SHENGLONG
盛龙

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)

ANNUAL REPORT 2017

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This report, for which the directors (the "Directors") of Shenglong Splendecor International Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 report 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 report misleading.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Sheng Yingming
Ms. Sheng Sainan
Mr. Fang Xu
Mr. Yu Zemin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Ho Yiu, Thomas
Mr. Ma Lingfei
Ms. Huang Yueyuan

AUTHORISED REPRESENTATIVES

Mr. Sheng Yingming
Mr. Sung Pui Hei

COMPANY SECRETARY

Mr. Sung Pui Hei *CPA Practising*

COMPLIANCE OFFICER

Mr. Yu Zemin

AUDIT COMMITTEE

Mr. Lee Ho Yiu, Thomas *(Chairman)*
Mr. Ma Lingfei
Ms. Huang Yueyuan

REMUNERATION COMMITTEE

Ms. Huang Yueyuan *(Chairman)*
Mr. Ma Lingfei
Mr. Lee Ho Yiu, Thomas

NOMINATION COMMITTEE

Mr. Ma Lingfei *(Chairman)*
Mr. Lee Ho Yiu, Thomas
Ms. Huang Yueyuan

LEGAL ADVISER AS TO HONG KONG LAWS

Vivien Teu & Co LLP
in association with Llinks Law Offices

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PricewaterhouseCoopers

COMPLIANCE ADVISER

Messis Capital Limited

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Shanghai Pudong Development Bank Corporation

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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FINANCIAL HIGHLIGHTS

	Notes	**2017**	2016	Changes
Results				
Revenue *(RMB'000)*		**320,069**	248,773	28.7%
Profit before income tax *(RMB'000)*		**8,204**	24,890	–67.0%
Profit attributable to owners of the Company *(RMB'000)*		**7,004**	20,731	–66.2%
Earnings per share (Basic and diluted) *(RMB cents)*		**1.62**	5.53	–3.91
Financial Position				
Non-current assets *(RMB'000)*		**213,680**	178,969	19.4%
Current assets *(RMB'000)*		**192,443**	154,259	24.8%
Non-current liabilities *(RMB'000)*		**3,516**	53,796	–93.5%
Current liabilities *(RMB'000)*		**242,828**	189,317	28.3%
Total equity *(RMB'000)*		**159,779**	90,115	77.3%
Key financial ratios				
Gross profit margin	*1*	**22.6%**	28.9%	–6.3%
Net profit margin	*2*	**2.2%**	8.3%	–6.1%
Interest coverage	*3*	**5.03 times**	7.64 times	–34.2%
Gearing ratio	*4*	**0.64**	1.17	–45.3%
Inventory turnover days	*5*	**59.9 days**	71.0 days	–11.1 days
Trade receivables turnover days	*6*	**78.6 days**	67.8 days	10.8 days
Trade payables turnover days	*7*	**77.2 days**	84.6 days	–7.4 days

Notes:

(1) Gross profit margin is calculated by the gross profit divided by the revenue and multiplied by 100.0%.

(2) Net profit margin is calculated by the net profit attributable to owner of the Company divided by the revenue and multiplied by 100.0%.

(3) Interest coverage is calculated by the profit before interest and tax divided by the finance costs (interest).

(4) Gearing ratio is calculated based on the interest-bearing liabilities divided by the total equity.

(5) Inventory turnover days are calculated as the average of the beginning and ending balance of inventories divided by cost of sales and multiplied by the number of days in the year.

(6) Trade receivables turnover days are calculated as the average of the beginning and ending trade receivables balance divided by revenue and multiplied by the number of days in the year.

(7) Trade payables turnover days are calculated as the average of the beginning and ending trade payables balance divided by cost of sales and multiplied by the number of days in the year.

CHAIRMAN'S STATEMENT

To Our Shareholders,

On behalf of the board of Directors of the Company (the "Board"), I am pleased to present the first annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "Year"), after its listing on GEM of the Stock Exchange on 17 July 2017 (the "Listing Date").

For the year of 2017, global economic growth concluded to be much stronger than expected, while the GDP growth of the People's Republic of China (the "PRC") reached 6.9%, representing a slight increase after 6 consecutive years of growth decline. The trading volume in global decorative paper industry has been rising with the rapidly expanding property market from which higher demand of furniture and flooring is generated. On top of this, restricted lumbering in various countries redirects the lacking supply of some wooden products to the more environmentally friendly substitute of decorative paper products. Under "The Belt and Road Initiative", development of infrastructure in regions like the PRC, Southeast Asia and South Asia will be a scaffold of growth in the decorative paper market, with their construction and decoration sectors expected to see increasing demand in the meantime.

The Group has mainly experienced a rise in purchase cost of our key raw materials, in particular the base paper, polyvinyl chloride ("PVC") mould and chemicals. Average selling prices of such are readjusting previous years of decline and currently rebounding to higher levels. Relative to the year ended 31 December 2016 ("Last Year"), the Group observed a 28.7% increase in revenue for the Year, mainly driven by the revenue from the PRC market, which recorded a significant growth from RMB86.3 million for Last Year to RMB166.9 million for the Year, representing 52.2% of the Group's total revenue for the Year (2016: 34.7%). However, the gross profit margin for the Year dropped to 22.6%. The decrease was caused mainly by the increased costs of major raw materials, especially with base paper for the production of decorative paper and melamine impregnated paper products. The average purchase price during Last Year was approximately RMB8.4 per kilogram, which reached approximately RMB9.3 per kilogram during the first six months of 2017 and eventually climbed to approximately RMB10.1 per kilogram in December 2017.

The PRC's policy to cut excess capacity has put pressure on the manufacturers to reduce supply on raw materials that can be used in the industry, exerting influence on raw material prices. Our Group has experienced rising demand for our decorative printing materials, which provided cushioning against such cost fluctuations. Along the same lines are government policies on environment protection imposed on the industry, posing challenges on material procurement, printing technologies, quality control and so on. Still, we are inching towards becoming one of the leading decorative printing materials manufacturers as a recognised

CHAIRMAN'S STATEMENT

High and New Technology Enterprise in the PRC. Our Group is well-prepared to embark on a more technologically advanced production model to boost its business potentials in tomorrow's world.

Aspiring to be one of the most prominent player in the industry, the Group places great emphasis on research and development, especially in areas of (i) product design and development, and (ii) production process and technologies. As at 31 December 2017, we held 4 invention patents, 17 patents for Utility Model and 35 design patents under the Patent Law of the PRC (中華人民共和國專利法). We are constantly striving to obtain breakthroughs in research and development so as to enhance our business position and growth potential.

On 17 July 2017, the Group successfully obtained its listing status on GEM of the Stock Exchange. This benefits us in terms of enhanced capital base and a stronger cash position, fostering the execution of our future plans. Last but not least, the Group's more recognised corporate profile, raised by the listing, also brings forth an advantage when it comes to gathering industry talents, thus strengthening the business in the long run.

PROSPECTS FOR 2018

"The Belt and Road Initiative" has been an influential step under the "go-out" policy of the PRC, which also opens up opportunities for and actively encourages the construction and decoration enterprises to explore and enter foreign markets in countries along the regions of "The Belt and Road Initiative", ultimately establishing internationalised presences. For example, notable potentials are presented by the China-Pakistan Economic Corridor and Bangladesh-China-India-Myanmar Economic Corridor in both infrastructure and property development. The promising development of the PRC construction and decoration industry will favour the decorative paper industry with it being an increasingly popular material.

It is the Group's goal to become a well-recognised leading player in the industry, which calls for implementation of improving and boosting both our production and marketing efforts. With the aim to enhance production facilities, the Group will add new production lines for production of melamine impregnated paper and decorative paper in 2018. Upping market share in the PRC and overseas markets will be our strategic focus, for which the Group will attend furniture and flooring exhibitions both in the PRC and overseas. Finally, to work on product design and development capabilities and product offerings, we plan to commence new research and development projects, recruit more industry talents and offer training opportunities to staff on topics such as latest industry technology.

Leveraging on the Group's readiness, resourcefulness and relentlessness, I am optimistic in welcoming the opportunities and challenges ahead as well as gain competitiveness along the journey.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to sincerely thank our customers, investors and business partners for giving us their unwavering support and confidence in continuously bettering our business. On the same token, I would like to thank the invaluable members of the management and staff members for their full-hearted commitment and efforts driving the Group to its current state. Hereinafter, the Group will persevere with innovation and growth to optimise gains for our shareholders.

Sheng Yingming
Chairman and Chief Executive Officer
Hong Kong, 20 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

As GDP growth accelerated for the first time in seven years for the PRC in 2017, the National Bureau of Statistics of China recorded 6.9% in economic growth of the country which exceeded the previously announced goal of 6.5%. Meanwhile, the country's economic reform stresses more and more on driving domestic demand. In particular, the demand of decorative paper in China is supported by country's polices in favor of construction and decoration industry, as well as the growing urban population and housing which led to the increase in renovation projects.

On the supply-side, under the pressure of rising costs of raw materials, as well as from the impact of national environmental policy, average purchase cost of base paper in the decorative paper market has been rebounding from previous years. On the other hand, market price of PVC mould, the principal raw material for the PVC decorative film products, has been bouncing back in the past 2 years from the lows in 2015.

As to the competitive landscape, the market is shifting from a fragmented one to a more concentrated one since customers tend to prefer manufacturers with design capacity and stable production quality. The standard of decorative material solutions is increasing while customer's demand for outstanding designs and colors remain strong. Under such trends, businesses strive to establish leading market positions with emphasis on design, quality and diversification.

BUSINESS REVIEW

The Group is principally engaged 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) PVC furniture film; and (v) PVC flooring film. The Group served over 500 customers in both domestic and overseas markets for the Year. The overseas sales reached over 30 countries in Asia, North America, South America, Europe, Oceania and Africa.

FINANCIAL REVIEW

Revenue

Revenues increased by approximately 28.7% to approximately RMB320.1 million (2016: RMB248.8 million) for the Year on a year-on-year basis. The following table sets forth the revenues by products:

	For the year ended 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
Decorative paper	**173,817**	**54.3**	181,237	72.9
Melamine impregnated paper	**94,424**	**29.5**	23,898	9.6
Finish foil paper	**19,354**	**6.1**	19,747	7.9
PVC furniture film	**8,588**	**2.7**	4,187	1.7
PVC flooring film	**23,151**	**7.2**	18,918	7.6
Others *(Note)*	**735**	**0.2**	786	0.3
	320,069	**100.0**	248,773	100.0

Note: Others mainly include laminated board and plate rollers.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues from sales of melamine impregnated paper increased by approximately 295.1% to approximately RMB94.4 million for the Year on a year-on-year basis. The increase was driven by the establishment of cooperation with certain sizable PRC-based furniture manufacturers. PVC furniture film and PVC flooring film continued to be the growth drivers of the Group. As a result of continuous growing of orders from these products, the sales of PVC furniture film and PVC flooring film achieved a significant growth during the Year. The sales from these products increased by approximately 105.1% and 22.4%, respectively, on a year-on-year basis.

Cost of Sales

Cost of revenues increased by approximately 40.0% to approximately RMB247.7 million (2016: RMB177.0 million) for the Year on a year-on-year basis. During the Year, there are stringent government policies and enforcement to address overcapacity and to go green, which led to the imbalance of the market's demand-supply environment. We experienced an increase in purchase costs of our raw materials which covered the raw papers, PVC mould and chemicals. As a result, the Group's gross profit margin during the Year dropped to approximately 22.6% (2016: 28.9%).

Selling expenses

The selling expenses increased by approximately 38.7% to approximately RMB19.9 million (2016: RMB14.3 million) for the Year on a year-on-year basis. The increase was primarily due to (i) the payment of licensing fee to one of its customers for using the customer's registered trademarks and (ii) greater transportation expenses were incurred along with the increase of sales during the Year.

Administrative expenses

The administrative expenses increased by approximately 29.3% to approximately RMB45.0 million (2016: RMB34.8 million) for the Year on a year-on-year basis. The increase was mainly driven by (i) the increase in one-off listing expenses of approximately RMB2.2 million to approximately RMB9.2 million (2016: RMB7.0 million) during the Year; (ii) the increase in staff costs and travelling expenses; and (iii) the increase in legal and professional expenses of approximately RMB0.6 million during the Year.

Other income and other gains – net

The other income and other gains – net decreased by approximately 52.3% to approximately RMB3.1 million (2016: RMB6.4 million) for the Year on a year-on-year basis. The decrease was mainly due to (i) the gain from disposal of investment property and land use rights of approximately RMB0.9 million, being recognised Last Year; (ii) the decrease in rental income along with the disposal of investment properties, which was designated as rental purposes; and (iii) the net foreign exchange loss as a result of the appreciation of Renminbi ("RMB") against US Dollars.

Finance expenses – net

The finance expenses – net decreased by approximately 43.4% to approximately RMB2.4 million (2016: RMB4.2 million) for the Year on a year-on-year basis. This was primarily due to the decrease in the average amount of indebtedness and the decrease in average interest rate during the Year.

Income tax expenses

The income tax expenses decreased from approximately RMB4.2 million for Last Year to approximately RMB1.2 million for the Year. Such decrease was in line with the decrease in profit before income tax during the Year.

Profit attributable to owners of the Company

The profit attributable to owners of the Company for the Year amounted to approximately RMB7.0 million (2016: RMB20.7 million), representing a decrease of approximately 66.2% on a year-on-year basis. By excluding the listing expenses, the Group's net profit for the Year would have been approximately RMB16.2 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had current assets of approximately RMB192.4 million (2016: RMB154.3 million) which comprised of cash and cash equivalents of approximately RMB14.7 million as at 31 December 2017 (2016: RMB11.3 million). The Group had current liabilities amounting to approximately RMB242.8 million as at 31 December 2017 (2016: RMB189.3 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 0.79 times as at 31 December 2017 (2016: 0.81 times).

As at 31 December 2017, total bank borrowings of the Group amounted to approximately RMB102.1 million (2016: RMB105.2 million), representing a decrease of approximately 3.0% as compared to that of 31 December 2016.

As at 31 December 2017, the gearing ratio of the Group, calculated as based on the interest-bearing liabilities divided by the total equity, was approximately 0.64 (2016: 1.17).

FINANCIAL RATIOS

The Group took stringent control over the stock level. During the Year, the inventory turnover days of the Group decreased to approximately 59.9 days (2016: 71.0 days). Due to the significant increase in sales of the Group, the Group's inventories increased by approximately 16.4% to approximately RMB43.7 million as at 31 December 2017 from approximately RMB37.6 million as at 31 December 2016.

Trade receivables turnover days of the Group during the Year increased to approximately 78.6 days (2016: 67.8 days), which was attributable to a longer credit period granted to some of the strategic customers to enhance relationship with them. Trade receivables as at 31 December 2017 increased by approximately RMB30.7 million to approximately RMB84.3 million (31 December 2016: RMB53.6 million).

Trade payables turnover days of the Group for the year decreased to approximately 77.2 days (2016: 84.6 days). The trade payables of the Group rose to approximately RMB60.3 million as at 31 December 2017 (31 December 2016: RMB44.5 million). The Group would continue to maintain solid relationships with its suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the PRC, but a significant portion of its sales is made to foreign countries, and thus the Group is exposed to foreign currency risks arising from various currency exposures, mainly with respect to US Dollars, Euro and Hong Kong dollars. The Group regularly and closely monitors the level of the foreign exchange risk exposures and will make necessary hedging arrangements to minimise its foreign currency exposure arising from the change in foreign exchange in the future.

As a result of appreciation of RMB, the Group recorded a net foreign exchange loss of approximately RMB1.8 million during the Year, compared to a net foreign exchange gain of approximately RMB2.9 million for Last Year.

During the Year, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign currency risk.

INFORMATION ON EMPLOYEES

As at 31 December 2017, the Group had 324 employees (2016: 322 employees), including the executive Directors. The Group recorded staff costs (including Directors' remuneration) of approximately RMB39.5 million (2016: RMB27.0 million). Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. The Group also operates a defined contributions to Mandatory Provident Fund scheme for its employees in Hong Kong and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC.

MATERIAL ACQUISITIONS OR DISPOSALS

There was no material acquisitions or disposals of the Group during the Year.

CHARGES OF ASSETS

As at 31 December 2017, the Group's bank borrowings are secured by its assets as below:

Land use rights with a total net book value of approximately RMB43.3 million (2016: RMB43.8 million) were pledged as collateral for the Group's borrowings.

Property, plant and equipment with a total net book value of approximately RMB14.2 million (2016: RMB15.3 million) were pledged as collateral for the Group's borrowings.

CAPITAL COMMITMENT

As at 31 December 2017, the capital commitments which the Group had contracted for but were not provided for in the financial information in respect of the acquisition of property, plant and equipment amounted to approximately RMB12.0 million (2016: RMB3.9 million).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2016 and 2017.

USE OF PROCEEDS

The Company was listed on the Stock Exchange on 17 July 2017 and the net proceeds were approximately RMB44.6 million. The Company intends to apply (i) approximately 71.8% or RMB32.0 million for enhancing production capacity; (ii) approximately 19.2% or RMB8.6 million for repaying the bank loans; and (iii) the balance of approximately 9.0% or RMB4.0 million for using as general working capital of the Group.

Up to the date of this report, the Group had utilised (i) approximately RMB19.3 million for enhancing production capacity; (ii) approximately RMB8.6 million for repaying the bank loans; and (iii) approximately RMB1.5 million as general working capital of the Group.

The Directors will constantly evaluate the Group's business objectives and change or modify their plans against the changing market condition to ascertain the business growth of the Group.

RISK FACTORS FACED BY THE GROUP

The Group's key risk exposures are summarised as follows:

(i) The Group's business, financial condition and results of operation may be affected by the decrease or loss of overseas markets.

(ii) The Group relies on sales agents for reaching new customers and liaising with existing customers. The failure to effectively manage the sales agents and maintaining a good relationship with them may materially and adversely affect the Group's revenue and brand recognition.

(iii) Fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact the Group's operations and may affect the profitability.

(iv) The Group do not enter into long-term supply contracts with our suppliers and the production cost and schedule may be adversely affected if the Group fails to secure supply.

(v) If the Group is unable to maintain existing level of utilisation rates at the production facilities, the Group's margin and profitability may be materially and adversely affected.

Further details of the principal risks and uncertainties faced by the Company are set out in the section headed "Risk Factors" in the prospectus of the Company dated 30 June 2017 (the "Prospectus").

EVENT AFTER THE REPORTING PERIOD

There is no material event affecting the Group that occurred after the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS AND FUTURE PLAN

In the near future, several factors including expected adjustments on the demand-supply environment according to the increasingly stringent policies by the PRC government aiming at addressing overcapacity and environment issues, will bring changes to the operating environment. The rising costs of raw materials poses pressure to the decorative paper industry. Apart from adopting cautious cost and risk management strategies, the Group is determined to take various steps to boost its business, including improving research and development capacity, optimising product mix and upgrading manufacturing technology in order to achieve higher production capacity and efficiency.

On the long run, the Group sees positive trends in the industry. As a result of an increasing number of countries posing restrictions on lumbering, there will be abundant room for the growth of the demand of decorative paper as a substitute material to wood in the home furnishing market. Leveraging on “The Belt and Road Initiative” issued by the PRC government which aims at bonding cooperation along “The Belt and Road” regions, a growing market of real estate and infrastructure in the related countries is expected to escalate the furnishing and flooring industry, which then benefits the decorative paper business.

Despite the current challenges arising from the increase of purchase price of raw materials, the Directors remain positive about the future of the decorative printing materials industry. Riding on our rich history and excellent reputation, the Group will spare no efforts in capturing business opportunities and creating optimistic returns to our shareholders.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Sheng Yingming (盛英明), aged 54, is the chief executive officer and the chairman of the Board. He founded the Group in July 1993 and has over 20 years of experience in the decorative printing materials industry. Mr. Sheng is responsible for overall management, strategic development and major decision-making of the Group.

Prior to joining the Group, Mr. Sheng worked at Lin'an Ling Long Silk Factory (臨安玲瓏絲廠) from September 1980 to July 1986, which was primarily engaged in manufacturing of bedding, as the chief of supply and marketing section, and was primarily responsible for procurement of raw materials, sales of products and maintaining customer relationship. During the period August 1986 to August 1993, he was the chief of supply and marketing section at Lin'an No.2 Paper Mill (臨安第二造紙廠), which was primarily engaged in manufacturing base papers, decorative papers and plates, and was primarily responsible for the procurement of raw materials, sales of products and updating the latest market trend.

He is the father of Ms. Sheng Sainan and the father-in-law of Mr. Fang Xu, both of whom are executive Directors of the Company.

Ms. Sheng Sainan (盛賽男), aged 30, is responsible for overall management of financial of the Group. She joined the Group in October 2012 as a director of Zhejiang Shenglong Decoration Material Co., Ltd. ("Shenglong Decoration") and is responsible for overseeing the financial management of Shenglong Decoration and she has been a deputy manager of the financial department, who was primarily responsible for financial management and the financial accounting, since October 2013. She completed courses in financial management professional accounting option and obtained a diploma of technology from British Columbia Institute of Technology in Canada in July 2013.

She is the spouse of Mr. Fang Xu and the daughter of Mr. Sheng, both of whom are executive Directors of the Company.

Mr. Fang Xu (方旭), aged 31, is responsible for overseeing the sales and marketing activities and participating in the day-to-day management of the Group's operation. He joined the Group in June 2012 as a production assistant, who was primarily responsible for assisting the head of production department in the management of production and has been the vice general manager of Shenglong Decoration since June 2015.

Prior to joining the Group, Mr. Fang worked at Hangzhou Shenzhou Digital Co., Ltd. (杭州神州數碼有限公司), which was an integrated IT services provider, as a technician, and was primarily responsible for design and development of audio and video application systems, from August 2010 to May 2012. Mr. Fang graduated from Hangzhou Dianzi University (杭州電子科技大學) in the PRC with a degree of bachelor in integrated circuit design and integration system in June 2009.

He is the spouse of Ms. Sheng Sainan and the son in law of Mr. Sheng, both of whom are executive Directors of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yu Zemin (俞澤民), aged 58, is responsible for overseeing the production and participating in the day-to-day management of the Group's operation. Mr. Yu is also the compliance officer of the Company. He joined the Group in 2009 as the vice general manager.

Mr. Yu graduated from Zhejiang Radio & Television University (浙江廣播電視大學) in the PRC with a diploma of party and politics cadre management foundation (黨政管理幹部基礎) in December 1988. Prior to joining the Group, Mr. Yu worked as a ticket staff primarily responsible for management and distribution of food stamps at Lin'an City Chengguan Staple Food Control Office (臨安市城關糧管所) from December 1976 to March 1978. During the period April 1978 to October 1981, he served in the armed forces of the PRC. From October 1981 to August 2001,he was a section chief primarily responsible for management of the local transactions for certain types of the food at Lin'an City Grain Bureau (臨安市糧食局). He joined the Lin'an City Development and Reform Bureau the Surveillance of the Commodity Price Substation (臨安市發展和改革局物價檢查分局) as the chief primarily responsible for supervision and administration of local prices for education and health sectors in September 2001 and retired in January 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Ho Yiu, Thomas (李浩堯), aged 40, 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 audit committee, and a member of the nomination committee and remuneration committee of the Company.

He has extensive experience in accounting and corporate finance and is currently a partner at Lee, Au & Co, an audit professional firm. He previously worked as an assistant financial controller in Ingrid Millet Ltd, a French cosmetics and beauty salon group and also worked at KPMG as assistant manager. Mr. Lee obtained his bachelor's degree in accounting and finance from Warwick Business School of University of Warwick in the United Kingdom in July 2000 and graduated from Tsinghua University (清華大學) in the PRC with a second bachelor's degree of Chinese law in July 2008. Mr. Lee obtained a Master Degree of business administration from the University of London in the United Kingdom in August 2016 through long distance learning course.

Mr. Lee is a fellow member of the Association of Chartered Certified Accountants, a practicing member of the Hong Kong Institute of Certified Public Accountants, a certified tax advisor and member of the Hong Kong Taxation Institute, a certified internal auditor of the Institute of Internal Auditors and a certified information systems auditor of the ISACA.

He served as an independent non-executive director of Inno-Tech Holdings Limited (Stock code: 8202) from January 2013 to February 2018. He is currently an independent non-executive director of Suncorp Technologies Limited (Stock code: 1063) since April 2011, Sino Energy International Holdings Group Limited (previously known as Active Group Holdings Limited) (Stock code: 1096) since September 2011, Dongwu Cement International Limited (Stock code: 695) since May 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ma Lingfei (馬靈飛), aged 59, 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.

Ms. Huang Yueyuan (黃月圓), aged 36, 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 manager of development department (Division II) and 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 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 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.

SENIOR MANAGEMENT

Ms. Lu Miaoling (呂妙玲), aged 38, is primarily responsible for supervision of the research and development department and the development of technical projects of the Group. She joined the Group in January 1998 and she is currently the manager of the research and development department. Ms. Lu has more than 15 years of experience in research and development in the decorative printing materials industry. Ms. Lu attended part-time adult higher education (成人高等教育) top-up degree course (專升本課程) majoring in accounting at Zhejiang A & F University (浙江農林大學) in the PRC and graduated in June 2016.

Mr. Sung Pui Hei (宋梧熹), aged 33, is the chief financial officer and the company secretary of the Group. Mr. Sung is responsible for overall finance and accounting management and financial administration, investor relations, capital management and secretarial work of the Group. He joined the Group in September 2015. Mr. Sung obtained his bachelor's degree in accountancy from the Hong Kong Polytechnic University in Hong Kong in October 2008. Mr. Sung has extensive experience in finance. He joined Ernst & Young Hong Kong in October 2008 and was a manager from October 2013 to July 2015. Mr. Sung is a practicing member of the Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

The Directors are pleased to present this report and the audited financial statements for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise 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) PVC furniture film; and (v) PVC flooring film. There were no significant changes in the nature of the Group's principal activities during the Year.

SUBSIDIARIES

Detail of the Company's subsidiaries as at 31 December 2017 are set out in Note 11 to the consolidated financial statements.

BUSINESS REVIEW

General

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 7 to 12 of this annual report. This discussion forms part of this directors' report.

Environmental Policies and Compliance with Law and Regulations

The Group is committed to supporting the environmental sustainability. Being manufacturing companies in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group.

A report on the environmental, social and governance aspects is prepared in accordance with Appendix 20 to the GEM Listing Rules will be published on the Company's and the Stock Exchange's websites as close as possible to, and in any event no later than three months after, the publication of the Company's annual report.

Relationship with Stakeholders

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

SEGMENT INFORMATION

Detail of segment information are set out in Note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the Year and the Group's financial position at that date are set out in the financial statements on pages 37 to 97.

The Board do not recommend the payment of final dividend for the Year.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held on Thursday, 31 May 2018. For determining the shareholders' entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Monday, 28 May 2018 to Thursday, 31 May 2018 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 25 May 2018.

FINANCIAL SUMMARY

A Summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 98 of this annual report.

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

As the shares of the Company have been listed on the Stock Exchange on 17 July 2017, from the Listing Date to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 22 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the Year are set out in note 23 and note 35(b) to the consolidated financial statements. As at 31 December 2017, the reserves of the Company available for distribution, as calculated in accordance with statutory provisions applicable in the Cayman Islands was approximately RMB110.2 million (2016: RMB50.4 million).

CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the section headed "CORPORATE GOVERNANCE REPORT" from pages 24 to 31 of this report.

REPORT OF THE DIRECTORS

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best of knowledge of the Directors, the Group has complied with all relevant laws, rules and regulations during the Year.

DISCLOSURES UNDER RULES 17.22 TO 17.24 OF THE GEM LISTING RULES

As at 31 December 2017, the Group had no circumstances which would give rise to a disclosure obligation under Rules 17.22 to 17.24 of the GEM Listing Rules.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions amounted to approximately RMB20,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for approximately 19.1% of the total sales for the year and sales to the largest customer included therein amounted to approximately 5.7%. Purchases from the Group's five largest suppliers accounted for approximately 64.7% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 25.7%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the Year and up to the date of this report were:

Executive Directors
Mr. Sheng Yingming *(Chairman and Chief Executive Officer)*
Ms. Sheng Sainan
Mr. Fang Xu
Mr. Yu Zemin *(Compliance Officer)*

Independent non-executive Directors
Mr. Lee Ho Yiu, Thomas
Mr. Ma Lingfei
Ms. Huang Yueyuan

The biographical details of the Directors are set out in "Biographical Details of Directors and Senior Management" in this report.

REPORT OF THE DIRECTORS

In accordance with Articles of Association of the Company (the "Articles"), all the directors will retire by rotation, Mr. Sheng Yingming, Ms. Sheng Sainan, Mr. Fang Xu, Mr. Yu Zemin, Mr. Ma Lingfei and Ms. Huang Yueyuan, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Mr. Lee Ho Yiu, Thomas has informed the Board that he shall not seek for re-election at the annual general meeting and he shall retire from the Board with effect from the conclusion of the annual general meeting.

Each Director is subject to retirement by rotation in accordance with the Articles.

The Company has received annual confirmation of independence from each of the independent non-executive Directors. As at the date of this annual report, they are considered to be independent.

EMOLUMENT POLICY

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience). The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are recommended by the remuneration committee of the Company, having regard to the Group's operating results, market competitiveness, individual performance and achievement, to the Board for determination.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in note 9 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years which is subject to termination by either party giving not less than three month's written notice. Each of the independent non-executive Directors has entered into a service contract with the Company for a term of one year, renewable automatically for successive terms of one year each commencing from the day after the expiry of the then current term of the service contract and until terminated by either party giving not less than three months' written notice.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance covering the liabilities of its Directors and officers in respect of legal actions that may brought against them. The Company has maintained appropriate insurance cover for the Directors and officers throughout the period from the Listing Date to 31 December 2017 and are currently in force.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries was a party during the Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, 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 registered 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 3)*
Mr. Sheng Yingming ("Mr. Sheng") *(Note 1)*	Interest in controlled corporation	239,950,000 shares	47.99%
Mr. Yu Zemin *(Note 2)*	Interest in controlled corporation	11,250,000 shares	2.25%

Notes:

(1) 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.

(2) These 11,250,000 shares are held by Well Power Ventures Limited ("Well Power") which is wholly owned by Mr. Yu Zemin and hence, Mr. Yu Zemin is deemed or taken to be interested in all the Shares held by Well Power for the purposes of SFO.

(3) The percentage is calculated on the basis of 500,000,000 shares in issue at the date of this report.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2017, 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.

INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS OF THE COMPANY AND IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as was known to the Directors and the chief executives of the Company, the following persons/entities (not being the Director or chief executive of the Company) 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 Shareholder	Capacity/Nature of interest	Number of ordinary shares held *(Note 1)*	Percentage of shareholding
Bright Commerce	Beneficial interest	239,950,000 shares (L)	47.99%
Ms. Chen Deqin *(Note 2)*	Interest of spouse	239,950,000 shares (L)	47.99%
Mr. Ren Yunan	Beneficial interest	101,300,000 shares (L)	20.26%
Ms. Lin Ying *(Note 3)*	Interest of spouse	101,300,000 shares (L)	20.26%

Notes:

(1) All interests stated are long positions.

(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 purposes 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 purposes of SFO.

Save as disclosed above, as at 31 December 2017, 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 22 June 2017 (the "Share Option Scheme"). The principal terms of the Share Option Scheme are set out in note 24 to the financial statements.

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions made by the eligible participants, to attract skilled and experienced personnel, to incentivise them to remain with the Company and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

No option has been granted since the adoption of the Share Option Scheme.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles or the laws of Cayman Island.

Equity-linked Agreements

During the Year, save for the Share Option Scheme, the Company did not enter into any equity-linked agreements in respect of shares of the Company.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares were held by the public as at the latest practicable date prior to the date of this annual report.

Directors' Interests in a Competing Business

None of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group.

Non-competition Undertaking by Controlling Shareholders

In order to avoid potential conflicts of interests with our Company, each of our controlling shareholders, namely Bright Commerce and Mr. Sheng, have entered into a Deed of Non-Competition in favour of our Company (for itself and for the benefits of other members of our Group) on 22 June 2017, pursuant to which they (individually or with their close associates) have undertaken, among others, not to compete with the business of the Group. Each of the controlling shareholders furthers that if he/it/she or his/its/her close associates is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it/she shall promptly notify the Group in writing and the Group shall have a right of first refusal to take up such opportunities. Details of the Deed are set out in the section headed "Deed of Non-Competition" of the Prospectus.

REPORT OF THE DIRECTORS

Each of the controlling shareholders has made a written confirmation to the Board in respect of their compliance with the undertakings in the Deed since the entering of the Deed on 22 June 2017 to 31 December 2017. Upon receiving the confirmations from the controlling shareholders, the independent non-executive Directors had reviewed the same as part of the annual review process and confirmed that the controlling shareholders had complied with the Deed during the period.

Related Party Transactions

Details of the related party transactions undertaken by the Group during the Year are set out in note 33 to the consolidated financial statements in this report.

Connected Transactions

During the Year, the Group has not conducted any "connected transaction" or "continuing connected transaction" (as defined under Chapter 20 of the GEM Listing Rules) which is subject to reporting and annual review requirements under the GEM Listing Rules.

Compliance Adviser's Interests

As at 31 December 2017, save and except for the compliance adviser's agreement entered into between the Company and Messis Capital Limited (the "Compliance Adviser") dated 29 June 2017, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Sheng Yingming
Chairman and Chief Executive Officer
20 March 2018

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the Company's annual report for the Year.

The Board is committed itself to enhance the standard of corporate governance practices and business ethics with the firm belief that they are essential for maintaining and promoting investors' confidence and maximising shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellent corporate governance.

CORPORATE GOVERNANCE

Subject to the deviation as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules throughout the Year.

BOARD OF DIRECTORS

The Board currently consists of four executive Directors and three independent non-executive Directors:

Executive Directors
Mr. Sheng Yingming
Ms. Sheng Sainan
Mr. Fang Xu
Mr. Yu Zemin

Independent non-executive Directors
Mr. Lee Ho Yiu, Thomas
Mr. Ma Lingfei
Ms. Huang Yueyuan

The Board is responsible for the Company's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual, quarterly and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Pursuant to Article 108 of the Articles, at each annual general meeting one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

No corporate governance committee has been established and the Board is also delegated with the corporate governance functions under code provision D.3.1 of the Corporate Governance Code.

Details of the backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 13 to 15 of this Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. The family relationships among the Board members, if any, are disclosed under "Biographical Details of Directors and Senior Management" section in this annual report.

CORPORATE GOVERNANCE REPORT

The Company has three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Lee Ho Yiu, Thomas, Mr. Ma Lingfei and Ms. Huang Yueyuan are the independent non-executive Directors. All of them were appointed for a term of one year, renewable automatically for successive terms of one year commencing from the day after the expiry of the then current term of service contract and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules. All independent non-executive Directors are identified as such in all corporate communications containing the names of the Directors.

The Company has arranged Directors' and officers' liability insurance for the Directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Sheng acted as both the chairman and the chief executive officer who would provide a strong and consistent leadership to the Group and allow for more effective planning and management of the Group. Pursuant to Appendix 15 of the GEM Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, in view of Mr. Sheng's extensive experience in the industry, personal profile and critical role in the Group and the Group's historical development, the Group considered that it would be beneficial to the business prospects of the Group that Mr. Sheng is acting as both our chairman and our executive officer. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises of experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

Training and Support for Directors

All Directors, including executive Directors and independent non-executive Directors, should keep abreast of their collective responsibilities as Directors and of the businesses and activities of the Group. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and updates all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance code.

BOARD MEETINGS

The Board held a full board meeting for each quarter. During the Year, a total of three Board meetings were held.

	Directors Attendance Times
Mr. Sheng	3/3
Ms. Sheng Sainan	3/3
Mr. Fang Xu	3/3
Mr. Yu Zemin	3/3
Mr. Lee Ho Yiu, Thomas	3/3
Mr. Ma Lingfei	3/3
Ms. Huang Yueyuan	3/3

CORPORATE GOVERNANCE REPORT

Apart from the above regular Board meetings of the year, the Board will meet on other occasions when a Board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each Board meeting.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials, and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. The Board notes that the Chairman of the Board and the chairmen or, in their absence, other members of the audit committee ("Audit Committee"), nomination committee ("Nomination Committee") and remuneration committee ("Remuneration Committee") of the Company should attend the annual general meeting to answer questions and collect views of shareholders.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 22 June 2017. The current chairman of the committee is Ms. Huang Yueyuan, an independent non-executive Director, and other members are Mr. Ma Lingfei and Mr. Lee Ho Yiu, Thomas (independent non-executive Directors).

Under Rule 5.34 of the GEM Listing Rules, a listed issuer should establish a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties, the Company established a Remuneration Committee as required under Rule 5.34 of the GEM Listing Rules.

The role and function of the Remuneration Committee included, among others, making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment) and making recommendations to the Board for the remuneration of Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the period under review, one meeting of the Remuneration Committee was held in March 2018. Details of the attendance of the meeting of the Remuneration Committee are as follows:

	Members Attendance Times
Ms. Huang Yueyuan	1/1
Mr. Ma Lingfei	1/1
Mr. Lee Ho Yiu, Thomas	1/1

The Remuneration Committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The Remuneration Committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable. Details of the emoluments of the Directors are set out in note 9 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 22 June 2017. The current chairman of the committee is Mr. Ma Lingfei, an independent non-executive Director, and other members are Mr. Lee Ho Yiu, Thomas and Ms. Huang Yueyuan, both of them are independent non-executive Directors. The duties of the nomination committee include, among others, formulating nomination policies and making recommendation to the Board regarding nomination, appointment and replacement of directors. The committee will also establish recruitment procedures, review the structure, number of members and composition of the Board and assess the independence of the independent non-executive directors. The committee held one meeting in March 2018.

	Members Attendance Times
Mr. Ma Lingfei	1/1
Mr. Lee Ho Yiu, Thomas	1/1
Ms. Huang Yueyuan	1/1

The committee considers the past performance, qualification, general market conditions and the Company's Articles in selecting and recommending candidates for directorship during the year.

DIVERSITY OF THE BOARD

The Nomination Committee is responsible for the review of the Board's diversity policy, considering factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Board members, and review the measurable objectives that the Board has set for implementing the Board's diversity policy, and monitor the progress on achieving the measurable objectives.

AUDIT COMMITTEE

On 22 June 2017, the Company established an Audit Committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules and paragraphs C.3.3 and C.3.7 of the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, financial controls, internal control and risk management systems of the Group and provide advice and comments on the Group's draft annual reports and accounts, half year reports and quarterly reports to Directors. The Audit Committee comprises of three members, the current chairman of the committee is Mr. Lee Ho Yiu, Thomas, an independent non-executive Director and other members are Mr. Ma Lingfei and Ms. Huang Yueyuan, both of them are independent non-executive Directors.

The Audit Committee held two meetings during the Year under review. Details of the attendance of the Audit Committee meetings are as follows:

	Members Attendance Times
Mr. Lee Ho Yiu, Thomas	2/2
Mr. Ma Lingfei	2/2
Ms. Huang Yueyuan	2/2

The Group's unaudited quarterly and interim results and annual audited results for the Year have been reviewed by the Audit Committee during the Year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Sung Pui Hei was appointed as the Company Secretary of the Company on 23 August 2016. The biographical details of Mr. Sung are set out under the section headed "Biographical Details of Directors and Senior Management" in the annual report.

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Sung had taken no less than 15 hours of relevant professional training for the Year.

SENIOR MANAGEMENT'S REMUNERATION

The senior management's remuneration payment of the Group for the Year falls within the following band:

	Number of Individuals
Nil – HK$1,000,000	2

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Group.

During the year, the fees charged by PricewaterhouseCoopers for audit services of the Group amounted to approximately RMB1,000,000 and the fees to act as reporting accountant for the listing of the shares of the Company on the GEM of the Stock Exchange amounted to approximately RMB3,280,000.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements of the Group. The statements of the external auditors of the Group, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Report of Auditor on pages 32 to 36 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management systems. Such internal control and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board had conducted a review on the effectiveness of the Group's internal control and risk management systems once during the Year which covered financial, operational, compliance procedural and risk management functions and had considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. In light of the size and scale of the Group's businesses, the internal audit department is responsible for the internal control of the Group and for reviewing its effectiveness.

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Company. The Company has therefore made continued efforts to uplift its quality of corporate governance. It has established a highly effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Company is able to safeguard its assets and protect the interests of its shareholders.

The Board is of the view that the systems of internal control and risk management are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

The US government and other jurisdictions, including the European Union, the United Nations and the Australia government, have comprehensive or broad economic sanctions targeting the Sanctioned Countries (note 1) and Sanctioned Persons (note 2).

Note 1 – Sanctioned Countries are those countries which are the targets of economic sanctions as administered by the U.S., the EU, the United Nations and Australia.

Note 2 – Sanctioned Persons are certain person(s) and entity(ies) listed on the United States Department of Treasury's Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the EU, the United Nations or Australia.

The Board had effectively monitored and evaluated our business exposure to sanctions risk, including assigning senior staff to review and approve all relevant business transaction documents from customers or potential customers from Sanctioned Countries and Sanctioned Persons. The designated staff reviewed information relating to the counterparty of the contract (such as identity, nature of business, etc.) along with the draft business transaction documentation. The designated staff checked the counterparty against the various lists of restricted parties and countries maintained by the US, the European Union, Australia or the United Nations, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in any of the Sanctioned Countries or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from external legal counsel with necessary expertise.

During the Year, none of our products were sold to any Sanctioned Countries or Sanctioned Persons.

CORPORATE GOVERNANCE REPORT

AUDITOR

During the year under review, the performance of the external auditor of the Company has been reviewed and Board proposed to put forward a resolution to reappoint PricewaterhouseCoopers as the external auditor in the forthcoming annual general meeting.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to communicate with shareholders and investors of the Company. These include (i) the publication of quarterly, interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquires from shareholders timely; (iv) updated and key information of the Company available on the website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's share registrar in Hong Kong providing services to the shareholders regarding all share registration matters.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to Article 64 of the Articles, shareholder(s) holding not less than one tenth of the paid up capital of the Company having the right of voting at general meetings may make a request in writing for the convening of an extraordinary general meeting and the Board shall convene an extraordinary general meeting within two months of such requisition.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company by addressing them to the principal place of business of the Company in Hong Kong located at 27th Floor, Henley Building, 5 Queen's Road Central, Central by post or by email to 8481@joviancomm.com.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the Year.

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the SFO and the Listing Rules and the overriding principle that Inside Information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of Inside Information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has formulated inside information policies and disclosed its policies on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has strictly prohibited unauthorised use of confidential or Inside Information; and
- the Group regularly reminds the Directors and employees about due compliance with all polices regarding the Inside Information, as well as keeps them appraised of the latest regulatory updates.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Starting from July 2017, the Company had designated Directors for the purpose of receiving notification and providing acknowledgment in respect of dealing in securities of the Company under Rule B.8 of the Model Code in accordance with a stipulated memorandum detailing notification procedures to ensure compliance with the Model Code by the Directors. Following a specific enquiry by the Company, each of the Directors confirmed that he/she complied with the Model Code for transactions in the Company's securities throughout the Year.

The Company has also adopted a code of conduct governing securities transactions by employees who may possess or have access to the Inside Information.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

During the Year, there had been no significant changes in the constitutional documents of the Company.

LOOKING FORWARD

The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavor to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Code introduced by the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the shareholders of Shenglong Splendecor International Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Shenglong Splendecor International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 37 to 97, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to revenue recognition.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to note 2.23 and note 6 to the Group's consolidated financial statements. During the year ended 31 December 2017, the Group has recognised revenue from sales of goods amounted to RMB320.1 million. Revenue is recognised when the amount and the related costs are reliably measured, when it is probable that future economic benefits will flow to the Group, and significant risks and rewards of ownership of the underlying products have been transferred to the customers. We focused on this area due to the large volume of revenue transactions generated from numerous customers across different locations.	We understood, evaluated and validated management's key controls in respect of the Group's sales transactions from contract approval, recording of sales based on underlining documents, including sales orders, invoices, goods delivery notes, bills of lading and customs declaration forms ("underlining documents"), to reconciliations with cash receipts and customers' records. We performed tests of details on revenue covering different locations and customers, on a sampling basis, by examining the underling documents and evidence of settlement. We confirmed customers' balances at the balance sheet date on a sampling basis, by considering the amount, nature and characteristics of those customers. Our audit procedures also covered testing sales transactions that occurred around the balance sheet date. Based on our audit procedures, we found the Group's revenue recognition was supported by the evidence that we gathered.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit committee of the Company (the "Audit Committee") are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chow Sai Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2018

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2017	2016
	Notes	**RMB'000**	RMB'000
Revenue	*6*	**320,069**	248,773
Cost of sales	*8*	**(247,688)**	(176,977)
Gross profit		**72,381**	71,796
Selling expenses	*8*	**(19,853)**	(14,313)
Administrative expenses	*8*	**(45,012)**	(34,814)
Other income and other gains – net	*7*	**3,061**	6,411
Operating profit		**10,577**	29,080
Finance income	*10*	**534**	451
Finance expenses	*10*	**(2,907)**	(4,641)
Finance expenses – net	*10*	**(2,373)**	(4,190)
Profit before income tax		**8,204**	24,890
Income tax expense	*12*	**(1,200)**	(4,159)
Profit for the year		**7,004**	20,731
Profit attributable to:			
– Owners of the Company		**7,004**	20,731
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB cents per share)			
– Basic and diluted	*13*	**1.62**	5.53

The notes on pages 43 to 97 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit for the year	**7,004**	20,731
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**(1,985)**	(378)
Other comprehensive income for the year, net of tax	**(1,985)**	(378)
Total comprehensive income for the year	**5,019**	20,353
Total comprehensive income for the year attributable to:		
– Owners of the Company	**5,019**	20,353

The notes on pages 43 to 97 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December **2017** RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	*14*	**43,316**	43,822
Prepayments for land use rights	*14*	**4,900**	4,900
Property, plant and equipment	*15*	**160,081**	125,886
Intangible assets	*17*	**991**	1,270
Deferred income tax assets	*29*	**4,392**	3,091
		213,680	178,969
Current assets			
Inventories	*19*	**43,723**	37,554
Trade and other receivables	*20*	**97,482**	67,541
Restricted bank deposits	*21*	**36,550**	37,820
Cash and cash equivalents	*21*	**14,688**	11,344
		192,443	154,259
Total assets		**406,123**	333,228

The notes on pages 43 to 97 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Notes	**RMB'000**	RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*22*	**4,253**	790
Other reserves	*23*	**98,606**	37,901
Retained earnings		**56,920**	51,424
Total equity		**159,779**	90,115
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*25*	**–**	52,000
Deferred revenue	*26*	**3,516**	1,796
		3,516	53,796
Current liabilities			
Trade and other payables	*27*	**140,728**	136,117
Short-term bank borrowings	*28*	**50,100**	33,200
Current portion of long-term bank borrowings	*25*	**52,000**	20,000
		242,828	189,317
Total liabilities		**246,344**	243,113
Total equity and liabilities		**406,123**	333,228
Net current liabilities		**(50,385)**	(35,058)
Total assets less current liabilities		**163,295**	143,911

The notes on pages 43 to 97 are an integral part of these consolidated financial statements.

The financial statements on pages 37 to 97 were approved by the Board of Directors on 20 March 2018 and were signed on its behalf.

Sheng Yingming
Director

Yu Zemin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity owners of the Company					
	Share capital RMB'000 *(Note 22)*	**Other reserves** RMB'000 *(Note 23)*	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 January 2016	790	34,442	32,661	67,893	13,950	81,843
Comprehensive income						
Profit for the year	–	–	20,731	20,731	–	20,731
Other comprehensive income						
Currency translation differences	–	(378)	–	(378)	–	(378)
Total comprehensive income	–	(378)	20,731	20,353	–	20,353
Transactions with owners in their capacity as owners						
Acquisition of non-controlling interests	–	1,869	–	1,869	(13,950)	(12,081)
Appropriation to statutory reserves	–	1,968	(1,968)	–	–	–
Total transactions with owners in their capacity as owners	–	3,837	(1,968)	1,869	(13,950)	(12,081)
Balance at 31 December 2016	790	37,901	51,424	90,115	–	90,115
Balance at 1 January 2017	**790**	**37,901**	**51,424**	**90,115**	**–**	**90,115**
Comprehensive income						
Profit for the year	**–**	**–**	**7,004**	**7,004**	**–**	**7,004**
Other comprehensive income						
Currency translation differences	**–**	**(1,985)**	**–**	**(1,985)**	**–**	**(1,985)**
Total comprehensive income	**–**	**(1,985)**	**7,004**	**5,019**	**–**	**5,019**
Transactions with owners in their capacity as owners						
New Issue *(Note 22(b))*	**1,083**	**72,492**	**–**	**73,575**	**–**	**73,575**
Transaction costs attributable to issue of shares	**–**	**(8,930)**	**–**	**(8,930)**	**–**	**(8,930)**
Capitalisation Issue *(Note 22(b))*	**2,380**	**(2,380)**	**–**	**–**	**–**	**–**
Appropriation to statutory reserves	**–**	**1,508**	**(1,508)**	**–**	**–**	**–**
Total transactions with owners in their capacity as owners	**3,463**	**62,690**	**(1,508)**	**64,645**	**–**	**64,645**
Balance at 31 December 2017	**4,253**	**98,606**	**56,920**	**159,779**	**–**	**159,779**

The notes on pages 43 to 97 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	*31(a)*	**(13,527)**	38,070
Income tax paid		**(3,716)**	(3,417)
Net cash (used in)/generated from operating activities		**(17,243)**	34,653
Cash flows from investing activities			
Purchase of property, plant and equipment		**(39,754)**	(15,730)
Purchase of intangible assets		**(126)**	(226)
Payment of amount due from related parties		**(17,609)**	(16,577)
Proceeds from disposal of property, plant and equipment	*31(b)*	**382**	212
Proceeds from disposals of investment property and land use rights	*31(c)*	**–**	9,145
Proceeds from disposal of available-for-sale financial assets		**–**	5,000
Proceeds from disposals of intangible assets		**195**	–
Decrease in restricted bank deposits		**1,270**	1,314
Receipt of amount due from related parties		**18,163**	16,070
Government grants received		**256**	2,382
Interest received		**534**	451
Net cash (used in)/generated from investing activities		**(36,689)**	2,041
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	*22(b)*	**73,575**	–
Proceeds from bank borrowings		**78,300**	69,700
Repayments of bank borrowings		**(81,400)**	(87,230)
Receipt of amount due to related parties		**–**	3,063
Payment of amount due to related parties		**–**	(8,000)
Interest paid		**(6,450)**	(7,831)
Dividends paid to the Company's shareholders		**–**	(2,887)
Payment for listing expenses		**(5,723)**	(1,472)
Net cash generated from/(used in) financing activities		**58,302**	(34,657)
Net increase in cash and cash equivalents		**4,370**	2,037
Cash and cash equivalents at beginning of the year		**11,344**	9,124
Exchange (losses)/gains on cash and cash equivalents		**(1,026)**	183
Cash and cash equivalents at end of the year		**14,688**	11,344

The notes on pages 43 to 97 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 25 July 2013 as an exempted company with limited liability under the Cayman Companies Law of the Cayman Island. The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of decorative printing materials products in the People's Republic of China ("PRC") and overseas. The ultimate holding company of the Company is Bright Commerce Investment Limited ("Bright Commerce"), which is incorporated in the British Virgin Islands.

On 17 July 2017, shares of the company were listed on the GEM of The Stock Exchange of Hong Kong Limited.

The audited consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

The English names of companies mentioned in this financial statements represented the best effort by directors of the Company in translating their Chinese names as they may not have official English names.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.1 Going concern

During the year ended 31 December 2017, the Group had net cash outflows from operations of RMB17.2 million. As at the same date, the Group's current liabilities exceeded its current assets by RMB50.4 million. As at 31 December 2017, the Group had current bank borrowings of RMB102.1 million to be repayable in the coming twelve months; and had bank acceptance notes payable amounting to RMB54.3 million which were pledged by the Group's bank deposits of RMB36.6 million. In addition, the Group had capital commitments amounting to RMB12.0 million in relation to the acquisition of plant and equipment as at 31 December 2017. The directors of the Company have reviewed the Group's cash flow forecast covering a period of not less than twelve months from 31 December 2017, and have given due consideration to the liquidity of the Group and adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

(a) The Group has not experienced any significant difficulties in renewing its bank borrowings upon their maturities and issuing its bank acceptance notes. In addition, all the Group's lending banks have advised their intention in writing, though not legally binding, to have the existing uncommitted facilities be available at the current terms for the period till 31 December 2019. There is no indication that the banks will not renew the existing bank borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the consolidated financial statements, the Group has renewed short-term borrowings of approximately RMB19.1 million for another twelve months, and issued new bank acceptance notes of RMB10.0 million.

(b) The directors also expect that sufficient sales orders will be secured in the coming year and the Group will continue its effort to strengthen its working capital position such that net operating cash inflows will be generated.

Based on the above, the directors are of the opinion that, taking into account the Group's anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance, continuous availability of bank facilities; and the successful renewal of bank facilities upon expiry, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2017. Accordingly, the directors of the Company are of the opinion that the Group will continue as a going concern and have prepared the consolidated financial statements on a going concern basis.

2.1.2 Change in accounting policy and disclosure

(a) New and amended standards adopted by the Group

There are no new standards or amendments to standards that are effective for the first time for the year beginning on January 2017 that have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.2 Change in accounting policy and disclosure (Cont'd)

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities, as at 31 December 2017, all of the Group's financial assets and financial liabilities were carried at amortised cost, therefore, management does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and financial liabilities.

As at 31 December 2017, the Group does not have any hedging instruments, and does not expect a significant impact arising from the new hedge accounting rules on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income ("FVOCI"), contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. As the Group's financial assets are mainly trade receivables, management does not expect the adoption of ECL impairment model will be significant to the Group.

Date of adoption by the Group

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.2 Change in accounting policy and disclosure (Cont'd)

(b) New standards and interpretations not yet adopted *(Cont'd)*

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and related literature.

The new standards is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has reassessed its business model and contract terms to assess the effects of applying the new standard on the Group' s financial statements and expected that the implementation of the HKFRS 15 would not result in any significant impact on the Group's financial position and results of operations.

Date of adoption by the Group

The adoption of this new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.2 Change in accounting policy and disclosure (Cont'd)

(b) New standards and interpretations not yet adopted *(Cont'd)*

HKFRS 16 Leases

Nature of change

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed for lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. However at the reporting date, the Group has no non-cancellable operating lease commitments.

Date of adoption by the Group

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance of the operating segments, and has been identified as the board of directors of the Company that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Shenglong Splendecor International Limited's functional currency is Hong Kong dollar (HK$). As the major operations of the group are within in the PRC, the Group presents its consolidated financial statements in RMB, unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.5 Foreign currency translation *(Cont'd)*

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transaction); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

2.6 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation, net of any impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Useful lives	**Residual values**
Buildings	20–25 year	5%
Machinery and equipment	10 year	5%
Furniture and other equipment	5 year	5%
Motor vehicles	5 year	5%

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.7 Property, plant and equipment *(Cont'd)*

Assets under construction represent buildings on which construction work has not been completed and plant, machinery and equipment pending installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, assets under construction are transferred to the appropriate categories of property, plant and equipment at cost, net of impairment losses, if any. No depreciation is charged for assets under construction until they are completed and available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income and gains-net' in the consolidated income statement.

2.8 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on the straight-line method or other more appropriate methods that can reflect the pattern in which the asset's economic benefits are expected to be realised over its estimated useful life.

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

Intangible assets represent the patents and computer software measured at historical costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Intangible assets *(Cont'd)*

2.8.1 Patent

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new products and technique) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the new products and technique so that it will be available for use;
- management intends to complete the new products and technique and use or sell it;
- there is an ability to use or sell the new products and technique;
- it can be demonstrated how the new products and technique will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the new products and technique are available; and
- the expenditure attributable to the new products and technique during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense is not recognised as an asset in a subsequent period.

Directly attributable costs that are capitalised include the patent registration fee and the expenditure that is directly attributable to the registration of the patent.

The patent are amortised when it is ready for use on a straight-line basis over their estimated useful lives over 10 to 20 years.

2.8.2 Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives of 10 years on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group only had financial assets classified as loans and receivables in the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period, these are classified as non-current. The Group's loans and receivables comprise trade and other receivables, restricted bank deposits and cash and cash equivalents.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excluded borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 90 days and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.15 Restricted bank deposits

Restricted bank deposits represent deposits held by the bank in a segregated account as security for issuing bank acceptance. Such restricted bank deposits will be released when the Group repays the related notes payables.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.22 Employee benefits

The Group operates various defined contribution plans, including pension obligations, housing funds, medical insurances and other social insurances.

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organized by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior year. The contributions are recognised as employee benefit expense when they are due.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below.

(a) Sales of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) Rental income

Rental income from the investment property and land leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.23 Revenue recognition *(Cont'd)*

(c) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under the policies approved by the Board of Directors (the "Board"). The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, but a significant portion of its sales is made to foreign countries, and thus the Group is exposed to foreign currency risks arising from various currency exposures, mainly with respect to US dollar ("USD"), Euro ("EUR") and HK$.

Exchange rate fluctuations and market trends have always been the concern of the Group. The Group regularly and closely monitors the level of our foreign exchange risk exposure, and may take prudent measures, including entering into forward exchange contracts or currency swap contracts despite the Group not having such arrangements during the year ended 31 December 2017.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Assets		
USD	**41,751**	29,540
HK$	**8,012**	2,968
EUR	**105**	427
Total	**49,868**	32,935
Liabilities		
USD	**36**	632
HK$	**799**	572
EUR	**1**	302
Total	**836**	1,506

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(i) Foreign exchange risk *(Cont'd)*

If RMB had strengthened/weakened by 5% against the relevant foreign currencies, with all other variable had been held constant, the profit before income tax would (decrease)/increase as follows:

	Year ended 31 December			
	2017 (Decrease)/increase on profit before income tax if exchanges rates change by		2016 (Decrease)/increase on profit before income tax if exchanges rates change by	
	+5%	–5%	+5%	–5%
	RMB'000	RMB'000	RMB'000	RMB'000
USD	(2,086)	2,086	(1,445)	1,445
HK$	(361)	361	(120)	120
EUR	(5)	5	(6)	6

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from long-term bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest rate risks. Bank borrowings at fixed rates expose the Group to fair value interest rate risks.

As at 31 December 2017, the Group's long-term borrowings (including its current portion) of RMB52,000,000 (2016: RMB72,000,000) were charged at floating rates, and the rate is subjected to annual adjustment based on the market rate.

As at 31 December 2017, if floating interest rates on bank borrowings had been 100 basis points higher/lower with all other variables held constant, the Group's net profit for the year ended 31 December 2017 would have been approximately RMB895,000 lower/higher (2016: RMB933,000).

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted bank deposits and trade and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group expects that there is no significant credit risk associated with cash and cash equivalents and restricted bank deposits since they are substantially deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade and other receivables. The Group assess the credit quality of and sets credit limits on their customers by taking into account their financial position, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising uncommitted banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

	Less than 1 year RMB'000	**Between 1 and 2 year RMB'000**	**Between 2 and 5 year RMB'000**	**Total RMB'000**
At 31 December 2017				
Bank borrowings (including interest payable upon maturity)	**116,368**	**–**	**–**	**116,368**
Trade and other payables excluding non-financial liabilities	**131,378**	**–**	**–**	**131,378**
Total	**247,746**	**–**	**–**	**247,746**

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Total RMB'000
At 31 December 2016				
Bank borrowings (including interest payable upon maturity)	57,636	53,377	–	111,013
Trade and other payables excluding non-financial liabilities	127,191	–	–	127,191
Total	184,827	53,377	–	238,204

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio periodically to ensure the gearing ratio is in an acceptable range. This ratio is calculated as interest-bearing liabilities divided by total equity.

The gearing ratio as at 31 December 2017 is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bank borrowings	**102,100**	105,200
Total interest-bearing liabilities	**102,100**	105,200
Total equity	**159,779**	90,115
Gearing ratio	**64%**	117%

4 FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amounts of long term bank borrowings approximates their fair value because the Group's borrowings bear floating interest rates which approximate to the market borrowing interest rate (Note 25).

4 FAIR VALUE ESTIMATION *(Cont'd)*

The carrying amounts less impairment allowance of trade and other receivables excluding prepayments, restricted bank deposits, cash and cash equivalents, short-term bank borrowings, trade and other payables excluding non-financial liabilities approximates their fair values due to their short maturities.

As at 31 December 2017, the Group had no other level 1,level 2 and level 3 financial instrument.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxation

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be recognised. The outcome of their actual recognition may be different.

(b) Impairment of receivables

The Group makes allowance for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Allowances are applied where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

6 REVENUE AND SEGMENT INFORMATION

The Board assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are related to manufacturing and sales of decorative printing materials products. Therefore, management considers there is only one operating segment, under the requirements of HKFRS 8, Operating Segments.

All the revenue is from sales of goods. All non-current assets are located in PRC.

Analysis of the customer that contributed more than 10% of the Group's total revenue during the year ended 31 December 2016 and 2017 are set out below:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Customer A	**N/A***	25,285

* *Less than 10% of the Group's revenue*

The Group's five largest customers accounted for approximately 19.1% (2016: 26.0%) of the Group's total revenue for the year ended 31 December 2017.

Revenue from external customers by country (based on the location of the customers) is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
PRC	**166,938**	86,293
Pakistan	**84,756**	89,331
India	**17,512**	18,045
Kenya	**9,146**	9,168
Thailand	**6,410**	7,776
Other countries	**35,307**	38,160
	320,069	248,773

NOTES TO THE FINANCIAL STATEMENTS

7 OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Government grants income including amortisation of deferred government grants *(Note 26)*(i)	**2,683**	2,482
Income of sales of scrap and surplus materials	**1,713**	1,597
Rental income	**96**	407
Loss on disposal of intangible assets *(Note 31)*	**(8)**	–
Foreign exchange (loss)/gain, net	**(1,767)**	2,864
Loss on disposal of property, plant and equipment *(Note 31(b))*	**(36)**	(1,796)
Gain on disposal of investment property and land use rights *(Note 31(c))*	**–**	855
Others	**380**	2
	3,061	6,411

(i) The Group recognised directly as income a government grant of RMB2,327,000 which is receivable from local government for the listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited in the year ended 31 December 2017 (2016: a government grant of RMB2,382,000 which was received from local government for the compensation of the losses incurred by the Group from disposal of certain equipment for environment protection purpose was recognised directly as income).

8 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Raw materials and consumables used	**210,980**	147,987
Changes in inventories of finished goods and work in progress	**(4,587)**	529
Employee benefit expenses *(Note 9)*	**35,431**	23,606
Depreciation and amortisation	**11,343**	11,390
Utilities	**10,239**	6,030
Transportation expenses	**5,805**	4,755
Travelling expenses	**4,251**	2,879
Commission expenses	**2,847**	2,737
Entertainment expenses	**2,285**	1,867
Other taxes and levies	**2,757**	2,982
Marketing and exhibition expenses	**1,018**	1,310
Licensing fee	**4,678**	439
Listing expenses	**9,245**	7,039
Auditors' remuneration-audit service	**1,058**	36
Legal and professional expenses	**646**	–
Inventory write-back	**(53)**	(70)
Impairment charges for receivables *(Note 20)*	**883**	1,012
Research and development costs		
– Employee benefit expenses *(Note 9)*	**4,095**	3,441
– Depreciation and amortisation	**207**	217
– Raw materials and consumables used and others	**6,319**	5,841
Other expenses	**3,106**	2,077
Total cost of sales, selling expenses and administrative expenses	**312,553**	226,104

NOTES TO THE FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and bonuses	**35,311**	23,849
Pension costs	**2,786**	2,298
Other social security costs	**1,429**	900
	39,526	27,047

(a) Directors' and chief executive's emoluments

The remuneration of the directors and chief executives for the year ended 31 December 2017 are set out below:

Name	**Salaries, bonus, pension and other social security costs Year ended 31 December**	
	2017	2016
	RMB'000	RMB'000
Executive directors		
Mr. Sheng Yingming ("Mr. Sheng") (i)	**1,280**	914
Ms. Sheng Sainan	**292**	172
Mr. Fang Xu ("Mr. Fang")	**329**	310
Mr. Yu Zemin	**358**	358
Independent non-executive directors		
Mr. Lee Ho Yiu, Thomas	**52**	–
Mr. Ma Lingfei	**42**	–
Ms. Huang Yueyuan	**42**	–
	2,395	1,754

(i) Mr. Sheng is also the chief executive of the Company.

(ii) Mr. Lee Ho Yiu, Thomas, Mr. Ma Lingfei, and Ms. Huang Yueyuan were appointed as independent non-executive directors of the Company on 22 June 2017.

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Cont'd)*

(b) Five highest paid individuals

For the year ended 31 December 2017, the five individuals whose emoluments were the highest in the Group included three directors (2016: three) whose emoluments are reflected in the analysis shown in Note 9(a). The emoluments payable to the remaining two individuals during the year are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and bonuses	**1,262**	891
Pension costs	**3**	3
Other social security costs	**17**	19
	1,282	913

The emoluments fell within the following bands:

Number of individuals

	Year ended 31 December	
	2017	2016
Emolument bands		
HK$0–HK$1,000,000	**2**	2

NOTES TO THE FINANCIAL STATEMENTS

10 FINANCE EXPENSES-NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance expenses:		
– Interest expenses on borrowings	**5,646**	6,996
Less: capitalised interest *(Note 15)*	**(3,543)**	(3,190)
– Interest expenses	**2,103**	3,806
– Bank service charges	**804**	835
Finance expenses	**2,907**	4,641
Finance income:		
– Interest income derived from bank deposits	**(534)**	(451)
Finance expenses – net	**2,373**	4,190

11 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2017:

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group *(%)*	Principal activities and place of operation
Haoyu Capital Limited ("Haoyu Capital")	Established in BVI, limited liability company	–	100	Investment holding in HK
Splendecor Hong Kong Limited	Established in HK, limited liability company	HK$100	100	Investment holding in HK
Zhejiang Shenglong Decoration Material Co., Ltd. ("Shenglong Decoration")	Established in the PRC, limited liability company	RMB20,650,000	100	Manufacturing and sales of decorative printing materials products in the PRC
Hangzhou Splendor Decoration Co. Ltd. ("Splendor Decoration")	Established in the PRC, limited liability company	RMB22,710,000	100	Manufacturing and sales of decorative printing materials products in the PRC
Hangzhou Jiayou Art Co. Ltd.	Established in the PRC, limited liability company	RMB3,000,000	100	Manufacturing and sales of craft pictures in the PRC

NOTES TO THE FINANCIAL STATEMENTS

12 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current income tax	**2,501**	4,432
Deferred income tax *(Note 29)*	**(1,301)**	(273)
	1,200	4,159

(a) PRC corporate income tax ("CIT")

The corporate income tax rate applicable to the group entities located in PRC other than Shenglong Decoration is 25% according to the PRC Corporate Income Tax Law (the "CIT Law") effective on 1 January 2008.

Shenglong Decoration obtained the certificates of High and New Technology Enterprises from local government, in accordance with which, Shenglong Decoration enjoyed a preferential tax rate of 15% (2016: 15%) during the year.

(b) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands and, is exempted from Cayman Islands income tax. Haoyu Capital was incorporated under the International Business Companies Act of the British Virgin Islands and, is exempted from British Virgin Islands income tax. Splendecor Hong Kong Limited is subject to Hong Kong profits tax at the rate of 16.5%.

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from these jurisdictions during the year ended 31 December 2017 (2016: Nil).

(c) PRC withholding tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding income tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. During the year, the directors reassessed the dividend policy of its major subsidiaries established in the PRC, Shenglong Decoration and Splendor Decoration, based on the Group's current business plan and financial position, and no retained earnings as of 31 December 2017 would be distributed to its non-PRC registered intermediate holding company in the foreseeable future. As such, no deferred tax liability has been provided by the Group for the earnings expected to be retained by the Shenglong Decoration and Splendor Decoration in the PRC and not to be remitted out of the PRC in the foreseeable future.

12 INCOME TAX EXPENSE *(Cont'd)*

(d) Taxation on the Group's profit

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate in the PRC of 25% as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	**8,204**	24,890
Tax calculated at applicable corporate income tax rate of 25%	**2,051**	6,223
Effect of different tax rates and preferential tax rates of subsidiaries	**(1,768)**	(2,609)
Tax losses for which no deferred income tax assets was recognised	**–**	15
Expenses not deductible for taxation purposes	**1,679**	1,155
Additional deductible allowance for research and development expenses (i)	**(762)**	(625)
	1,200	4,159

(i) Pursuant to the CIT Law, the Group can enjoy an additional tax deduction calculated at 50% of the actual research and development expenses recognised.

NOTES TO THE FINANCIAL STATEMENTS

13 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Year. In determining the weighted average number of shares in issue, a total of 375,000,000 shares which have taken into account the Share Subdivision (Note 22(a)) and the Capitalisation Issue (Note 22(c)) were deemed to have been in issue since 1 January 2016.

	Year ended 31 December	
	2017	2016
Profit attributable to owners of the Company *(RMB'000)*	**7,004**	20,731
Weighted average number of ordinary shares in issue *('000)*	**432,534**	375,000
Basic and diluted earnings per share *(RMB cents)*	**1.62**	5.53

The Company did not have any potential ordinary shares outstanding during the year. Diluted earnings per share is equal to basic earnings per share.

14 LAND USE RIGHTS AND PREPAYMENTS FOR LAND USE RIGHTS

Movement of land use rights is analysed as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Opening net book amount	**43,822**	47,476
Reclassified from construction-in-progress	**589**	–
Amortisation	**(1,095)**	(1,194)
Disposals	**–**	(2,460)
Closing net book amount	**43,316**	43,822
Cost	**52,069**	51,480
Accumulated amortisation	**(8,753)**	(7,658)
Net book amount	**43,316**	43,822

14 LAND USE RIGHTS AND PREPAYMENTS FOR LAND USE RIGHTS *(Cont'd)*

The lease periods of land use rights are 50 year starting from the date of grant and are located in the PRC.

As at 31 December 2017, land use rights with a total net book value of approximately RMB43,316,000 (2016: RMB43,822,000) were pledged as collateral for the Group's borrowings (Note 25 and 28).

The prepayments for land use rights of RMB4,900,000 (2016: RMB4,900,000) as at 31 December 2017 represented the land compensation fee paid by the Group for the government's requisition of collective use land and thus is considered as the prepayment of the Group to obtain the land use rights in the future. The amount is refundable if the Group cannot obtain the land use rights subsequently.

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture and other equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Year ended 31 December 2016						
Opening net book amount	31,181	42,198	1,261	668	43,069	118,377
Additions	1,032	3,179	478	1,341	13,499	19,529
Disposals	–	(2,008)	–	–	–	(2,008)
Transfer	16,632	3,637	1,059	–	(21,328)	–
Depreciation	(2,755)	(6,550)	(387)	(320)	–	(10,012)
Closing net book amount	46,090	40,456	2,411	1,689	35,240	125,886
At 31 December 2016						
Cost	62,616	113,947	5,103	3,532	35,240	220,438
Accumulated depreciation	(16,526)	(73,491)	(2,692)	(1,843)	–	(94,552)
Net book amount	46,090	40,456	2,411	1,689	35,240	125,886

NOTES TO THE FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture and other equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Year ended 31 December 2017						
Opening net book amount	46,090	40,456	2,411	1,689	35,240	125,886
Additions	294	5,510	1,215	1,601	36,835	45,455
Disposals	–	(640)	–	–	–	(640)
Reclassified to land use rights	–	–	–	–	(589)	(589)
Transfer	(3,819)	9,858	2,299	–	(8,338)	–
Depreciation	(2,388)	(6,688)	(369)	(586)	–	(10,031)
Closing net book amount	40,177	48,496	5,556	2,704	63,148	160,081
At 31 December 2017						
Cost	59,091	128,675	8,617	5,133	63,148	264,664
Accumulated depreciation	(18,914)	(80,179)	(3,061)	(2,429)	–	(104,583)
Net book amount	40,177	48,496	5,556	2,704	63,148	160,081

As at 31 December 2017, the construction-in-progress were mainly represented capital expenditures incurred for the construction of new plant in PRC, the amount transferred out from the construction-in-progress mainly represented part of buildings and production lines which had been completed and put in use.

Depreciation charges have been charged to consolidated income statement as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Cost of sales	8,664	8,757
Administration expenses	1,589	1,255
	10,253	10,012

As at 31 December 2017, property, plant and equipment with a total net book value of approximately RMB14,159,000 (2016: RMB15,289,000) was pledged as collateral for the Group's borrowings.

Borrowing cost of RMB3,543,000 (2016: RMB3,190,000) has been capitalised in assets under construction for the year ended 31 December 2017.

The capitalisation rate of borrowings for the year ended 31 December 2017 was 5.66% (2016: 5.95%).

16 INVESTMENT PROPERTY

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening net book amount	**–**	6,035
Depreciation	**–**	(205)
Disposals	**–**	(5,830)
Closing net book amount	**–**	–

17 INTANGIBLE ASSETS

	Patents	**Computer software**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2016			
Cost	1,557	440	1,997
Accumulated amortisation	(601)	(156)	(757)
Net book amount	956	284	1,240
Year ended 31 December 2016			
Opening net book amount	956	284	1,240
Additions	226	–	226
Amortisation	(158)	(38)	(196)
Closing net book amount	1,024	246	1,270
At 31 December 2016 and 1 January 2017			
Cost	1,783	440	2,223
Accumulated amortisation	(759)	(194)	(953)
Net book amount	1,024	246	1,270

NOTES TO THE FINANCIAL STATEMENTS

17 INTANGIBLE ASSETS *(Cont'd)*

	Patents RMB'000	Computer software RMB'000	Total RMB'000
Year ended 31 December 2017			
Opening net book amount	1,024	246	1,270
Additions	126	–	126
Disposals	(203)	–	(203)
Amortisation	(164)	(38)	(202)
Closing net book amount	783	208	991
At 31 December 2017			
Cost	1,660	440	2,100
Accumulated amortisation	(877)	(232)	(1,109)
Net book amount	783	208	991

Amortisation has been charged to consolidated income statement as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Cost of sales	153	133
Administration expenses	49	63
	202	196

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Financial assets classified as loans and receivables		
Trade and other receivables excluding non-financial assets	94,095	63,992
Restricted bank deposits	36,550	37,820
Cash and cash equivalents	14,784	11,344
Total	145,429	113,156

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Financial liabilities at amortised cost		
Borrowings	102,100	105,200
Trade and other payables excluding non-financial liabilities	131,378	127,191
Total	233,478	232,391

19 INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Raw materials	17,598	16,016
Work in progress	3,726	2,743
Finished goods	22,399	18,795
	43,723	37,554

The cost of inventories recognised as expense and included in "cost of sales" and "administrative expenses" amounted to RMB244,931,000 and RMB6,319,000 for the year ended 31 December 2017 (2016: RMB174,902,000 and RMB5,841,000). The inventory write-back of RMB53,000 for the year ended 31 December 2017(2016: RMB70,000) were included in "cost of sales".

NOTES TO THE FINANCIAL STATEMENTS

20 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables	**87,290**	56,193
Less: allowance for impairment of trade receivables	**(2,961)**	(2,610)
Trade receivables, net	**84,329**	53,583
Amount due from related parties *(Note 33(c) (i))*	**–**	800
Notes receivables	**2,247**	1,416
Advances to employees	**3,803**	4,129
Prepayments of listing expenses	**–**	3,207
Deposits paid to suppliers	**967**	1,190
Deposits for utilities and product quality assurance	**1,357**	1,324
Interests receivables	**178**	145
Prepayments of raw materials	**373**	274
Government grants receivables	**2,327**	–
Other receivables	**1,901**	1,473
	97,482	67,541

The credit terms of trade receivables granted by the Group are normally within 3 months. The ageing analysis of trade receivables based on the invoice date is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Less than 3 months	**65,343**	45,778
More than 3 months but not exceeding 1 year	**17,553**	6,781
More than 1 year	**4,394**	3,634
	87,290	56,193

As at 31 December 2017, trade receivables of RMB65,343,000 (2016: RMB40,688,000), were fully performing.

20 TRADE AND OTHER RECEIVABLES *(Cont'd)*

As at 31 December 2017, trade receivables of RMB16,507,000 (2016: RMB10,390,000), was past due but not impaired. These receivables related to a number of customers that have a good record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has been no significant change in credit quality and the balances are still considered fully recoverable. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Less than 3 months	**–**	5,090
More than 3 months but not exceeding 1 year	**16,507**	5,300
	16,507	10,390

As at 31 December 2017, trade receivables of RMB5,440,000 (2016: RMB5,115,000) was impaired and a total provision of RMB2,961,000 (2016: RMB2,610,000) was provided for. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**1,046**	1,481
More than 1 year	**4,394**	3,634
	5,440	5,115

The carrying amounts of the Group's trade receivables were denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**46,614**	27,544
USD	**40,607**	28,611
EUR	**69**	38
	87,290	56,193

NOTES TO THE FINANCIAL STATEMENTS

20 TRADE AND OTHER RECEIVABLES *(Cont'd)*

Movement of the allowance for impairment of trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year	**2,610**	3,878
Allowance for impairment	**883**	1,012
Amounts written off	**(532)**	(2,280)
At the end of the year	**2,961**	2,610

Notes receivables represented trade related bank acceptance with maturity period within 6 months and non-interest bearing.

21 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash on hand	**35**	36
Cash at bank	**51,203**	49,128
Cash at bank and on hand	**51,238**	49,164
Less: Restricted bank deposits	**(36,550)**	(37,820)
Cash and cash equivalents	**14,688**	11,344

Cash at bank and on hand were denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**42,659**	44,998
USD	**531**	810
EUR	**36**	388
HK$	**8,012**	2,968
	51,238	49,164

22 SHARE CAPITAL

	Number of ordinary shares of HK$0.10 each '000	Nominal value of ordinary shares HK$'000	Number of ordinary shares of HK$0.01 each '000	Nominal Value of ordinary shares HK$'000
Authorised				
At 1 January 2016, 31 December 2017 and 1 January 2017	1,000,000	100,000	–	–
Shares Subdivision (a)	(1,000,000)	(100,000)	10,000,000	100,000
Ordinary shares at 31 December 2017	–	–	10,000,000	100,000

	Number of ordinary shares of HK$0.10 each '000	Nominal value of ordinary shares HK$'000	Number of ordinary shares of HK$0.01 each '000	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000
Issued					
At 1 January 2016, 31 December 2016 and 1 January 2017	10,000	1,000	–	–	790
Shares Subdivision (a)	(10,000)	(1,000)	100,000	1,000	–
New Issue (b)	–	–	125,000	1,250	1,083
Capitalisation Issue (c)	–	–	275,000	2,750	2,380
At 31 December 2017	–	–	500,000	5,000	4,253

(a) Pursuant to a shareholders' resolution dated 22 June 2017, all the authorised shares of the Company with a par value of HK$0.1 each was subdivided into 10 shares with a par value of HK$0.01 each, so that the authorised shares became 10,000,000,000 shares and the issued shares as at 22 June 2017 became 100,000,000 shares ("Shares Subdivision").

(b) In connection with the listing of the shares of the Company on the GEM of the Stock Exchange on 17 July 2017, 125,000,000 shares of HK$0.01 per share were issued at HK$0.68 per share through a public offering ("New Issue") for HK$85,000,000 (equivalent to RMB73,575,000). After the New Issue, the issued and fully-paid share capital of the Company increased by HK$1,250,000 (RMB1,083,000). The difference between the New Issue proceeds and the increased issued and fully-paid share capital, amounting to RMB72,492,000, was credited to the share premium account (Note 23).

(c) On 22 June 2017, pursuant to a shareholders' resolution, the directors were authorised to capitalise the amount of HK$2,750,000 (RMB2,380,000) as 275,000,000 shares issued to the then existing shareholders, at HK$0.01 each from the amount standing to the credit of the share premium account of the Company ("Capitalisation Issue"). These shares were issued in conjunction with the New Issue.

NOTES TO THE FINANCIAL STATEMENTS

23 OTHER RESERVES

	Share Premium RMB'000	Merger reserve RMB'000	Statutory Reserves RMB'000 *(Note a)*	Other reserves RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2016	50,477	(24,645)	8,743	(47)	(86)	34,442
Acquisition of non-controlling interests	–	–	–	1,869	–	1,869
Appropriation to statutory reserves	–	–	1,968	–	–	1,968
Currency translation difference	–	–	–	–	(378)	(378)
At 31 December 2016	50,477	(24,645)	10,711	1,822	(464)	37,901
At 1 January 2017	**50,477**	**(24,645)**	**10,711**	**1,822**	**(464)**	**37,901**
New Issue *(Note 22(b))*	**72,492**	**–**	**–**	**–**	**–**	**72,492**
Transaction costs attributable to issue of shares	**(8,930)**	**–**	**–**	**–**	**–**	**(8,930)**
Capitalisation Issue *(Note 22(c))*	**(2,380)**	**–**	**–**	**–**	**–**	**(2,380)**
Appropriation to statutory reserves	**–**	**–**	**1,508**	**–**	**–**	**1,508**
Currency translation difference	**–**	**–**	**–**	**–**	**(1,985)**	**(1,985)**
At 31 December 2017	**111,659**	**(24,645)**	**12,219**	**1,822**	**(2,449)**	**98,606**

23 OTHER RESERVES *(Cont'd)*

(a) Statutory reserves

Pursuant to the Company Law of the PRC and the articles of association of certain PRC subsidiaries, the subsidiaries in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous year' losses) to statutory surplus reserve until the fund aggregates to 50% of their registered capital; after the appropriation to statutory surplus reserve, the subsidiaries in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous year' losses, to expand production operations, or to increase the capital of the respective companies. The entities in the PRC may transfer their respective statutory surplus reserves into paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less 25% of the registered capital.

24 SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 22 June 2017 (the "Scheme"), the Company may grant options to any individual who is an employee of the Group (including directors) or any entity in which the Company holds any interest and such other persons who has or will contribute to the Group as approved by the Board from time to time, to subscribe for shares in the Company with the payment of HK$1.00 upon each option granted.

The subscription price of a share shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant of the option; and (iii) the par value of the shares of the Company on the date of grant of the option.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue on the date the shares of the Company commence trading on the Stock Exchange. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 months period up to the date of grant shall not exceed 1% of the shares of the Company then in issue.

No share option was granted, exercised, cancelled or lapsed since the adoption date of the Scheme on 22 June 2017 and there was no outstanding share option under the Scheme as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

25 LONG-TERM BANK BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Secured bank borrowings (a)	**52,000**	72,000
Less: current portion of long-term borrowings	**(52,000)**	(20,000)
	–	52,000

(a) The bank borrowings of the Group were secured by property, plant and equipment (Note 15) and land use rights (Note 14) of Shenglong Decoration as at 31 December 2017 and 31 December 2016.

(b) As at 31 December 2017, the Group's long-term borrowings were repayable as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**52,000**	20,000
Between 1 and 2 years	**–**	52,000
Between 2 and 5 years	**–**	–
	52,000	72,000
Within 1 year included in current liabilities	**(52,000)**	(20,000)
	–	52,000

25 LONG-TERM BANK BORROWINGS *(Cont'd)*

(c) The exposure of the long-term borrowings to interest rate changes and the contractual repricing dates at the end of the year is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within six months	**22,000**	22,000
Between 6 and 12 months	**30,000**	50,000
	52,000	72,000

The weighted average effective interest rate of bank borrowings as at 31 December 2017 was 5.75% (2016: 5.86%).

As at 31 December 2017, the Group's long-term borrowings were denominated in RMB.

26 DEFERRED REVENUE

Rental income receipt in advance and deferred government grants are included in deferred revenue. Rental received from leasing of certain land use rights to an independent third party was deferred and recognised in the consolidated income statements on a straight-line basis over the contractual lease term. Government grants relating to the construction of several environmentally-conscious projects which were related to assets were deferred and recognised in the consolidated income statements on a straight-line basis over the assets' useful lives.

Movement of deferred revenue is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At the beginning of the year	**1,796**	1,896
Receipt of rental income	**1,916**	–
Amortisation of deferred government grant	**(100)**	(100)
Amortisation of deferred rental income	**(96)**	–
At the end of the year	**3,516**	1,796

27 TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables	**60,321**	44,501
Notes payables	**54,330**	68,925
Amounts due to related parties *(Note 33(c) (ii))*	**–**	246
Payables for purchase of property, plant and equipment	**8,747**	7,018
Accrued operating expenses (a)	**7,119**	5,474
Advances from customers	**3,049**	2,388
Employee benefit payable	**5,254**	5,235
Other taxes payable	**1,047**	1,303
Others	**861**	1,027
	140,728	136,117

(a) The amount mainly represented accruals for transportation expenses and commission expenses.

(b) The Group's trade and other payables excluding non-financial liabilities were denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**130,404**	126,174
HK$	**918**	553
USD	**56**	239
EUR	**–**	225
	131,378	127,191

27 TRADE AND OTHER PAYABLES *(Cont'd)*

(c) As at 31 December 2017, the ageing analysis of the trade payables and notes payables based on invoice date is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Less than 3 months	**68,541**	80,411
More than 3 months but not exceeding 1 year	**46,038**	32,607
More than 1 year	**72**	408
	114,651	113,426

(d) As at 31 December 2017, all trade and other payables of the Group were non-interest bearing.

28 SHORT-TERM BANK BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Secured bank borrowings (a)	**34,800**	27,700
Unsecured bank borrowings (b)	**15,300**	5,500
	50,100	33,200

(a) Short-term bank borrowings of RMB34,800,000 (2016: RMB13,500,000) as at 31 December 2017, was secured by property, plant and equipment (Note 15) and land use rights (Note 14) of Shenglong Decoration.

No short-term bank borrowings (2016: RMB14,200,000) as at 31 December 2017, was secured by certain buildings of Hangzhou Longsheng Investment Company Limited ("Longsheng Investment"), a related party of the Group (Note 33(b)(i)).

(b) No short-term bank borrowings (2016: RMB28,700,000) as at 31 December 2017, was guaranteed by Mr. Sheng (Note 33(b)(i)).

(c) The weighted average interest rate of short-term borrowings at 31 December 2017 was 4.97% (2016: 5.26%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

29 DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**1,893**	1,637
– to be recovered within 12 months	**2,499**	1,454
	4,392	3,091

Movement of deferred income tax assets is as follows:

Deferred income tax assets	**Allowance for impairment of trade receivables**	**Inventory write-down**	**Deferred government grants**	**Unrealised profit on intra-group transactions**	**Tax losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016	965	109	284	1,392	68	2,818
Recognised in the consolidated income statement	140	(30)	(15)	246	(68)	273
As at 31 December 2016	1,105	79	269	1,638	–	3,091
As at 1 January 2017	**1,105**	**79**	**269**	**1,638**	**–**	**3,091**
Recognised in the consolidated income statement	**(459)**	**(11)**	**(15)**	**256**	**1,530**	**1,301**
As at 31 December 2017	**646**	**68**	**254**	**1,894**	**1,530**	**4,392**

30 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2017 (2016: Nil).

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to cash (used in)/generated from operations:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	**8,204**	24,890
Adjustments for:		
Depreciation of property, plant and equipment *(Note 15)*	**10,253**	10,012
Amortisation of land use rights *(Note 14)*	**1,095**	1,194
Amortisation of intangible assets *(Note 17)*	**202**	196
Depreciation of investment property *(Note 16)*	**–**	205
Loss on disposal of property, plant and equipment *(Note 7)*	**36**	1,796
Gain on disposal of investment property and land use rights *(Note 7)*	**–**	(855)
Loss on disposal of intangible assets *(Note 7)*	**8**	–
Finance expenses – net *(Note 10)*	**2,373**	4,190
Allowance for impairment of trade receivables	**351**	1,012
	22,522	42,640
Changes in working capital:		
Inventories	**(6,169)**	(6,298)
Trade and other receivables	**(34,299)**	(7,549)
Trade and other payables	**4,419**	9,277
Cash (used in)/generated from operations	**(13,527)**	38,070

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net book amount	**418**	2,008
Loss on disposal of property, plant and equipment *(Note 7)*	**(36)**	(1,796)
Proceeds from disposal	**382**	212

NOTES TO THE FINANCIAL STATEMENTS

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(c) In the consolidated statement of cash flows, proceeds from disposals of investment property and land use rights comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net book amount	**–**	8,290
Gain on disposal of investment property and land use rights *(Note 7)*	**–**	855
Proceeds from disposal	**–**	9,145

(d) Non-cash transactions

The principal non-cash transactions comprise:

During the year ended 31 December 2016, the consideration of RMB12,081,000 for the acquisition of 31.44% equity interest in Splendor Decoration was settled by offsetting the amount due from Mr. Sheng.

(e) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	**2017**	2016
	RMB'000	RMB'000
Cash and cash equivalents	**14,688**	11,344
Borrowings – repayable within one year	**(102,100)**	(53,200)
Borrowings – repayable after one year	**–**	(52,000)
Net debt	**(87,412)**	(93,856)
Cash and liquid investments	**14,688**	11,344
Gross debt – short term or variable interest rates	**(102,100)**	(105,200)
Net debt	**(87,412)**	(93,856)

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(e) Net debt reconciliation *(Cont'd)*

	Other assets	Liabilities from financing activities		
	Cash	Borrowing due within 1 year	Borrowing due after 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2016	9,124	(72,730)	(50,000)	(113,606)
Cash flows	2,037	39,530	(22,000)	19,567
Other non-cash movement	–	(20,000)	20,000	–
Foreign exchange adjustments	183	–	–	183
Net debt as at 31 December 2016 and 1 January 2017	**11,344**	**(53,200)**	**(52,000)**	**(93,856)**
Cash flows	**4,370**	**3,100**	**–**	**7,470**
Other non-cash movement	**–**	**(52,000)**	**52,000**	**–**
Foreign exchange adjustments	**(1,026)**	**–**	**–**	**(1,026)**
Net debt as at 31 December 2017	**14,688**	**(102,100)**	**–**	**(87,412)**

32 COMMITMENTS

Capital commitments

Capital expenditures contracted for at the end of the year but not yet incurred are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Property, plant and equipment	**11,959**	3,944

NOTES TO THE FINANCIAL STATEMENTS

33 RELATED PARTY TRANSACTIONS

(a) Names and relationship

The following is a summary of the significant transactions carried out between the Group and its related parties during the year ended 31 December 2017, and balances arising from related party transactions as at 31 December 2017.

Name of the related party	**Relationship with the Group**
Mr. Sheng	Controlling Shareholder and director
Ms. Sheng Sainan	A close family member of the Controlling Shareholder and director
Mr. Fang	A close family member of the Controlling Shareholder and director
Ms. Lu Miaoling	Key management personnel
Longsheng Investment	An entity controlled by the Controlling Shareholder

(b) Transactions with related parties

(i) Financial guarantees and securities provided to the Group

No short-term bank borrowings (2016: RMB14,200,000) as at 31 December 2017, was secured by certain buildings of Longsheng Investment.

No short-term bank borrowings (2016: RMB28,700,000) as at 31 December 2017, was guaranteed by Mr. Sheng.

(ii) Key management personnel compensation

The compensations paid or payable to key management personnel (including directors and senior management) for employee services are shown below:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**2,381**	2,630
Pension costs	**14**	14
Other social security costs	**24**	22
	2,419	2,666

33 RELATED PARTY TRANSACTIONS *(Cont'd)*

(c) Period-end balances with related parties

(i) Amounts due from related parties

	As at 31 December			
	2017		2016	
	RMB'000	**RMB'000**	RMB'000	RMB'000
	Maximum balance outstanding during the year		*Maximum balance outstanding during the year*	
Non-trade				
Directors:				
Ms. Sheng Sainan	**–**	**–**	2,190	–
Mr. Sheng	**–**	**–**	18,772	–
Mr. Fang	**–**	**–**	257	–
Key management personnel:				
Ms. Lu Miaoling	**800**	**–**	800	800
	800	**–**	22,019	800

(ii) Amounts due to related parties

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Advances from related parties:		
Mr. Sheng	**–**	246

The above balances were repayable on demand and no interest bearing.

34 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2017.

35 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

		Company	
		As at 31 December	
	Notes	**2017**	2016
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**107,651**	58,029
Current assets			
Amounts due from subsidiaries		**297**	–
Prepayment, deposits and other receivables		**50**	–
Cash and cash equivalents		**6,489**	17
		6,836	17
Total assets		**114,487**	58,046
EQUITY			
Equity attributable to owners of the Company			
Share capital		**4,253**	790
Other reserves	*33(b)*	**111,549**	57,267
Accumulated losses		**(1,415)**	(40)
Total equity		**114,387**	58,017
LIABILITIES			
Current liabilities			
Other payables and accruals		**100**	29
Total equity and liabilities		**114,487**	58,046

The balance sheet of the Company was approved by the Board of Directors on 20 March 2018 and was signed on its behalf.

Sheng Yingming	**Yu Zemin**
Director	*Director*

35 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY *(Cont'd)*

(b) Reserves movement of the Company

Company	**Share Premium** RMB'000	**Translation Reserve** RMB'000	**Total** RMB'000
At 1 January 2016	50,477	3,082	53,559
Currency translation differences	–	3,708	3,708
At 31 December 2016	50,477	6,790	57,267
At 1 January 2017	**50,477**	**6,790**	**57,267**
Capitalisation Issue *(Note 22(b))*	**(2,380)**	**–**	**(2,380)**
New issue *(Note 22(c))*	**72,492**	**–**	**72,492**
Transaction costs attributable to issue of shares	**(8,930)**	**–**	**(8,930)**
Currency translation differences	**–**	**(6,900)**	**(6,900)**
At 31 December 2017	**111,659**	**(110)**	**111,549**

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements and the Prospectus, is set out below.

RESULTS

	For the year ended 31 December			
	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**320,069**	248,773	216,598	238,863
Profit before income tax	**8,204**	24,890	5,989	15,423
Income tax expenses	**(1,200)**	(4,159)	(670)	(2,507)
Profit for the year	**7,004**	20,731	5,319	12,916

ASSETS AND LIABILITIES

	As at 31 December			
	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**406,123**	333,228	338,511	342,315
Total liabilities	**246,344**	243,113	256,668	268,797
Total equity	**159,779**	90,115	81,843	73,518