction project. Set out below is a summary of the principal terms of the Site Formation Contract:

Date: 12 September 2019

Parties:

1. Shenglong Decoration as the employer; and
2. Zhejiang Zhongda as the contractor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of the Site Formation Contract and the Latest Practicable Date, (i) Zhejiang Zhongda and its ultimate beneficial owners, who are Mr. Tian Longquan, Ms. Qian Xiaoyan, Mr. Huang Gufeng and Mr. Liu Jibing, and each of them is a merchant in the PRC, are third parties independent of, and not connected with, the Company and its connected persons (as defined under the GEM Listing Rules); and (ii) the business scope of Zhejiang Zhongda includes but not limited to construction works and municipal public works; and (iii) the registered share capital of Zhejiang Zhongda is owned (a) as to 65% by Mr. Tian Longquan, (b) as to 25% by Ms. Qian Xiaoyan, (c) as to 5% by Mr. Huang Gufeng, and (d) as to 5% by Mr. Liu Jibing, respectively.

Subject matter: Zhejiang Zhongda shall be responsible for the site formation and retaining wall works on the Land.

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Site Formation Consideration: RMB6,600,000 (equivalent to approximately HK\$7,345,800), subject to adjustments in the actual construction works.

Basis of the Site Formation Consideration: The Site Formation Consideration was determined after arm's length negotiations between Shenglong Decoration and Zhejiang Zhongda, with reference to (i) the local market conditions, (ii) the scope and complexity of the construction works, and (iii) the material used and the size of the construction project. Accordingly, the Directors considered that the Site Formation Consideration was fair and reasonable. The Site Formation Consideration would be satisfied by internal resource of the Group.

Construction commencement date: 15 September 2019

Construction completion date: 31 December 2019

Payment terms: Payment shall be made by Shenglong Decoration in accordance with the actual construction progress.

As the required construction works under the Site Formation Contract was fully completed, a total sum of RMB6,503,345 (equivalent to approximately HK\$7,238,223) was paid to Zhejiang Zhongda.

CONSTRUCTION CONTRACT

On 20 December 2019 (after trading hours), Shenglong Decoration, an indirect wholly owned subsidiary of the Company, entered into the Construction Contract with Zhejiang Zhongda in relation to the construction of the Factory Premises, Office Building and Staff Quarters situated at the Land at the aggregate Consideration of RMB54,000,000 (equivalent to approximately HK\$60,102,000), subject to adjustments in connection with changes (if any) in the relevant construction works. Set out below is a summary of the principal terms of the Construction Contract:

Date: 20 December 2019 (after trading hours)

Parties:

1. Shenglong Decoration as the employer; and
2. Zhejiang Zhongda as the contractor

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of the Construction Contract and the Latest Practicable Date, (i) Zhejiang Zhongda and its ultimate beneficial owners, who are Mr. Tian Longquan, Ms. Qian Xiaoyan, Mr. Huang Gufeng and Mr. Liu Jibing, and each of them is a merchant in the PRC, are third parties independent of, and not connected with, the Company and its connected persons (as defined under the GEM Listing Rules); and (ii) the business scope of Zhejiang Zhongda includes but not limited to construction works and municipal public works; and (iii) the registered share capital of Zhejiang Zhongda is owned (a) as to 65% by Mr. Tian Longquan, (b) as to 25% by Ms. Qian Xiaoyan, (c) as to 5% by Mr. Huang Gufeng, and (d) as to 5% by Mr. Liu Jibing, respectively.

Subject matter:

Zhejiang Zhongda shall be responsible for the construction works of the Factory Premises, Office Building and Staff Quarters situated at the Land.

Consideration:

RMB54,000,000 (equivalent to approximately HK\$60,102,000), subject to adjustments in connection with changes (if any) in the relevant construction works.

Basis of Consideration:

The Consideration was determined after arm's length negotiations between Shenglong Decoration and Zhejiang Zhongda, with reference to (i) the local market conditions, (ii) the scope and complexity of the construction works, and (iii) the material used and the size of the construction project.

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The total building area of the construction works is approximately 34,154.6 sq. metres, comprising the Factory Premises, the Office Building and the Staff Quarters. In determining the Consideration, Shenglong Decoration and Zhejiang Zhongda, more particularly and among others, took accounts the following matters:

1. “Zhejiang Province Construction Project Budget Quota (2010 Edition)”, “Zhejiang Province Construction Project Budget Quota (2010 Edition)”, “Zhejiang Province Construction Engineering Construction Quota (2010 Edition)”, “Zhejiang Province Machinery Benchwork Cost Reference Unit Price (2010 Edition)” and corresponding supplementary materials and documents;
2. pre-trial drawings provided by Shenglong Decoration to Zhejiang Zhongda in July 2019;
3. a tax rate of 9%;
4. the labour reference price in accordance with the requirements of Hangzhou Construction Price Investment Office [2018] No. 55., the first type of labour is RMB78 per day, the second type of labour is RMB82 per day, and the third type of labour is RMB99 per day;
5. the reference price for the construction materials in accordance with the Lin'an District of “Hangzhou Cost Information” June 2019 and “Zhejiang Cost Information” May 2019;
6. all mortars in this project use ready-mixed mortars, which have been included in the budget as ready-mixed mortars. The quotation of the list is based on the “Reference table for classification of ready-mixed mortars and traditional mortars” stated in the “Zhejiang Construction Engineering Energy-Saving Budget Quota”;

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7. commercial concrete shall be used in this project;
8. the original floor elevation is temporarily calculated according to the outdoor floor elevation of each building;
9. the effective pile length of the rotary excavation pile is temporarily calculated as of 6m, and the test pile cost is not included;
10. windowsill board is regarded as 100mm thick C25 concrete; and
11. the steel bars at the lower end of the structural columns of the Factory Premises and Office Building are to be implanted.

Accordingly, the Directors consider that the Consideration is fair and reasonable. The Consideration will be satisfied by internal resources and bank loans of the Company.

Construction commencement date: 25 December 2019

Construction completion date: Expected to be on 24 December 2020

- Payment Terms:
1. 20% of the Consideration, as the prepayment, was fully paid before the commencement of the construction;
 2. 50% of the Consideration, shall be paid according to the construction progress every two months;
 3. 25% of the Consideration, shall be paid upon passing of inspection of the construction works, handover of the statement of accounts and the relevant audit; and
 4. Final payment, 5% of the Consideration, shall be paid after two-year warranty period.

LETTER FROM THE BOARD

Legal Effect:

The Construction Contract shall be effective upon (i) execution by Shenglong Decoration and Zhejiang Zhongda, and (ii) approval from the Shareholders as required by the GEM Listing Rules.

INFORMATION ON THE GROUP, SHENGLONG DECORATION AND ZHEJIANG ZHONGDA

The Group

The Group is principally engaged in in the manufacturing and sales of decorative printing materials products which mainly comprise of (i) decorative paper; (ii) melamine impregnated paper; (iii) finish foil paper; (iv) polyvinyl chloride (“PVC”) furniture film; and (v) PVC flooring film.

Shenglong Decoration

Shenglong Decoration is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. The principal business of Shenglong Decoration is the manufacturing and sales of decorative printing materials products.

Zhejiang Zhongda

To the best of the Directors’ knowledge, information and belief having made reasonable enquiries, the business scope of Zhejiang Zhongda includes but not limited to construction works and municipal public works. Zhejiang Zhongda holds the relevant construction qualifications as required under the laws of the PRC for the construction works it undertakes under the Site Formation Contract and the Construction Contract, including, but not limited to, Second Grade Main Contractor for Construction Works (建築工程施工總承包貳級), Second Grade Main Contractor for Municipal Public Works (市政公用工程施工總承包貳級), and Second Grade Professional Contractor for Construction Renovation and Decoration Works (建築裝修裝飾工程專業承包貳級). The Directors believe that Zhejiang Zhongda is qualified under the relevant laws of the PRC to undertake the construction works under the Site Formation Contract and the Construction Contract.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, (i) Zhejiang Zhongda and its ultimate beneficial owners, who are Mr. Tian Longquan, Ms. Qian Xiaoyan, Mr. Huang Gufeng and Mr. Liu Jibing, and each of them is a merchant in the PRC, are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules); and (ii) the registered share capital of Zhejiang Zhongda is owned (a) as to 65% by Mr. Tian Longquan, (b) as to 25% by Ms. Qian Xiaoyan, (c) as to 5% by Mr. Huang Gufeng, and (d) as to 5% by Mr. Liu Jibing, respectively.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONSTRUCTION CONTRACT

In order to create enhanced value to pursue long-term sustainable growth and improve the competitiveness of the Group, the Group intends to build the Factory Premises, Office Building and Staff Quarters situated at the Land. Currently, the Group has two production sites, namely Shangguafan Factory and Yangdai Factory. Upon completion of the Construction Contract, the Group will relocate Shangguafan Factory, which commenced operation in 1996, to the Factory Premises where the Yangdai Factory is nearby. It is expected that the relocation will enable the Group to centralise the management and production process at the Land, which will allow us to save the costs and time in relation to management, transportation, and maintenance and repairs accordingly.

Given the fact that the Shangguafan Factory is located at the old city center of Lin'an District, it is expected that there may be a redevelopment plan at the vicinity of the Shangguafan Factory required by the local government in future. In this connection, the Directors consider that the relocation of the Shangguafan Factory to the Land would allow us to have sufficient time to streamline the relocation process ahead of the promulgation of the redevelopment plan by the local government.

Furthermore, the Shangguafan Factory has been in operation for more than 20 years, the production capacity, ability and efficiency of which do not catch up with the latest technology and business trend. Due to the regular introduction of newer and more advanced machinery models in the market and the aging of our machineries, the Group plans to install 2 additional decorative paper production lines with the latest-developed and newer models of production equipment in July 2020, according to the anticipated schedule provided by Zhejiang Zhongda, which will allow us to increase the production capacity and produce higher quality decorative printing materials products. With those production lines comes into operation in future, the estimated annual capacity of decorative paper will be increased from approximately 14,024 tonnes as at 31 December 2019 to approximately 16,781 tonnes by the year end of 2020. The Group also plans to install 6 additional production lines in future after the implements of the 2 additional decorative paper production lines in 2020, subject to market conditions and customers, demands. Currently, there is no tentative plan as to the implementation of these 6 additional production lines.

The Factory Premises will also enhance our customers' confidence on the Group. It is a common practice for our customers, potential or existing, to conduct onsite visit to our factory. The Directors believe that the Factory Premises with brand new design would attract more customers better than an old factory design like the Shangguafan Factory.

The Site Formation Contract and the Construction Contract are consistent with the Group's strategy and will serve as additional growth driver for the Group with continuous enhancement in long-term Shareholders' value.

LETTER FROM THE BOARD

In view of the above, the Board considers that the terms of the Site Formation Contract and Construction Contract are on normal commercial terms and are fair and reasonable and the entering into of the Site Formation Contract and the Construction Contract are in the interests of the Company and the Shareholders as a whole.

The table below illustrates the Group's production capacity as at 31 December 2019 and its expected production capacity in the second half of 2020.

	Decorative paper/tonne	Finish foil paper/metre	Melamine impregnated paper/piece	PVC furniture film/metre	PVC flooring film/metre
Production capacity					
As at 31 December 2019					
Number of production lines	10	2	6	2	4
Estimated annual production capacity	14,024	26,395,200	23,962,000	1,895,000	16,497,000
Planned additions					
Number of production lines	2	–	–	–	–
Estimated annual production capacity ^(Note 1)	2,757	–	–	–	–
Expected total					
As at 31 December 2020					
Number of production lines	12	2	6	2	4
Estimated annual production capacity	16,781	26,395,200	23,962,000	1,895,000	16,497,000

Notes:

- For illustrative purposes only, the estimated capacity of our production facilities is measured in terms of the estimated quantity of products produced per hour multiplied by estimated working hours (i.e. 12 or 24 hours per day for decorative paper, 12 hour per days for finish foil paper, melamine impregnated paper and PVC flooring film and 8 hours per day for PVC furniture film) (after deducting the estimated set up time (comprising mainly the time required for change of plate rollers and colour tone adjustments) in the optimal conditions and excluding the time spent on pre-print and post-print processes) of each of the production line per day (assuming no overtime works) and 365 days per year (taking into account the statutory and public holidays in the PRC and our normal maintenance schedule), during the second half of 2020. As the number of print orders increases, it will involve more frequent change of plate rollers and colour tone adjustments from one production run to another and hence, will result in longer actual total set-up time for the relevant period. Thus, the above computation only illustrates the estimated capacity of our production lines operating in the optimal conditions.

The construction of Factory Premises, Office Building and Staff Quarters are expected to be completed by 24 December 2020, about 366 days from the actual commencement date of the Construction Contract.

LETTER FROM THE BOARD

CLOSELY ALLIED GROUP OF SHAREHOLDERS

Name	Name of Shares held	Approximate percentage of shareholding (Note)
Bright Commerce Investment Limited	239,950,000	47.99%
Well Power Ventures Limited	11,250,000	2.25%
Mr. Sheng	9,990,000	1.99%
	<u>261,190,000</u>	<u>52.23%</u>

Note: Based on 500,000,000 Shares in issue as at 20 December 2019 and as at the Latest Practicable Date.

Bright Commerce Investment Limited, Well Power Ventures Limited and Mr. Sheng constitute a “closely allied group of Shareholders” under Rule 19.45 of the GEM Listing Rules for the reasons below:

1. Bright Commerce Investment Limited is an investment holding company incorporated in the British Virgin Islands and wholly owned by Mr. Sheng;
2. Well Power Ventures Limited is an investment holding company incorporated in the British Virgin Islands and wholly owned by Mr. Yu;
3. Mr. Sheng is an executive Director, the chief executive officer and the chairman of the Board. He founded the Group in July 1993;
4. Mr. Yu, joined the Group in 2009, who is a former executive Director and currently the vice general manager of the Company;
5. Mr. Sheng and Mr. Yu have about a 10 years relationship in managing the Group together as senior management;
6. Mr. Yu became a shareholder of Shenglong Decoration, being the predecessor holding company of the Group prior to the Reorganisation, in 2012;
7. Both Bright Commerce Investment Limited and Well Power Ventures Limited are Shareholders after the Reorganisation and have not disposed any Shares upon Listing;
8. Mr. Sheng and Mr. Yu, whether personally or through their respective holding companies, have voted unanimously on all Shareholders’ resolutions since inception of the Group (other than routine resolutions at annual general meetings); and

LETTER FROM THE BOARD

9. The Directors consider that both Mr. Sheng's investment, which is held personally and through Bright Commerce Investment Limited, in the Company and Mr. Yu's investment, which is held through Well Power Ventures Limited, in the Company are of a long-term and strategic nature and that Mr. Sheng and Mr. Yu have established and will maintain a stable business relationship with each other.

FINANCIAL EFFECTS OF THE CONSTRUCTION CONTRACT ON THE GROUP

The Consideration has been and will be funded by the Group's internal resources and bank borrowing of RMB40,000,000 (equivalent to approximately HK\$44,520,000). Accordingly, the construction works as contemplated under the Construction Contract will increase both the Group's total assets and liabilities.

While there will not be any immediate material impact on earnings of the Group, the Directors believe that the Construction Contract would lead to the enhancement of the Group's income stream upon the commencement of the operations of the Factory Premises, Office Building and Staff Quarters.

IMPLICATIONS UNDER THE GEM LISTING RULES

The relevant applicable percentage ratios (as defined under the GEM Listing Rules) for the Site Formation Contract are less than 5% and therefore the Site Formation Contract itself is not subject to any disclosure requirements pursuant to Chapter 19 of the GEM Listing Rules. In respect of the Construction Contract, as one or more of the applicable percentage ratios calculated by reference to Rule 19.07 of the GEM Listing Rules exceed 25% but are all less than 100%, the transaction contemplated under the Construction Contract constitutes a major transaction of the Company under Rule 19.06(3) of the GEM Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Pursuant to Rule 19.22 of the GEM Listing Rules, the Site Formation Contract and the Construction Contract shall be aggregated as if they were one transaction, which amounting to a total sum of RMB60,600,000 (equivalent to approximately HK\$67,447,800). As the relevant applicable percentage ratios (as defined under the GEM Listing Rules) for the Site Formation Contract and Construction Contract in aggregate exceed 25% but are all less than 100%, the Construction Contract shall constitute a major transaction of the Company under Rule 19.06(3) of the GEM Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

LETTER FROM THE BOARD

On 20 December 2019, the Company has obtained written approval for the Construction Contract in accordance with Rule 19.44 of the GEM Listing Rules from a closely allied group of Shareholders comprising (i) Mr. Sheng, who is holding 9,990,000 Shares, (ii) Bright Commerce Investment Limited, which is holding 239,950,000 Shares and, (iii) Well Power Ventures Limited which is holding 11,250,000 Shares respectively, which together are beneficially interested in an aggregate of 261,190,000 Shares, representing approximately 52.23% of the entire issued capital of the Company as at 20 December 2019 and as at the Latest Practicable Date.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, none of the Shareholders has any material interest in the transactions under the Construction Contract and no Shareholder is required to abstain from voting if a general meeting were to be convened for the approval of the Construction Contract. As such, since written approval has been obtained pursuant to Rule 19.44 of the GEM Listing Rules, no general meeting will be convened for the purpose of approving the Construction Contract as permitted under Rule 19.44 of the GEM Listing Rules.

None of the Directors has a material interest in the Construction Contract and the transactions contemplated thereunder, and accordingly none of them was required to abstain from voting on the Board resolution for considering and approving the Construction Contract and the transactions contemplated thereunder.

In addition, according to the previous experience of the Group for entering into similar transactions, the adjustments to the Consideration specified in the Construction Contract are unlikely to be very substantial. The Board does not expect the upward adjustment to exceed 20% of RMB54,000,000 (equivalent to approximately HK\$60,102,000). As such, the Construction Contract will only constitute a major transaction for the Company notwithstanding such adjustments. If the upward adjustment is in excess of the expected amount, the Company will consider what steps it needs to take to comply with the GEM Listing Rules and the requirements of the Stock Exchange. In any event, the Company will monitor the amount of such adjustment and where necessary, comply with the requirements under Chapter 19 of the GEM Listing Rules. In particular, if the adjustment would result in the Construction Contract falling within a higher classification of notifiable transaction, the Company would despatch a supplementary circular to the Shareholders to provide information on such reclassification and would convene a general meeting to consider and, if thought fit, to approve the Construction Contract.

RECOMMENDATIONS

The Directors, including the independent non-executive Directors, consider that while the entering into of the Construction Contract is not in the ordinary and usual course of business of the Group, the Construction Contract was entered into upon normal commercial terms following arm's length negotiations between the parties and that the terms of the Construction Contract are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. If a general meeting were to be convened for the approval of the Construction Contract, the Board would recommend its shareholders to vote in favour of the resolution to approve the Construction Contract at such general meeting.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the financial and general information as set out in the appendices to this circular.

By Order of the Board
Shenglong Splendecor International Limited
Sheng Yingming
Chairman, Chief Executive Officer and Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 are disclosed in the prospectus of the Company, annual reports of the Company for the years ended 31 December 2017 and 2018, the interim report of the Company for the six months ended 30 June 2019 and the third quarterly report of the Company for the nine months ended 30 September 2019, respectively, which have been published and are available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.splendecor.com):

- the prospectus of the Company dated 30 June 2017 which was published on 30 June 2017 (available on: <https://www1.hkexnews.hk/listedco/listconews/gem/2017/0630/gln20170630081.pdf>), please refer to Appendix I thereto in particular;
- the annual report 2017 of the Company for the year ended 31 December 2017 which was published on 28 March 2018 (available on: <https://www1.hkexnews.hk/listedco/listconews/gem/2018/0328/gln20180328025.pdf>), please refer to pages 37 to 98 in particular;
- the annual report 2018 of the Company for the year ended 31 December 2018 which was published on 28 March 2019, available on: <https://www1.hkexnews.hk/listedco/listconews/gem/2019/0328/gln20190328311.pdf>), please refer to pages 42 to 104 in particular;
- the interim report 2019 of the Company for the six months ended 30 June 2019 which was published on 12 August 2019 (available on: <https://www1.hkexnews.hk/listedco/listconews/gem/2019/0812/gln20190812055.pdf>), please refer to pages 8 to 30 in particular; and
- the third quarterly report 2019 of the Company for the nine months ended 30 September 2019 which was published on 13 November 2019 (available on: <https://www1.hkexnews.hk/listedco/listconews/gem/2019/1113/2019111300845.pdf>), please refer to pages 8 to 18 in particular.

2. INDEBTEDNESS STATEMENT

As at 31 December 2019, the indebtedness of the Group primarily included borrowings and notes payables from banks.

	As at 31 December 2019 RMB'000
Non-current:	
Secured and guaranteed long-term bank borrowings	40,000
Secured and unguaranteed long-term bank borrowings	10,000
	<u>50,000</u>
Current:	
Secured and guaranteed short-term bank borrowings	21,750
Secured and unguaranteed short-term bank borrowings	26,500
Secured and unguaranteed short-term notes payables	23,000
Unsecured and guaranteed short-term bank borrowings	20,000
	<u>91,250</u>
Total bank borrowings	<u><u>141,250</u></u>

As at 31 December 2019, being the latest practicable date for the preparation of the indebtedness statement prior to the printing of this circular, the Group had total bank facilities of RMB176 million, of which RMB34.75 million were unutilised and can be drawn down.

Save as aforesaid or otherwise disclosed herein, as at the latest practicable date for the preparation of the indebtedness statement prior to the printing of this circular, the Group did not have any debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, bank overdrafts, other borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities, whether guaranteed, unguaranteed, secured or unsecured.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances, other internal resources and available existing unutilised credit facilities, the Group has sufficient working capital for its present requirements and to satisfy its requirements for at least the next 12 months from the date of publication of this circular.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

In view of the recent global economic conditions, we see uncertainties and risks clouding around and years ahead. The escalating international tensions on the horizon, including the US-China trade war, have contributed to market volatilities. Although the adverse effect of which had not been yet fully emerged, all these already eroded confidence in the business sectors, threatening the global economic expansion and hence will further cloud the market outlook.

Despite the aforementioned risks and challenges, the growth of the business of the Group remains sound and healthy. The Group's product and brand are in growing popularity and we continued to receive strong purchase orders. During the year ended 31 December 2019 and up to the Latest Practicable Date, we have continued our pace in capacity expansion. With the new production lines in place, it not only enhances our production capacity but also provides a better production flexibility for us to cater the need of our customers with special production requirements. It provides a solid foundation for the Group to align the need of the business expansion in the future.

In the face of the rising cost of raw materials, the Group would continue to manage costs and risks. The Group will enhance the profit margins by lowering the costs and increasing the production efficiency. The Group is committed to enhancing our research and development capabilities to optimise our product mix and to improve our production efficiency. The Group would continue to improve our manufacturing technology including plate roller engraving, ink development and impregnation technology. Taking advantages of our well-recognised reputation in the market, the Directors are optimistic to capture the market share of the decorative printing materials industry. The Group would continue to explore new markets and capture the emerging business opportunities.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) Directors' and the chief executive's interests or short positions in the Shares, underlying Shares and debentures**

As at the Latest Practicable Date, the interests and short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (with the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long position in ordinary Shares of the Company

Name of Director	Capacity/Nature of interest	Number of ordinary shares held	Percentage of shareholding (Note 2)
Mr. Sheng (Note 1)	Beneficial owner and interest in controlled corporation	249,940,000 shares	49.99%
Mr. Tan Chee Kiang	Beneficial owner	15,000,000 shares	3.00%

Notes:

- These 239,950,000 shares are held by Bright Commerce Investment Limited ("**Bright Commerce**"), which is wholly owned by Mr. Sheng and hence, Mr. Sheng is deemed or taken to be interested in all the Shares held by Bright Commerce for the purpose of SFO.
- The percentage is calculated on the basis of 500,000,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

(b) Interests and short positions of Substantial Shareholders of the Company in the Shares and underlying Shares

As at the Latest Practicable Date, so far as it is known to the Directors or chief executive of the Company, the following persons/entities had, or deemed to have, interests or short positions in the Shares or underlying Shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholders	Capacity/nature of interest	Number of Shares held/interested (Note 1)	Approximate percentage of shareholding
Bright Commerce	Beneficial owner	239,950,000 Shares (L)	47.99%
Mr. Sheng	Beneficial owner and interest in controlled corporation	249,940,000 Shares (L)	49.99%
Ms. Chen Deqin (Note 2)	Interest of spouse	249,940,000 Shares (L)	49.99%
Mr. Ren Yunan	Beneficial owner	58,800,000 Shares (L)	11.76%
Ms. Lin Ying (Note 3)	Interest of spouse	58,800,000 Shares (L)	11.76%

Notes:

1. All interests stated are long position.

2. Ms. Chen Deqin is the spouse of Mr. Sheng. She is deemed, or taken to be, interested in all Shares in which Mr. Sheng is interested for the purpose of SFO.
3. Ms. Lin Ying is the spouse of Mr. Ren Yunan. She is deemed, or taken to be, interested in all Shares in which Mr. Ren Yunan is interested for the purpose of SFO.

Saved as disclosed above, as at the Latest Practicable Date, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person or corporation (other than the Director and chief executive of the Company) who had any interests or short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO.

As at the Latest Practicable Date, save for Mr. Sheng, being the director of Bright Commerce, no Director or proposed Director is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, the controlling Shareholders or its/his/her respective close associates (as defined under the GEM Listing Rules) was considered to have an interest in a business which competes or was likely to compete, either directly or indirectly, with the business of the Group other than those business to which the Directors, the controlling Shareholders or his or her close associates were appointed to represent the interests of the Company and/or the Group.

4. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date, save as disclosed in this circular,

- (a) none of the Directors were materially interested in any contract or arrangement subsisting and which was significant in relation to the business of the Group; and
- (b) none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

5. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following are contracts entered into by the members of the Group within the two years immediately preceding the date of this circular and which is or may be material or of significance:

- (a) Construction Contract entered into between Shenglong Decoration and Zhejiang Zhongda on 20 December 2019 in respect of the construction of the Factory Premises, Office Building and the Staff Quarters situated at the Land at the aggregate Consideration of RMB54,000,000 (equivalent to approximately HK\$60,102,000), subject to adjustments in connection with changes (if any) in the relevant construction works; and
- (b) Site Formation Contract entered into between Shenglong Decoration and Zhejiang Zhongda on 12 September 2019 in relation to the site formation and retaining wall works situated at the Land at the Site Formation Consideration of RMB6,600,000 (equivalent to approximately HK\$7,345,800), subject to adjustments in the actual construction works.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the Company pursuant to which each of them has agreed to act as an executive Director for an initial term of three years commencing from the Listing Date (as defined in the prospectus of the Company) subject to termination in certain circumstances as stipulated in the relevant service contracts.

Each of our independent non-executive Directors has been appointed for an initial term of one year commencing from the Listing Date (as defined in the prospectus of the Company). Save for the directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their respective offices.

Save as disclosed aforesaid, none of our Directors has or is proposed to enter into a service contract/letter of appointment with the Company or any member of the Group (other than contracts expiring or determinable by any member of the Group within one year without payment of compensation (other than statutory compensation)).

8. MATERIAL ACQUISITION

Since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group have been made up, and up to the Latest Practicable Date, no member of the Group had acquired, or agreed to acquire, or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditors' report or next published audited consolidated financial statements of the Group.

9. GENERAL

- (a) The registered office of the Company is at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.
- (b) The Cayman Islands principal share registrar and transfer office of the Company is Estera Trust (Cayman) Limited, Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The Company's headquarters and principal place of business of the Company in the PRC is located at No.8 Shangguafan Road, Jinnan Street, Lin'an District, Hangzhou City, Zhejiang Province, the PRC.
- (e) The Company's principal place of business in Hong Kong is at 27/F, Henley Building, 5 Queen's Road Central, Central, Hong Kong.
- (f) The company secretary of the Company is Mr. Tam Chun Wai Edwin, who is a practicing fellow member of the Hong Kong Institute of Certified Public Accountants and fellow of the Association of Chartered Certified Accountants.
- (g) The compliance officer of the Company is Mr. Tan Chee Kiang ("**Mr. Tan**"). Mr. Tan holds a master's degree in business administration from the University of Portsmouth in the United Kingdom. He has over 38 years of experience in manufacturing operational management. Before joining the Group, he has successively served as the global emerging markets vice president of manufacturing operations and logistics, of Bosch Power Tools (China) Co., Ltd., the Southeast Asia regional president of Bosch Car Malaysia, and the technical director of Bosch Car Malaysia Multimedia Division. He joined the Group in March 2019 and currently serves as the executive Director of the Company and general manager of the Group.
- (h) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

10. AUDIT COMMITTEE

The Company has established the audit committee (the “**Audit Committee**”) on 22 June 2017 with written terms of reference in compliance with paragraphs C.3.3 and C.3.7 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three members, namely Mr. Tso Ping Cheong Brian, Mr. Ma Lingfei and Ms. Huang Yueyuan. Mr. Tso Ping Cheong Brian is the chairman of the Audit Committee, who holds the appropriate qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules. The biography details of the members of the Audit Committee are set out below:

- (a) Mr. Tso Ping Cheong Brian (曹炳昌) (“**Mr. Tso**”), aged 39, was appointed as an independent non-executive Director on 1 June 2018. He is responsible for providing independent advice to the Board. He is the chairman of the audit committee, and a member of the nomination committee and remuneration committee of the Company. Mr. Tso has over 14 years of experience in accounting and financial management. From September 2003 to November 2008, he worked in Ernst & Young with last position as manager. From December 2008 to May 2010, he was the financial controller of Greenheart Group Limited (formerly known as Omnicorp Limited) (Stock code: 94). From May 2010 to August 2012, He was the senior vice president of Maxdo Project Management Company Limited. From January 2013 to present, he has been the sole proprietor of Teton CPA Company, an accounting firm. Mr. Tso obtained his bachelor’s degree in accountancy from the Hong Kong Polytechnic University in November 2003. He obtained his master degree in corporate governance from the Hong Kong Polytechnic University in October 2013. Mr. Tso is currently a practising and fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Mr. Tso served as an independent non-executive director of Greater China Professional Services Limited (Stock code: 8193) from July 2014 to January 2018. He served as an independent non-executive director of Larry Jewelry International Company Limited (Stock code: 8351) from October 2014 to September 2019. He is currently an independent non-executive director of Guru Online (Holdings) Limited (Stock code: 8121) since May 2014, Newtree Group Holdings Limited (Stock code: 1323) since February 2015, EFT Solutions Holdings Limited (Stock code: 8062) since September 2019 and Maxicity Holdings Limited (Stock code: 8216) since November 2019.
- (b) Mr. Ma Lingfei (馬靈飛) (“**Mr. Ma**”), aged 60, was appointed as an independent non-executive Director on 22 June 2017. He is responsible for providing independent advice to the Board. He is the chairman of the nomination committee, and a member of the audit committee and remuneration committee of the Company. Mr. Ma is currently a professor, who is engaged in wood science and technology research, at School of Engineering, Zhejiang A & F University* (浙江農林大學), and a deputy

director of National Engineering Research Center for Comprehensive Utilisation of Wood Resources* (國家木質資源綜合利用工程技術研究中心) and is primarily engaged in the research of the processing plate. Mr. Ma graduated from Zhejiang A & F University majoring in forestry in January 1982. He obtained a doctorate degree in agriculture from Kyoto University in Japan in November 1998. Since January 1982, Mr. Ma worked at Zhejiang A & F University as a lecturer and researcher of wood science and technology research. During the period April 1999 to May 2002, Mr. Ma joined the Institute of Wood Technology, Akita Prefectural University in Japan as a temporary research scientist. From September 2007 to March 2008, he was a foreign visiting scholar* (招聘外國人學者) of Research Institute for Sustainable Humanosphere, Kyoto University in Japan.

- (c) Ms. Huang Yueyuan (黃月圓) (“**Ms. Huang**”), aged 37, was appointed as an independent non-executive Director on 22 June 2017. She is responsible for providing independent advice to the Board. She is the chairman of the remuneration committee, and a member of the audit committee and nomination committee of the Company. She is currently working at the development and liaison office of Zhejiang University* (浙江大學發展聯絡辦公室) as a deputy secretary of the association of listed companies of Zhejiang University* (浙江大學上市公司協會副秘書長) and she is primarily responsible for resource development and manager of development department (Division II) and a deputy secretary of the association of listed companies of donator relationship maintenance. Ms. Huang obtained her bachelor’s degree in horticulture from Zhejiang University* (浙江大學) in the PRC in June 2004 and graduated from Zhejiang University in the PRC with a master’s degree of Zhejiang University EMBA project, at EMBA education center, school of management, Zhejiang University* (浙江大學) horticulture in June 2006. Since May 2006, she joined as a head tutor primarily responsible for the operation of the Zhejiang University EMBA project, at EMBA education center, school of management, Zhejiang University* (浙江大學管理學院 EMBA教育中心), and from June 2010 to August 2015, she worked as a deputy director of EMBA education center, school of management, Zhejiang University and was primarily responsible for the promotion of the brand and marketing for Zhejiang University EMBA.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 10:00 a.m. to 6:00 p.m. (except Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at 27/F, Henley Building, 5 Queen's Road Central, Central, Hong Kong for a period of 14 days commencing from the date of this circular:

- (a) the memorandum of association of the Company and the articles of association;
- (b) the material contracts referred to in the section headed "5. Material contracts" in this appendix;
- (c) the annual reports of the Company for the two years ended 31 December 2017 and 2018, respectively; and
- (d) this circular.